

HALLMARK FINANCIAL SERVICES INC  
Form 10-Q  
August 16, 2010

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, 2010

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

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  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 – 20,124,169 shares outstanding as of August 12, 2010.

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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, except share amounts)

	June 30 2010 (unaudited)	December 31 2009
<b>ASSETS</b>		
<b>Investments:</b>		
Debt securities, available-for-sale, at fair value (cost; \$360,374 in 2010 and \$287,108 in 2009)	\$ 364,694	\$ 291,876
Equity securities, available-for-sale, at fair value (cost; \$34,035 in 2010 and \$27,251 in 2009)	40,958	35,801
<b>Total investments</b>	<b>405,652</b>	<b>327,677</b>
Cash and cash equivalents	75,234	112,270
Restricted cash and cash equivalents	9,283	5,458
Premiums receivable	54,393	46,635
Accounts receivable	3,102	3,377
Receivable for securities	17	-
Ceded unearned premiums	15,133	12,997
Reinsurance recoverable	16,149	10,008
Deferred policy acquisition costs	22,736	20,792
Goodwill	41,080	41,080
Intangible assets, net	27,040	28,873
Federal income tax recoverable	3,242	-
Deferred federal income taxes, net	133	-
Prepaid expenses	1,669	923
Other assets	15,662	18,779
<b>Total assets</b>	<b>\$ 690,525</b>	<b>\$ 628,869</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Note payable	\$ 2,800	\$ 2,800
Subordinated debt securities	56,702	56,702
Reserves for unpaid losses and loss adjustment expenses	214,448	184,662
Unearned premiums	136,190	125,089
Unearned revenue	169	191
Reinsurance balances payable	2,816	3,281
Accrued agent profit sharing	1,232	1,790
Accrued ceding commission payable	4,235	8,600
Pension liability	2,587	2,628
Deferred federal income taxes, net	-	942
Federal income tax payable	-	1,266
Payable for securities	25,621	19
Accounts payable and other accrued expenses	11,302	13,258

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Total liabilities	458,102	401,228
Commitments and contingencies (Note 17)		
Redeemable non-controlling interest	1,179	1,124
Stockholders' equity:		
Common stock, \$0.18 par value (authorized 33,333,333 shares in 2010 and 2009; issued 20,872,831 in 2010 and 2009)	3,757	3,757
Additional paid-in capital	121,403	121,016
Retained earnings	104,380	98,482
Accumulated other comprehensive income	6,966	8,589
Treasury stock, at cost (748,662 shares in 2010 and 757,828 in 2009)	(5,262)	(5,327)
Total stockholders' equity	231,244	226,517