

HALLMARK FINANCIAL SERVICES INC
Form 10-Q
August 09, 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 June 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 August 8, 2007.

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 2007	December 31 2006
	(unaudited)	(audited)
<u>ASSETS</u>		
Investments:		
Debt securities, available-for-sale, at market value	\$ 160,547	\$ 133,030
Equity securities, available-for-sale, at market value	30,192	4,580
Short-term investments, available-for-sale, at market value	64,086	25,275
Total investments	254,825	162,885
Cash and cash equivalents	41,792	81,474
Restricted cash and cash equivalents	10,042	24,569
Premiums receivable	54,569	44,644
Accounts receivable	12,441	13,223
Prepaid reinsurance premium	1,773	1,629
Reinsurance recoverable	6,505	5,930
Deferred policy acquisition costs	20,214	17,145
Excess of cost over fair value of net assets acquired	31,427	31,427
Intangible assets	24,927	26,074
Prepaid expenses	1,187	1,769
Other assets	10,639	5,184
Total assets	\$ 470,341	\$ 415,953
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Liabilities:		
Notes payable	\$ 35,130	\$ 35,763
Structured settlements	9,794	24,587
Unpaid losses and loss adjustment expenses	104,388	77,564
Unearned premiums	107,859	91,606
Unearned revenue	3,777	5,734
Reinsurance balances payable	1,271	1,060
Accrued agent profit sharing	1,256	1,784
Accrued ceding commission payable	7,059	3,956
Pension liability	2,895	3,126
Deferred federal income taxes	1,225	2,310
Current federal income tax payable	4,652	2,132
Accounts payable and other accrued expenses	26,768	15,600
Total liabilities	306,074	265,222
Commitments and Contingencies		
Stockholders' equity:		

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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)	3,740	3,740
Additional paid in capital	118,085	117,932
Retained earnings	45,265	31,480
Accumulated other comprehensive loss	(2,746)	(2,344)
Treasury stock, at cost (7,828 shares in 2007 and 2006)	(77)	(77)
Total stockholders' equity	164,267	150,731
	\$ 470,341	\$ 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)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Gross premiums written	\$ 66,577	\$ 47,876	\$ 131,235	\$ 95,611
Ceded premiums written	(4,281)	(2,484)	(8,168)	(4,440)
Net premiums written	62,296	45,392	123,067	91,171
Change in unearned premiums	(6,986)	(11,133)	(16,109)	(28,478)
Net premiums earned	55,310	34,259		