

HALLMARK FINANCIAL SERVICES INC
Form 10-Q
November 07, 2013

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, 2013

Commission file number 001-11252

Hallmark Financial Services, Inc.

(Exact name of registrant as specified in its charter)

Nevada 87-0447375
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

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777 Main Street, Suite 1000, Fort Worth, Texas 76102

(Address of principal executive offices)

(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 x 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 x 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 x

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 x

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 – 19,263,457 shares outstanding as of November 7, 2013.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

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Hallmark Financial Services, Inc. and Subsidiaries**Consolidated Balance Sheets**

(\$ in thousands, except share amounts)

	September 30 2013 (unaudited)	December 31 2012
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (cost: \$395,860 in 2013 and \$397,800 in 2012)	\$ 396,647	\$ 401,435
Equity securities, available-for-sale, at fair value (cost: \$24,033 in 2013 and \$31,502 in 2012)	45,940	43,925
Total investments	442,587	445,360
Cash and cash equivalents	151,698	85,145
Restricted cash	8,700	8,707
Ceded unearned premiums	31,731	22,411
Premiums receivable	77,749	66,683
Accounts receivable	3,209	3,110
Receivable for securities	19	3
Reinsurance recoverable	61,193	51,970
Deferred policy acquisition costs	26,943	24,911
Goodwill	44,695	44,695
Intangible assets, net	20,647	23,068
Deferred federal income taxes, net	-	1,940
Prepaid expenses	1,611	1,480
Other assets	8,935	10,985
Total assets	\$ 879,717	\$ 790,468
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Revolving credit facility payable	1,473	1,473
Subordinated debt securities	56,702	56,702
Reserves for unpaid losses and loss adjustment expenses	360,248	313,416
Unearned premiums	191,367	162,502
Reinsurance balances payable	11,862	7,330
Pension liability	3,334	3,685
Payable for securities	6,380	-
Deferred federal income taxes, net	319	-
Federal income tax payable	1,075	1,518

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Accounts payable and other accrued expenses	16,879	23,305
Total liabilities	\$ 649,639	\$ 569,931
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock, \$.18 par value, authorized 33,333,333; issued 20,872,831 shares in 2013 and 2012	3,757	3,757
Additional paid-in capital	122,720	122,475
Retained earnings	102,781	97,964
Accumulated other comprehensive income	12,378	7,899
Treasury stock (1,609,374 shares in 2013 and 2012), at cost	(11,558)	(11,558)
Total stockholders' equity	230,078	220,537
	\$ 879,717	\$ 790,468

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross premiums written	\$ 123,664	\$ 99,448	\$ 351,278	\$ 297,658
Ceded premiums written	(20,775)	(14,443)	(54,948)	(42,554)
Net premiums written	102,889	85,005	296,330	255,104
Change in unearned premiums	(5,437)	(4,524)	(19,546)	(19,166)
Net premiums earned	97,452	80,481	276,784	235,938
Investment income, net of expenses	2,965	3,795	9,871	11,573
Net realized gains	6,950	982	9,723	1,854
Finance charges	1,484	1,374	4,396	4,538
Commission and fees	(251)	(1,029)	169	(1,033)
Other income	13	17	110	307
Total revenues	108,613	85,620	301,053	253,177
Losses and loss adjustment expenses	68,158	52,839	204,955	168,859
Other operating expenses	29,139	25,726	83,911	77,077
Interest expense	1,150	1,137	3,449	3,464
Amortization of intangible assets	694	897	2,420	2,690
Total expenses	99,141	80,599	294,735	252,090
Income before tax	9,472	5,021	6,318	1,087
Income tax expense (benefit)	3,198	1,350	1,501	(978)
Net income	6,274	3,671	4,817	2,065
Less: Net income attributable to non-controlling interest	-	258	-	324
Net income attributable to Hallmark Financial Services, Inc.	\$ 6,274	\$ 3,413	\$ 4,817	\$ 1,741
Net income per share attributable to Hallmark Financial Services, Inc. common stockholders:				
Basic	\$ 0.33	\$ 0.18	\$ 0.25	\$ 0.09
Diluted	\$ 0.32	\$ 0.18	\$ 0.25	\$ 0.09

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

Hallmark Financial Services, Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited)

(\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 6,274	\$ 3,671	\$ 4,817	\$ 2,065
Other comprehensive (loss) income:				
Change in net actuarial gain	123	120	371	362
Tax effect on change in net actuarial gain	(43)	(42)	(130)	(127)
Unrealized holding gains arising during the period	4,721	4,541	16,243	4,560
Tax effect on unrealized holding gains arising during the period	(1,652)	(1,589)	(5,685)	(1,596)
Reclassification adjustment for gains included in net income	(6,950)	(926)	(9,723)	(2,044)
Tax effect on reclassification adjustment for gains included in net income	2,433	324	3,403	715
Other comprehensive (loss) income, net of tax	(1,368)	2,428	4,479	1,870
Comprehensive income	\$ 4,906	\$ 6,099	\$ 9,296	\$ 3,935
Less: comprehensive income attributable to non-controlling interest	-	258	-	324
Comprehensive income attributable to Hallmark Financial Services, Inc.	\$ 4,906	\$ 5,841	\$ 9,296	\$ 3,611

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

Hallmark Financial Services, Inc. and Subsidiaries**Consolidated Statements of Stockholders' Equity**

(Unaudited)

(\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Common Stock				
Balance, beginning of period	\$3,757	\$3,757	\$3,757	\$3,757
Balance, end of period	3,757	3,757	3,757	3,757
Additional Paid-In Capital				
Balance, beginning of period	122,611	122,669	122,475	122,487
Accretion of redeemable noncontrolling interest	-	(321)	-	(392)
Equity based compensation	109	64	245	317
Balance, end of period	122,720	122,412	122,720	122,412
Retained Earnings				
Balance, beginning of period	96,507	92,768	97,964	94,440
Net income attributable to Hallmark Financial Services, Inc.	6,274	3,413	4,817	1,741
Balance, end of period	102,781	96,181	102,781	96,181
Accumulated Other Comprehensive Income				
Balance, beginning of period	13,746	5,888	7,899	6,446
Additional minimum pension liability, net of tax	80	78	241	235
Net unrealized holding gains arising during period, net of tax	3,069	2,952	10,558	2,964
Reclassification adjustment for gains included in net income, net of tax	(4,517)	(602)	(6,320)	(1,329)
Balance, end of period	12,378	8,316	12,378	8,316
Treasury Stock				
Balance, beginning of period	(11,558)	(11,558)	(11,558)	(11,558)
Balance, end of period	(11,558)	(11,558)	(11,558)	(11,558)
Total Stockholders' Equity	\$230,078	\$219,108	\$230,078	\$219,108

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

Hallmark Financial Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(\$ in thousands)

Nine Months
Ended
September 30
2013 2012