

HALLMARK FINANCIAL SERVICES INC  
Form 10-Q  
November 08, 2007

**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 September 30, 2007  
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

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 - 20,768,252 shares outstanding as of November 7, 2007.

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**PART I**  
**FINANCIAL INFORMATION**

Item 1. Financial Statements

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

	<b>September 30</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
	(unaudited)	(audited)
<b><u>ASSETS</u></b>		
Investments:		
Debt securities, available-for-sale, at market value	\$ 163,054	\$ 133,030
Equity securities, available-for-sale, at market value	41,988	4,580
Short-term investments, available-for-sale, at market value	56,311	25,275
<b>Total investments</b>	<b>261,353</b>	<b>162,885</b>
Cash and cash equivalents	61,681	81,474
Restricted cash and cash equivalents	15,646	24,569
Premiums receivable	53,136	44,644
Accounts receivable	18,503	13,223
Prepaid reinsurance premium	1,154	1,629
Reinsurance recoverable	5,781	5,930
Deferred policy acquisition costs	20,776	17,145
Excess of cost over fair value of net assets acquired	30,025	31,427
Intangible assets	24,354	26,074
Prepaid expenses	1,094	1,769
Other assets	12,131	5,184
<b>Total assets</b>	<b>\$ 505,634</b>	<b>\$ 415,953</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Liabilities:		
Notes payable	\$ 60,681	\$ 35,763
Structured settlements	9,897	24,587
Unpaid losses and loss adjustment expenses	116,136	77,564
Unearned premiums	108,365	91,606
Unearned revenue	3,356	5,734
Reinsurance balances payable	-	1,060
Accrued agent profit sharing	1,990	1,784
Accrued ceding commission payable	7,052	3,956
Pension liability	2,884	3,126
Deferred federal income taxes	115	2,310
Current federal income tax payable	336	2,132
Accounts payable and other accrued expenses	22,736	15,600
<b>Total liabilities</b>	<b>333,548</b>	<b>265,222</b>
Commitments and Contingencies		
Stockholders' equity:		
	3,740	3,740

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Common stock, \$.18 par value (authorized 33,333,333 shares in 2007 and 2006; issued 20,776,080 shares in 2007 and 2006)		
Additional paid in capital	118,283	117,932
Retained earnings	51,847	31,480
Accumulated other comprehensive loss	(1,707)	(2,344)
Treasury stock, at cost (7,828 shares in 2007 and 2006)	(77)	(77)
Total stockholders' equity	172,086	150,731
	\$ 505,634	\$ 415,953

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)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Gross premiums written	\$ 62,304	\$ 58,107	\$ 193,539	\$ 153,718
Ceded premiums written	(779)	(3,102)	(8,947)	(7,542)
Net premiums written	61,525	55,005	184,592	146,176
Change in unearned premiums	(2,100)	(12,811)	(18,209)	(41,289)
Net premiums earned	59,425	42,194	166,383	104,887