

HALLMARK FINANCIAL SERVICES INC
Form 10-Q
August 13, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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, 2009

Commission file number 001-11252

Hallmark Financial Services, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
Incorporation or organization)

87-0447375
(I.R.S. Employer
Identification No.)

777 Main Street, Suite 1000, Fort Worth,
Texas
(Address of principal executive offices)

76102

(Zip Code)

Registrant's telephone number, including area code: (817) 348-1600

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, par value \$.18 per share – 20,863,670 shares outstanding as of August 13, 2009.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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Hallmark Financial Services, Inc. and Subsidiaries
Consolidated Balance Sheets
(\$ in thousands)

	June 30 2009 (unaudited)	December 31 2008
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value	\$ 274,677	\$ 268,513
Equity securities, available-for-sale, at fair value	38,718	25,003
Total investments	313,395	293,516
Cash and cash equivalents	83,150	59,134
Restricted cash and cash equivalents	9,848	8,033
Premiums receivable	52,598	44,032
Accounts receivable	3,752	4,531
Receivable for securities	71	1,031
Prepaid reinsurance premiums	6,467	1,349
Reinsurance recoverable	14,072	8,218
Deferred policy acquisition costs	23,432	19,524
Excess of cost over fair value of net assets acquired	41,080	41,080
Intangible assets, net	30,705	28,969
Current federal income tax recoverable	2,169	696
Deferred federal income taxes	3,254	6,696
Prepaid expenses	993	1,007
Other assets	18,498	20,582
Total assets	\$ 603,484	\$ 538,398
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable	\$ 59,502	\$ 60,919
Reserves for unpaid losses and loss adjustment expenses	180,366	156,363
Unearned premiums	126,595	102,192
Unearned revenue	605	2,037
Accrued agent profit sharing	1,318	2,151
Accrued ceding commission payable	8,600	8,605
Pension liability	4,388	4,309
Payable for securities	4,246	3,606
Accounts payable and other accrued expenses	6,749	18,067
Total liabilities	392,369	358,249
Commitments and Contingencies (Note 15)		

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Redeemable non-controlling interest	891	737
Stockholders' equity:		
Common stock, \$.18 par value (authorized 33,333,333 shares in 2009 and 2008; issued 20,871,498 shares in 2009 and 20,841,782 shares in 2008)	3,757	3,751
Capital in excess of par value	120,736	119,928
Retained earnings	84,972	72,242
Accumulated other comprehensive income (loss)	836	(16,432)
Treasury stock, at cost (7,828 shares in 2009 and 2008)	(77)	(77)
Total stockholders' equity	210,224	179,412
	\$ 603,484	\$ 538,398

The accompanying notes are an integral part
of the consolidated financial statements

Hallmark Financial Services, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
(\$ in thousands, except per share amounts)

Three Months Ended
June 30

Six Months Ended
June 30