

ORIGEN FINANCIAL INC  
Form 10-Q  
August 04, 2008

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.  
FORM 10-Q**

**Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
FOR THE QUARTERLY PERIOD ENDED June 30, 2008  
OR**

**Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 000-50721  
Origen Financial, Inc.  
(Exact Name of Registrant as Specified in its Charter)**

Delaware  
(State of Incorporation)

20-0145649  
(I.R.S. Employer Identification No.)

27777 Franklin Rd.  
Suite 1700  
Southfield, MI  
(Address of Principal Executive Offices)

48034  
(Zip Code)

Registrant's telephone number, including area code: (248) 746-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
Number of shares of Common Stock, \$.01 par value, outstanding as of August 1, 2008: 25,926,149

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements**

**Origen Financial, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except share and per share data)  
As of June 30, 2008 and December 31, 2007

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 7,773	\$ 10,791
Restricted cash	15,507	16,290
Investments held to maturity	9,763	32,393
Loans receivable, net of allowance for losses of \$8,518 and \$7,882, respectively	989,267	1,193,916
Furniture, fixtures and equipment, net	994	1,601
Repossessed houses	5,235	4,981
Assets held for sale	8,501	9,817
Other assets	14,930	14,412
<b>Total assets</b>	<b>\$ 1,051,970</b>	<b>\$ 1,284,201</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Warehouse financing	\$	\$ 173,072
Securitization financing	825,760	884,650
Repurchase agreements		17,653
Notes payable related party	60,208	14,593
Other liabilities	41,420	45,848
<b>Total liabilities</b>	<b>927,388</b>	<b>1,135,816</b>
<b>Stockholders Equity</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 125 shares issued and outstanding at June 30, 2008 and December 31, 2007, \$1,000 per share liquidation preference	125	125
Common stock, \$.01 par value, 125,000,000 shares authorized; 25,983,051 and 26,015,275 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	260	260
Additional paid-in-capital	225,626	221,842
Accumulated other comprehensive loss	(17,825)	(20,012)
Distributions in excess of earnings	(83,604)	(53,830)
<b>Total stockholders equity</b>	<b>124,582</b>	<b>148,385</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,051,970</b>	<b>\$ 1,284,201</b>

**The accompanying notes are an integral part of these financial statements.**

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**Origen Financial, Inc.**  
**Consolidated Statements of Operations (Unaudited)**  
(In thousands, except share and per share data)  
For the periods ended June 30, 2008 and 2007

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>				
Total interest income	\$ 20,554	\$ 22,439	\$ 44,425	\$ 43,111
Total interest expense	16,043	14,083	32,517	26,999
Net interest income before loan losses and impairment of purchased loan pool	4,511	8,356	11,908	16,111
Provision for loan losses	3,342	1,806	6,372	3,599
Impairment of purchased loan pool	19		267	
Net interest income after loan losses and impairment of purchased loan pool	1,150	6,550	5,269	12,521
<b>Non-interest income (loss)</b>				
Servicing income	657	1,094	1,305	1,188
Losses on loans held for sale	(718)		(22,377)	
Other	941	496	(2,395)	1,061
Total non-interest income (loss)	880	1,590	(23,467)	2,249
<b>Non-interest Expenses</b>				
Personnel	5,503	4,557	9,646	9,161
Loan origination and servicing	268	361	627	733
State business taxes	104	161	293	222
Other operating	1,906	1,535	4,069	3,188
Total non-interest expense	7,781	6,614	14,635	13,304
Income (loss) from continuing operations before income taxes	(5,751)	1,526	(32,833)	1,466
Income tax expense	29		62	
Income (loss) from continuing operations	(5,780)	1,526	(32,895)	1,466
Income from discontinued operations, net of income taxes	1,006	1,303	3,129	3,071
<b>NET INCOME (LOSS)</b>	<b>\$ (4,774)</b>	<b>\$ 2,829</b>	<b>\$ (29,766)</b>	<b>\$ 4,537</b>
Weighted average common shares outstanding, basic	25,491,187	25,292,335	25,450,530	25,251,000
Weighted average common shares outstanding, diluted	25,491,187	25,423,422	25,450,530	25,357,800
Basic earnings per common share:				
Income (loss) from continuing operations	\$ (0.23)	\$ 0.06	\$ (1.29)	\$ 0.06
Income from discontinued operations	0.04	0.05	0.12	0.12
Net income (loss)	\$ (0.19)	\$ 0.11	\$ (1.17)	\$ 0.18

Adjusted earnings per common share:								
Income (loss) from continuing operations	\$	(0.23)	\$	0.06	\$	(1.29)	\$	0.0
Income from discontinued operations		0.04		0.05		0.12		0.1
Net income (loss)	\$	(0.19)	\$	0.11	\$	(1.17)	\$	0.1

**The accompanying notes are an integral part of these financial statements.**

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**Origen Financial, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**  
**(In thousands)**  
**For the periods ended June 30, 2008 and 2007**

	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>		<b>June 30,</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income (loss)	\$ (4,774)	\$ 2,829	\$ (29,766)	\$ 4,534
Other comprehensive income:				
Net unrealized gains (losses) on interest rate swaps	16,576	7,242	(1,972)	6,600
Reclassification adjustment for net (gains) losses included in net income (loss)	(13)	(203)	4,159	(224)
Total other comprehensive income	16,563	7,039	2,187	6,376
Comprehensive income (loss)	\$ 11,789	\$ 9,868	\$ (27,579)	\$ 10,910

**The accompanying notes are an integral part of these financial statements.**



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**Origen Financial, Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
(In thousands)  
For the six months ended June 30, 2008 and 2007

	2008	2007
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ (29,766)	\$ 4,534
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	6,372	3,594
Investment impairment	11	
Impairment of purchased loan pool	267	
Losses on loans held for sale	22,377	
Depreciation and amortization	3,498	2,633
Compensation expense recognized under share-based compensation plans	2,963	784
Proceeds from loan sales	162,336	
Decrease in servicing advances	1,013	1,908
Increase in other assets	(2,503)	(5,100)
Increase in other liabilities	1,997	3,258
Net cash provided by operating activities	168,565	11,611
<b>Cash Flows From Investing Activities</b>		
(Increase) decrease in restricted cash	783	(3,756)
Proceeds from sale of investments	22,400	
Origination and purchase of loans	(44,601)	(204,277)
Principal collections on loans	51,275	49,459
Proceeds from sale of repossessed houses	6,309	5,140
Capital expenditures, net	174	(353)
Net cash provided by (used in) investing activities	36,340	(153,787)
<b>Cash Flows From Financing Activities</b>		
Net proceeds from issuance of common stock		101
Retirement of common stock	(38)	(322)
Dividends paid	(8)	(2,593)
Payment upon termination of hedging transaction	(4,198)	
Proceeds from securitization financing		184,389
Repayment of securitization financing	(58,954)	(52,478)
Proceeds from advances under repurchase agreements	1,888	
Repayment of advances under repurchase agreements	(19,541)	(313)
Proceeds from warehouse financing	30,800	201,480
Repayment of warehouse financing	(203,872)	(187,868)
Proceeds from notes payable related party	46,000	
Net change in notes payable servicing advances		(1,628)
Net cash provided by (used in) financing activities	(207,923)	140,768
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,018)</b>	<b>(1,408)</b>
Cash and cash equivalents, beginning of period	10,791	2,566

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Cash and cash equivalents, end of period	\$ 7,773	\$ 1,158
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 31,064	\$ 26,618
Cash paid for income taxes	\$ 103	\$ 25
<b>Non-cash financing activities:</b>		
Non-vested common stock issued as unearned compensation	\$	\$ 328
Loans transferred to repossessed houses and held for sale	\$ 10,228	\$ 9,609

**The accompanying notes are an integral part of these financial statements.**

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**Table of Contents****Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note 1 Basis of Presentation**

The unaudited consolidated financial statements of Origen Financial, Inc. (the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission (SEC). However, they do not include all of the disclosures necessary for annual financial statements in conformity with US GAAP. The results of operations for the periods ended June 30, 2008 are not necessarily indicative of the operating results anticipated for the full year. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Certain amounts from prior periods have been reclassified in order to reflect the servicing platform assets as discontinued operations. (See Note 11 Discontinued Operations and Note 12 Subsequent Events for further discussion.) The preparation of financial statements in conformity with US GAAP also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements.

The Company's registered independent accountants expressed substantial doubt about the Company's ability to continue as a going concern in their audit report dated March 17, 2008, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The Company's unaudited consolidated financial statements, as of and for the periods ended June 30, 2008, were prepared under the assumption that the Company will continue its operations as a going concern. These unaudited consolidated financial statements do not include adjustments to reflect the possible future effects on the recoverability and classification of liabilities that may result from the outcome of the Company's ability to continue as a going concern. Management's plans concerning these matters are described in Note 10.

**Note 2 Recent Accounting Pronouncements***Disclosures about Derivative Instruments and Hedging Activities*

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, (SFAS 161). This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Investments and Hedging Activities, (SFAS 133) and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for years and interim periods beginning after November 15, 2008. At this time, the Company does not expect the adoption of SFAS 161 to have a material impact on its financial position or results of operations.

*The Hierarchy of Generally Accepted Accounting Principles*

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with US GAAP. SFAS 162 is effective sixty days following the SEC's approval of The Public Company Accounting Oversight Board's related amendments to remove the GAAP hierarchy from auditing standards. At this time, the Company does not expect the adoption of SFAS 162 to have a material impact on its financial position or results of operations.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note 3 Per Share Data**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share incorporates the potential dilutive effect of common stock equivalents outstanding on an average basis during the period. Potential dilutive common shares primarily consist of employee stock options, non-vested common stock awards, stock purchase warrants and convertible notes. The following table presents a reconciliation of basic and diluted earnings per share for the three and six months ended June 30, 2008 and 2007 (in thousands, except per share data):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Numerator:				
Income (loss) from continuing operations	\$ (5,780)	\$ 1,526	\$ (32,895)	\$ 1,464
Preferred stock dividends	(4)	(4)	(8)	(8)
Income (loss) from continuing operations available to common shareholders	\$ (5,784)	\$ 1,522	\$ (32,903)	\$ 1,456
Denominator:				
Weighted average common shares for basic EPS	25,491	25,292	25,451	25,251
Effect of dilutive securities:				
Incremental shares non-vested stock awards		131		107
Weighted average common shares for diluted EPS	25,491	25,423	25,451	25,358
Income (loss) from continuing operations per share, basic	\$ (0.23)	\$ 0.06	\$ (1.29)	\$ 0.06
Income (loss) from continuing operations per share, diluted	\$ (0.23)	\$ 0.06	\$ (1.29)	\$ 0.06

Antidilutive outstanding stock purchase warrants that were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2008, were 2,438,462 and 1,469,231, respectively. The stock purchase warrants are considered antidilutive if assumed proceeds per share exceed the average market price of the Company's common stock during the relevant period or if the Company realized a net loss for the period. Assumed proceeds include proceeds from the exercise of the stock purchase warrants. There were no stock purchase warrants outstanding during the three and six months ended June 30, 2007.

Antidilutive outstanding common stock options that were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2008 were 199,571 and 200,786, respectively. Antidilutive outstanding common stock options that were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2007 were 238,588 and 241,044, respectively. The common stock options are considered antidilutive if assumed proceeds per share exceed the average market price of the Company's common stock during the relevant periods or if the Company realized a net loss for the period. Assumed proceeds include proceeds from the exercise of the common stock options, as well as unearned compensation related to the common stock options.

Antidilutive outstanding convertible debt shares that were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2008 were 61,667 and 431,667, respectively. There was no convertible debt outstanding during the three and six months ended June 30, 2007. The convertible debt shares are considered antidilutive for any period where interest expense per common share obtainable on conversion exceeds

basic earnings per share or if the Company realized a net loss for the period.

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**Origen Financial, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 4 Investments**

The Company follows the provisions of SFAS No. 115, Accounting For Certain Investments in Debt and Equity Securities, and the American Institute of Certified Public Accountants ( AICPA ) Statement of Position 03-3 ( SOP 03-3 ), Accounting for Certain Loans or Debt Securities Acquired in a Transfer, in reporting its investments. The investments are carried on the Company s balance sheet at an amortized cost of \$9.8 million at June 30, 2008. The fair value of these investments was approximately \$10.3 million at June 30, 2008.

*Investments Accounted for Under the Provisions of SFAS No. 115*

The investment accounted for under the provisions of SFAS 115 is carried on the Company s balance sheet at an amortized cost of \$6.4 million at June 30, 2008. This investment is an asset backed security with a principal amount of \$6.8 million at June 30, 2008. The investment is collateralized by manufactured housing loans and is classified as held-to-maturity. It has a contractual maturity date of December 28, 2033. As prescribed by the provisions of SFAS 115 the Company has both the intent and ability to hold the investment to maturity. The investment will not be sold in response to changing market conditions, changing fund sources or terms, changing availability and yields on alternative investments or other asset liability management reasons. The investment is regularly measured for impairment through the use of a discounted cash flow analysis based on the historical performance of the underlying loans that collateralize the investment. If it is determined that there has been a decline in fair value below amortized cost and the decline is other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. No impairment was recorded relating to these investments during the three and six months ended June 30, 2008 and 2007.

*Investments Accounted for Under the Provisions of SOP 03-3*

Debt securities acquired with evidence of deterioration of credit quality since origination are accounted for under the provisions of SOP 03-3. The carrying value of investments accounted for under the provisions of SOP 03-3 was approximately \$3.4 million at June 30, 2008 and is included in investments in the consolidated balance sheet. During the six months ended June 30, 2008 the Company did not purchase or sell any investments accounted for under the provisions of SOP 03-3. The investments are regularly measured for impairment through the use of a discounted cash flow analysis based on the historical performance of the underlying loans that collateralize the investments. If it is determined that there has been a decline in fair value below amortized cost and the decline is other-than-temporary, the cost basis of the investment is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. An other-than-temporary impairment of \$11,000 was recorded during the three and six months ended June 30, 2008 and is included in other non-interest expenses in the Company s consolidated statement of operations. No impairment was recorded relating to these investments during the three and six months ended June 30, 2007.

**Table of Contents****Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note 5 Loans Receivable**

The carrying amounts of loans receivable consisted of the following (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Manufactured housing loans securitized	\$ 990,305	\$ 1,051,015
Manufactured housing loans unsecuritized	2,814	144,926
Accrued interest receivable	5,570	5,608
Deferred loan origination costs	3,416	5,612
Discount on purchased loans	(3,140)	(4,450)
Allowance for purchased loans	(1,180)	(913)
Allowance for loan losses	(8,518)	(7,882)
	<b>\$ 989,267</b>	<b>\$ 1,193,916</b>

Activity in the allowance for loan losses is summarized as follows for the three and six months ended June 30, 2008 and 2007 (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 8,184	\$ 7,553	\$ 7,882	\$ 8,456
Provision for loan losses	3,342	1,806	6,372	3,594
Transferred to loans held-for-sale			(313)	
Gross charge-offs	(5,956)	(4,570)	(11,508)	(10,228)
Recoveries	2,948	2,553	6,085	5,520
Balance at end of period	\$ 8,518	\$ 7,342	\$ 8,518	\$ 7,342

Total principal balance of loans serviced that the Company has previously securitized and accounted for as a sale was approximately \$107.2 million at June 30, 2008. Delinquency statistics (including repossessed inventory) on those loans are as follows at June 30, 2008 (dollars in thousands):

<b>Days delinquent</b>	<b>No. of Loans</b>	<b>Principal Balance</b>	<b>% of Portfolio</b>
31-60	99	\$3,608	3.4%
61-90	30	1,180	1.1%
Greater than 90	72	3,034	2.8%

**Note 6 Debt**

Total debt outstanding was as follows (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Warehouse financing	\$	\$ 173,072
Securitization financing	825,760	884,650
Repurchase agreements		17,653
Notes payable related party	60,208	14,593

\$ 885,968      \$ 1,089,968