ORIGEN FINANCIAL INC
Form 10-Q/A
August 12, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-Q/A

(Amendment No. 1)

[X] Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2004.

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 [X] No [ ]

Number of shares of Common Stock, $.01 par value, outstanding as of August 13, 2004: 25,230,150

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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EXPLANATORY NOTE: This Amendment No. 1 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 (the Quarterly Report) is filed to (a) amend Part I, Items 1, 2, and 3, to correct an error in applying accounting principles to a pool of loans acquired at a discount in October 2003, and (b) amend Part I Item 4 to disclose certain steps the Registrant intends to take to remediate deficiencies in its internal control over financial reporting. Interest income was recorded on the contractual interest rates of the loans in the pool instead of the estimated constant effective yield on the pool. The effect of the correction reduced net interest income by approximately $260,000 and $590,000 and increased other loan origination and servicing expenses by approximately $17,000 and $55,000 for the three and six months ended June 30, 2004, respectively. Except as otherwise described above, no other changes have been made to the Quarterly Report. This Amendment does not otherwise attempt to update the information set forth in the Quarterly Report.

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Part I

Item 1. Financial Statements

Origen Financial, Inc.

Consolidated Balance Sheet
(In thousands, except share data)

June 30, 2004 and December 31, 2003

	(Unaudited) June 30, 2004	December 31, 2003
		(Restated)
ASSETS		
Assets		
Cash and equivalents	$ 14,540	$ 6,926
Restricted cash	6,531	6,017
Loans receivable, net of allowance for losses of $4,547 and $3,614, respectively	454,703	368,040
Investments held to maturity	34,658	
Furniture, fixtures and equipment, net	2,268	2,476
Goodwill	32,277	32,277
Other assets	27,043	28,337
Total assets	$572,020	$444,073
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Warehouse financing	$130,989	$273,404
Securitization financing	183,406	
Repurchase agreements	21,554	
Notes payable servicing advances		4,037
Recourse liability	5,678	8,740
Other liabilities	13,859	15,572
Total liabilities	355,486	301,753
Stockholders Equity		
Preferred stock, $.01 par value, 10,000,000 shares authorized; 125 and -0-	125	

shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively		
Common stock, $.01 stated value, 125,000,000 shares authorized; 25,118,400 and 15,060,000 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	251	152
Additional paid-in-capital	218,714	143,289
Accumulated other comprehensive loss		(20)
Unearned stock compensation	(3,561)	(1,114)
Retained earnings	1,005	13
Total stockholders equity	216,534	142,320
Total liabilities and stockholders equity	$572,020	$444,073

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

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Origen Financial, Inc.

Consolidated Statement of Operations (Unaudited)
(In thousands, except share data)

For the periods ended June 30, 2004 and 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
	(Restated)		(Restated)	
Interest Income				
Total interest income	$ 10,034	$ 5,161	$ 18,804	$ 10,205
Total interest expense	3,296	4,509	6,315	7,193
Net interest income before loan losses	6,738	652	12,489	3,012
Provision for credit losses and recourse liability	1,531	1,214	3,422	1,839
Net interest income (loss) after loan losses	5,207	(562)	9,067	1,173
Non-interest income	3,014	2,749	5,895	5,119
Non-interest Expenses				
Personnel	4,915	4,812	9,317	9,024
Loan origination and servicing	263	298	653	610
Write down of residual interest		1,280		1,280
State business taxes	73	5	163	4
Other operating	1,578	2,324	3,174	4,060
Total non-interest expense	6,829	8,719	13,307	14,978
NET INCOME (LOSS)	$ 1,392	$ (6,532)	$ 1,655	$ (8,686)
Weighted average common shares outstanding	20,580,155	N/A	18,133,264	N/A
Weighted average common shares outstanding, diluted	20,889,013	N/A	18,393,586	N/A

Earnings per common share:						
Basic	$	0.07	N/A	$	0.09	N/A
Diluted	$	0.07	N/A	$	0.09	N/A
Common dividends declared	$	0.04	N/A	$	0.04	N/A

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

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Origen Financial, Inc.

Consolidated Statement of Other Comprehensive Income (Loss)
(Unaudited)
(In thousands, except share data)

For the periods ended June 30, 2004 and 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
	(Restated)		(Restated)	
Net income (loss)	$1,392	$(6,532)	$1,655	$(8,686)
Unrealized gain on interest rate swaps	5		20	
Comprehensive income (loss)	$1,397	$(6,532)	$1,675	$(8,686)

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

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Origen Financial, Inc.

Consolidated Statement of Cash Flows (Unaudited)
(In thousands, except share data)

	For the six months ended June 30	
	2004	**2003**
	(Restated)	
Cash Flows From Operating Activities		
Net income (loss)	$ 1,655	$ (8,686)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Provision for credit losses and recourse liability	3,422	1,839
Impairment of residual interest		1,280
Depreciation and amortization	1,881	1,573
Originations of loans held for sale	(121,374)	(87,535)
Principal collections on loans held for sale	30,696	16,862
Proceeds from the sale of loans		5,754
Increase in other assets	(5,022)	(5,889)
Decrease in accounts payable and other liabilities	(4,529)	(213)
Net cash used in operating activities	(93,271)	(75,015)
Cash Flows From Investing Activities		
Purchase of investment securities	(34,270)	
Capital expenditures	(186)	(730)
Net cash used in investing activities	(34,456)	(730)
Cash Flows From Financing Activities		
Net proceeds from issuance of preferred stock	95	
Net proceeds from issuance of common stock	73,107	
Proceeds from sale of repossessed homes	4,304	3,452
Dividends paid	(663)	
Proceeds from warehouse and securitization financing	425,388	426,125
Repayment of warehouse and securitization financing	(362,853)	(383,261)
Proceeds from minority interest investment		30,780
Net change in notes payable servicing advances	(4,037)	(364)
Net cash provided by financing activities	135,341	76,732
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,614	987
Cash and cash equivalents, beginning of period	6,926	257

Cash and cash equivalents, end of period	$ 14,540	$ 1,244
Supplemental disclosures of cash flow information:		
Interest paid	$ 6,315	$ 6,903
Non cash financing activities:		
Restricted common stock issued as unearned compensation	$ 3,200	$

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

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note A Basis of Presentation

These unaudited consolidated financial statements of Origen Financial, Inc., a Delaware corporation (the Company) at June 30, 2004 and for its predecessor Origen Financial, L.L.C. for the three and six months ended June 30, 2003, have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations and should be read in conjunction with the restated consolidated financial statements and notes thereto for the period ended December 31, 2003, included in Amendment No. 1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The following notes to consolidated financial statements present interim disclosures as required by the SEC. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal recurring nature. Certain reclassifications have been made to prior periods financial statements in order to conform with current period presentation. Results for interim periods are not necessarily indicative of the results that may be expected for a full year.

The results of operations for the three and six months ended June 30, 2003 are those of Origen Financial, Inc. s predecessor company, Origen Financial, L.L.C. Origen Financial L.L.C. relied heavily on high cost short-term borrowings to fund day-to-day operations due to a lack of significant permanent capital. This lack of capital combined with losses incurred from underperforming loans originated prior to year 2002 (referred to as legacy loans), resulted in significant net operating losses prior to the commencement of Origen Financial, Inc. s operations.

Note B Per Share Data

Basic earnings per share are computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if dilutive securities were exercised or converted into common stock.

Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents a reconciliation of the numerator (income applicable to common shareholders) and denominator (weighted average common shares outstanding) for the basic earnings per share calculation at June 30, 2004 (in thousands except earnings per share):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Numerator:				
Net income (loss)	$ 1,392	$(6,532)	$ 1,655	$ 8,686
Preferred stock dividends	(4)		(8)	
Income (loss) available to common shareholders	$ 1,388	$(6,532)	$ 1,647	$(8,686)
Denominator:				
Weighted average common shares for basic EPS	20,580	N/A	18,133	N/A
Effect of dilutive securities:				
Restricted stock awards	309	N/A	261	N/A
Weighted average common shares for diluted EPS	20,889	N/A	18,394	N/A
Basic EPS	$ 0.07	N/A	$ 0.09	N/A
Diluted EPS	$ 0.07	N/A	$ 0.09	N/A

Note C Stock Options

The Company has elected to measure compensation cost using the intrinsic value method in accordance with APB Opinion No. 25 Accounting for Stock Issued to Employees . Accordingly, since all options were granted at a fixed price not less than the fair market value of the Company s common stock on the date of grant, no compensation cost has been recognized for its stock option plan. Had stock option costs of the plan been determined based on the fair value at the grant dates for awards under the plan consistent with the methodology of SFAS 123, the pro forma effects on the Company s net income and earnings per share would be as follows for the periods ended June 30, 2004 (in thousands except income per share):

	Three Months Ended	Six Months Ended
	June 30, 2004	
Net income available to common shareholders	$1,388	$1,647
Stock option compensation cost	(3)	(6)
Pro forma net income available to common shareholders	$1,385	$1,641
Basic income per share as reported	$ 0.07	$ 0.09
Stock option compensation cost		
Pro forma basic income per share	$ 0.07	$ 0.09
Diluted income per share as reported	$ 0.07	$ 0.09
Stock option compensation cost		
Pro forma diluted income per share	$ 0.07	$ 0.09

Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note D Investments

The Company follows the provisions of Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting For Certain Investments in Debt and Equity Securities, in reporting its investments. At June 30, 2004 the Company s investments consisted of two asset backed securities with principal amounts of $32.0 million and $3.1 million. The securities are collateralized by manufactured home loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033 and December 28, 2033, respectively. The securities are carried on the Company s balance sheet at amortized cost of $34.7 million which approximates their market value at June 30, 2004.

Note E Allowance for Credit Losses and Recourse Liability

The allowance for credit losses and related additions and deductions to the allowance were as follows for the periods ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Balance at beginning of period	$ 4,151	$ 2,762	$ 3,614	$ 2,743
Provision for loan losses	1,531	1,214	3,422	1,839
Transfers from recourse liability	1,115	998	3,062	2,270
Gross chargeoffs	(4,159)	(4,371)	(9,734)	(6,989)
Recoveries	1,909	2,311	4,183	3,051
Balance at end of period	$ 4,547	$ 2,914	$ 4,547	$ 2,914

The recourse liability and related additions and transfers out of the recourse liability were as follows for the periods ended June 30 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Balance at beginning of period	$ 6,793	$11,424	$ 8,740	$13,320
Reimbursements for losses per recourse agreements				(624)

Transfers to allowance for credit losses	(1,115)	(998)	(3,062)	(2,270)
Balance at end of period	$ 5,678	$10,426	$ 5,678	$10,426

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note F Loan Securitizations

Periodically the Company securitizes manufactured home loans. Under the current legal structure of the securitization program, the Company sells manufactured home loans it originates and purchases to a trust for cash. The trust sells asset-backed bonds secured by the loans to investors. The Company records certain assets and income based upon the difference between all principal and interest received from the loans sold and the following factors: (i) all principal and interest required to be passed through to the asset-backed bond investors, (ii) all excess contractual servicing fees, (iii) other recurring fees and (iv) an estimate of losses on loans.

These loan securitizations may be structured as financing transactions as opposed to sales transactions, typically by structuring the transaction to allow the Company to participate in the auction process at the scheduled termination of the existence of the qualified special purpose entity (the trust). The Company structured all loan securitizations occurring before 2003 as loan sales and all loan securitizations in 2003 and 2004 as financings for accounting purposes. When securitizations are structured as financings no gain or loss is recognized, nor is any allocation made to residual interests or servicing rights. Rather, the loans securitized continue to be carried by the Company as assets, and the asset backed bonds secured by the loans are carried as a liability.

On February 11, 2004, the Company completed a securitized financing transaction for approximately $240.0 million of loans, which was funded by issuing bonds in the approximate amount of $200.0 million, at a duration weighted average interest cost of 5.13%. The transaction was structured to issue classes of bonds with different estimated maturity dates and average lives to better meet investor demands. Approximately $176.7 million of the securitization proceeds were used to reduce the aggregate balances of the notes outstanding under the Company s short-term securitization facility.

For securitizations accounted for as either a financing or a sale the Company retains the right to service the loans it sells. Fees for servicing the loans are based on a contractual percentage per annum ranging from .5% to 1.25% of the unpaid principal balance of the associated loans. For securitizations accounted for as a sale the Company recognizes a servicing asset in addition to its gain on sale of loans. The servicing asset is calculated as the present value of the expected future net servicing income in excess of adequate compensation for a substitute servicer, based on common industry assumptions and the Company s historical experience. These factors include default and prepayment speeds. There were no securitizations accounted for as a sale during the three and six months ended June 30, 2004 or 2003.

Servicing fees received with respect to prior securitizations accounted for as a sale were approximately $501,000 and $1.0 million for the three and six months ended June 30, 2004, respectively.

Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note F Loan Securitizations (Continued)

Total principal balance of loans serviced that the Company has securitized and accounted for as a sale at June 30, 2004 was approximately $194.2 million. Delinquency statistics (including repossessed inventory) on those loans are as follows at June 30, 2004 (dollars in thousands):

Days delinquent	No. of Loans	Principal Balance	% of Portfolio
31-60	133	$ 5,294	2.7%
61-90	47	1,839	1.0%
Greater than 90	266	12,232	6.3%

The Company assesses the carrying value of the residual interests and servicing assets for impairment on a monthly basis. There can be no assurance that the Company s estimates used to determine the residual receivable and the servicing asset valuations will remain appropriate for the life of the securitization. If actual loan prepayments or defaults exceed the Company s estimates, the carrying value of the Company s residual receivable and/or servicing asset may decrease through a charge against earnings in the period management recognizes the disparity. The Company s residual interest balance was approximately $749,000 and the servicing asset was approximately $1.6 million at June 30, 2004. There was no change in the balance for the 2004 period presented.

Note G Debt

Total debt outstanding was as follows (in thousands):

	June 30, 2004	December 31, 2003
Warehouse financing	$130,989	$273,404
Securitization financing	183,406	
Repurchase agreements	21,554	
Notes payable servicing advances		4,037
	$335,949	$277,441

Notes Payable Citigroup - The Company through its operating subsidiary Origen Financial, L.L.C., currently has a short term securitization facility with Citigroup Global Markets Realty Corp. (Citigroup) (formerly Salomon Brothers Realty Corporation). Under terms of the facility, originally entered into in March 2003 and revised in November 2003, the Company is advanced funds and in turn pledges as collateral manufactured home loans. On March 30, 2004 the terms of the agreement were modified by segregating the pledged loans into three separate pools designated 2004-1A, 2004-1B and 2004-1C. The maximum advance amount on 2004-1A (for new loan production) was set at $170.0 million, the fixed advance amount on 2004-1B (for loans originated in 2003) was set at approximately $71.6 million and the maximum amount on 2003-1C (for loans acquired from third parties) was set at $150.0 million. The modification added a stratified advance rate for each pool and reduced the stated interest rate on all three pools. The annual interest rate on the pools is a variable rate equal to LIBOR plus a spread. Additionally, the maturity date was fixed on 2004-1A at March 29, 2005, on 2004-1B at November 16, 2004 and on 2004-1C at March 28, 2006.

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Notes to Consolidated Financial Statements (Unaudited)

Note G Debt (Continued)

On June 30, 2004, the advance rate was 84.0% of the eligible principal balance of the manufactured home loans pledged to 2003-1A, 78.5% of the eligible principal balance of the manufactured home loans pledged to 2003-1B and 72.6% of the eligible principal balance of the manufactured home loans pledged to 2003-1C and the outstanding advance amounts were approximately $28.6 million on 2003-1A, $67.3 million on 2003-1B and $35.1 million on 2003-1C, for a total of $131.0 million.

Repurchase Agreement The Company has entered into two repurchase agreements with Citigroup for the purpose of financing the purchase of investments in two asset backed securities with principal balances of $32.0 million and $3.1 million, respectively. Under the terms of the agreement the Company sells its interest in the securities with an agreement to repurchase them at a predetermined future date at the principal amount sold plus an interest component. The securities are sold at an amount equal to 75% of their current market value as determined by Citigroup. The sales are accounted for as financings for accounting purposes. At June 30, 2004 the repurchase agreement had an outstanding principal balance of approximately $21.6 and an annual interest rate equal to LIBOR plus a spread and maturity dates of July 28, 2004 and July 6, 2004, respectively. Typically the repurchase agreements are rolled over for 30 day periods when they expire.

Notes Payable 2004-A Securitization On February 11, 2004, the Company completed a securitization of approximately $240.0 million in principal balance of manufactured home loans. The securitization was accounted for as a financing. Upon completion of the securitization the Company through a special purpose entity, Origen Manufactured Housing Trust 2004-A issued $200.0 million in notes payable. The notes are stratified into six different classes and pay interest at a duration weighted average rate of approximately 5.13%. The notes have a contractual maturity date of October 2013 with respect to the Class A-1 notes; August 2017, with respect to the Class A-2 notes; December 2020, with respect to the Class A-3 notes; and January 2035, with respect to the Class A-4, Class M-1 and Class M-2 notes. At June 30, 2004 the outstanding balance of the notes was approximately $183.4 million.

Notes Payable Servicing Advances The Company currently has a revolving credit facility with Bank One, NA. Under the terms of the facility the Company can borrow up to $7.0 million for the purpose of funding required principal and interest advances on manufactured home loans that are serviced for outside investors. Borrowings under the facility are repaid upon the collection by the Company of monthly payments made by borrowers under such manufactured home loans. The bank s prime interest rate is payable on the outstanding balance. To secure the loan from Bank One, the Company has granted Bank One a security interest in substantially all its assets (excluding securitized assets). The facility has a termination date of December 31, 2004. At June 30, 2004 there was no outstanding balance on this facility.

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note G Debt (Continued)

The average balance and average interest rate of outstanding debt was as follows (in thousands):

	June 30, 2004		December 31, 2003	
	Average Balance	Average Rate	Average Balance	Average Rate
Notes payable Citigroup	$158,951	3.7%	$250,935	4.2%
Notes payable 2004-A securitization	$149,062	4.2%		
Repurchase agreement	$ 23,703	1.8%	$ 2,699	4.4%
Note payable servicing advances	$ 1,348	4.2%		

Note H Equity Incentive Plan

Data pertaining to the Company s equity incentive plan with respect to stock options is as follows:

Options outstanding, December 31, 2003	95,000
Options granted	