

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 10-Q

(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 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 – 19,263,457 shares outstanding as of May 8, 2013.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

	<u>Page Number</u>
Consolidated Balance Sheets at March 31, 2013 (unaudited) and December 31, 2012	3
Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2013 and March 31, 2012	4
Consolidated Statements of Comprehensive Income (unaudited) for the three months ended March 31, 2013 and March 31, 2012	5
Consolidated Statements of Stockholders' Equity (unaudited) for the three months ended March 31, 2013 and March 31, 2012	6
Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2013 and March 31, 2012	7
Notes to Consolidated Financial Statements (unaudited)	8

Hallmark Financial Services, Inc. and Subsidiaries

Consolidated Balance Sheets

(\$ in thousands, except share amounts)

	March 31 2013 (unaudited)	December 31 2012
<u>ASSETS</u>		
Investments:		
Debt securities, available-for-sale, at fair value (cost: \$403,554 in 2013 and \$397,800 in 2012)	\$ 407,741	\$ 401,435
Equity securities, available-for-sale, at fair value (cost: \$33,187 in 2013 and \$31,502 in 2012)	52,789	43,925
Total investments	460,530	445,360
Cash and cash equivalents	91,450	85,145
Restricted cash	9,354	8,707
Ceded unearned premiums	22,930	22,411
Premiums receivable	72,334	66,683
Accounts receivable	2,830	3,110
Receivable for securities	5,653	3
Reinsurance recoverable	57,607	51,970
Deferred policy acquisition costs	26,317	24,911
Goodwill	44,695	44,695
Intangible assets, net	22,171	23,068
Deferred federal income taxes, net	-	1,940
Prepaid expenses	2,388	1,480
Other assets	10,722	10,985
Total assets	\$ 828,981	\$ 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	328,731	313,416
Unearned premiums	170,429	162,502
Reinsurance balances payable	7,210	7,330
Pension liability	3,646	3,685
Payable for securities	14,928	-
Federal income tax payable	620	1,518
Deferred federal income taxes, net	754	-
Accounts payable and other accrued expenses	17,095	23,305

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Total liabilities	601,588	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	122,538	122,475
Retained earnings	99,658	97,964
Accumulated other comprehensive income	12,998	7,899
Treasury stock (1,609,374 shares in 2013 and 2012), at cost	(11,558)	(11,558)
Total stockholders' equity	227,393	220,537
	\$ 828,981	\$ 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 March 31,	
	2013	2012
Gross premiums written	\$ 108,147	\$ 97,395
Ceded premiums written	(14,251)	(12,433)
Net premiums written	93,896	84,962
Change in unearned premiums	(7,408)	(7,754)
Net premiums earned	86,488	77,208
Investment income, net of expenses	3,628	3,846
Net realized gains (losses)	1,176	(119)
Finance charges	1,425	1,640
Commission and fees	341	180
Other income	83	231
Total revenues	93,141	82,986
Losses and loss adjustment expenses	61,738	54,791
Other operating expenses	27,194	25,932
Interest expense	1,149	1,149
Amortization of intangible assets	897	897
Total expenses	90,978	82,769
Income before tax	2,163	217
Income tax expense	469	23
Net income	1,694	194
Less: Net income attributable to non-controlling interest	-	23
Net income attributable to Hallmark Financial Services, Inc.	\$ 1,694	\$ 171
Net income per share attributable to Hallmark Financial Services, Inc. common stockholders:		
Basic	\$0.09	\$0.01
Diluted	\$0.09	\$0.01

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

Hallmark Financial Services, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(\$ in thousands)

	Three Months Ended March 31,	
	2013	2012
Net income	\$1,694	\$194
Other comprehensive income:		
Change in net actuarial gain	123	120
Tax effect on change in net actuarial gain	(43)	(42)
Unrealized holding gains arising during the period	9,531	2,024
Tax effect on unrealized holding gains arising during the period	(3,336)	(709)
Reclassification adjustment for (gains) losses included in net income	(1,809)	101
Tax effect on reclassification adjustment for (gains) losses included in net income	633	(35)
Other comprehensive income, net of tax	5,099	1,459
Comprehensive income	\$6,793	\$1,653
Less: comprehensive income attributable to non-controlling interest	-	23
Comprehensive income attributable to Hallmark Financial Services, Inc.	\$6,793	\$1,630

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 March 31,	
	2013	2012
Common Stock		
Balance, beginning of period	\$3,757	\$3,757
Balance, end of period	3,757	3,757
Additional Paid-In Capital		
Balance, beginning of period	122,475	122,487
Accretion of redeemable noncontrolling interest	-	19
Equity based compensation	63	138
Balance, end of period	122,538	122,644
Retained Earnings		
Balance, beginning of period	97,964	94,440
Net income attributable to Hallmark Financial Services, Inc.	1,694	171
Balance, end of period	99,658	94,611
Accumulated Other Comprehensive Income		
Balance, beginning of period	7,899	6,446
Additional minimum pension liability, net of tax	80	78
Net unrealized holding gains arising during period, net of tax	6,195	1,315
Reclassification adjustment for (gains) losses included in net income, net of tax	(1,176)	66
Balance, end of period	12,998	7,905
Treasury Stock		
Balance, beginning of period	(11,558)	(11,558)
Balance, end of period	(11,558)	(11,558)
Total Stockholders' Equity	\$227,393	\$217,359

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)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$1,694	\$194
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization expense	1,189	1,110
Deferred federal income taxes	(60)	(305)
Net realized (gains) losses	(1,176)	119
Share-based payments expense	63	138
Change in ceded unearned premiums	(519)	(48)
Change in premiums receivable	(5,651)	(11,026)
Change in accounts receivable	280	329
Change in deferred policy acquisition costs	(1,406)	(1,989)
Change in unpaid losses and loss adjustment expenses	15,315	8,771
Change in unearned premiums	7,927	7,801
Change in reinsurance recoverable	(5,637)	(1,420)
Change in reinsurance balances payable	(120)	1,022
Change in federal income tax payable	(898)	238
Change in all other liabilities	(6,249)	(216)
Change in all other assets	1,073	95