

HALLMARK FINANCIAL SERVICES INC
Form 10-Q
November 07, 2012

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, 2012

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.)

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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 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 November 7, 2012.

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 2012 (unaudited)	December 31 2011 (as adjusted)
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (cost: \$380,495 in 2012 and \$380,578 in 2011)	\$ 384,288	\$ 380,469
Equity securities, available-for-sale, at fair value (cost: \$29,118 in 2012 and \$30,465 in 2011)	41,694	44,159
Total investments	425,982	424,628
Cash and cash equivalents	107,682	74,471
Restricted cash	8,246	9,372
Ceded unearned premiums	21,994	19,470
Premiums receivable	69,182	53,513
Accounts receivable	3,360	3,946
Receivable for securities	1,051	2,617
Reinsurance recoverable	50,109	42,734
Deferred policy acquisition costs	26,408	22,554
Goodwill	44,695	44,695
Intangible assets, net	23,965	26,654
Deferred federal income taxes, net	532	-
Federal income tax recoverable	-	6,738
Prepaid expenses	1,620	1,458
Other assets	11,008	13,209
Total assets	\$ 795,834	\$ 746,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Revolving credit facility payable	\$ 1,473	\$ 4,050
Subordinated debt securities	56,702	56,702
Reserves for unpaid losses and loss adjustment expenses	315,607	296,945
Unearned premiums	168,197	146,104
Reinsurance balances payable	5,976	3,139
Pension liability	3,245	3,971
Payable for securities	6,749	203
Deferred federal income taxes, net	-	135

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Federal income tax payable	177	-
Accounts payable and other accrued expenses	18,600	17,954
Total liabilities	576,726	529,203
Commitments and Contingencies (Note 17)		
Redeemable non-controlling interest	-	1,284
Stockholders' equity:		
Common stock, \$.18 par value, authorized 33,333,333 shares in 2012 and 2011; issued 20,872,831 in 2012 and 2011	3,757	3,757
Additional paid-in capital	122,412	122,487
Retained earnings	96,181	94,440
Accumulated other comprehensive income	8,316	6,446
Treasury stock (1,609,374 shares in 2012 and 2011), at cost	(11,558)	(11,558)
Total stockholders' equity	219,108	215,572
	\$ 795,834	\$ 746,059

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	
	2012	2011 (as adjusted)	2012	2011 (as adjusted)
Gross premiums written	\$99,448	\$ 89,751	\$297,658	\$ 270,834
Ceded premiums written	(14,443)	(11,869)	(42,554)	(37,762)
Net premiums written	85,005	77,882	255,104	233,072
Change in unearned premiums	(4,524)	(2,814)	(19,166)	(16,313)
Net premiums earned	80,481	75,068	235,938	216,759
Investment income, net of expenses	3,795	3,980	11,573	11,765
Net realized gains	982	394	1,854	3,177
Finance charges	1,374	1,683	4,538	5,148
Commission and fees	(1,029)	2,445	(1,033)	2,617
Other income	17	178	307	203
Total revenues	85,620	83,748	253,177	239,669
Losses and loss adjustment expenses	52,839	56,136	168,859	181,841
Other operating expenses	25,726	24,850	77,077	71,890
Interest expense	1,137	1,159	3,464	3,470
Amortization of intangible assets	897	897	2,690	2,690
Total expenses	80,599	83,042	252,090	259,891
Income (loss) before tax	5,021	706	1,087	(20,222)
Income tax expense (benefit)	1,350	602	(978)	(9,048)
Net income (loss)	3,671	104	2,065	(11,174)
Less: Net income attributable to non-controlling interest	258	6	324	28
Net income (loss) attributable to Hallmark Financial Services, Inc.	\$3,413	\$ 98	\$1,741	\$ (11,202)
Net income (loss) per share attributable to Hallmark Financial Services, Inc. common stockholders:				
Basic	\$0.18	\$ 0.01	\$0.09	\$ (0.57)
Diluted	\$0.18	\$ 0.01	\$0.09	\$ (0.57)

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		Nine Months Ended September	
	2012	2011 (as adjusted)	2012	2011 (as adjusted)
Net income (loss)	\$ 3,671	\$ 104	\$ 2,065	\$ (11,174)
Other comprehensive loss:				
Change in net actuarial loss	120	72	362	215
Tax effect on change in net actuarial loss	(42)	(25)	(127)	(75)
Unrealized holding gains (losses) arising during the period	4,541	(8,134)	4,560	(8,254)
Tax effect on unrealized holding gains (losses) arising during the period	(1,589)	2,847	(1,596)	2,889
Reclassification adjustment for losses included in net income (loss)	(926)	(393)	(2,044)	(3,177)
Tax effect on reclassification adjustment for losses included in net income	324	137	715	1,112
Other comprehensive gain (loss), net of tax	2,428	(5,496)	1,870	(7,290)
Comprehensive gain (loss)	\$ 6,099	\$ (5,392)	\$ 3,935	\$ (18,464)
Less: comprehensive income attributable to non-controlling interest	258	6	324	28
Comprehensive gain (loss) attributable to Hallmark Financial Services, Inc.	\$ 5,841	\$ (5,398)	\$ 3,611	\$ (18,492)

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,	
	2012	2011 (as adjusted)	2012	2011 (as adjusted)
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	122,669	122,292	122,487	121,815
Accretion of redeemable noncontrolling interest	(321)	(31)	(392)	(37)
Equity based compensation	64	94	317	583
Exercise of stock options	-	-	-	(6)
Balance, end of period	122,412	122,355	122,412	122,355
Retained Earnings				
Balance, beginning of period, as previously reported	92,768	94,567	94,995	105,816
Cumulative effect of adjustments resulting from adoption of change in accounting principle, net of tax	-	(536)	(555)	(485)
Balance, beginning of period, as adjusted	92,768	94,031	94,440	105,331
Net income (loss) attributable to Hallmark Financial Services, Inc.	3,413	98	1,741	(11,202)
Balance, end of period	96,181	94,129	96,181	94,129
Accumulated Other Comprehensive Income				
Balance, beginning of period	5,888	7,843	6,446	9,637
Additional minimum pension liability, net of tax	78	47	235	140
Net unrealized holding (losses) gains arising during period, net of tax	2,952	(5,287)	2,964	(5,365)
Reclassification adjustment for gains included in net income, net of tax	(602)	(256)	(1,329)	(2,065)
Balance, end of period	8,316	2,347	8,316	2,347
Treasury Stock				

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Balance, beginning of period	(11,558)	(10,068)	(11,558)	(5,262)
Acquisition of treasury shares	-	(1,490)	-	(6,401)
Issuance of treasury stock upon option exercises	-	-	-	105
Balance, end of period	(11,558)	(11,558)	(11,558)	(11,558)
Total Stockholders' Equity	\$219,108	\$ 211,030	\$219,108	\$ 211,030

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

Hallmark Financial Services, Inc. and Subsidiaries

8 SHARED DISPOSITIVE POWER

1,175,701

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

1,175,701

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

10

..

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11

4.48%

TYPE OF REPORTING PERSON

12

PN

7

CUSIP No.: 78112T 107

NAME OF REPORTING PERSON

1

Co-Invest Capital Partners, Inc.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)

(b)
SEC USE ONLY

3

CITIZENSHIP OR PLACE OF ORGANIZATION

4

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

1,309,976

7 SOLE DISPOSITIVE POWER

EACH

REPORTING

0

PERSON

8 SHARED DISPOSITIVE POWER

WITH

1,309,976

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

1,309,976

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

..

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11

4.98%

TYPE OF REPORTING PERSON

12

CO

8

CUSIP No.: 78112T 107

NAME OF REPORTING PERSON

1

Co-Invest Management, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)

(b)
SEC USE ONLY

3

CITIZENSHIP OR PLACE OF ORGANIZATION

4

Delaware

5 SOLE VOTING POWER

NUMBER OF
SHARES

0

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

1,309,976

7 SOLE DISPOSITIVE POWER

EACH

REPORTING

0

PERSON

8 SHARED DISPOSITIVE POWER

WITH

1,309,976

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

1,309,976

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

..

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11

4.98%

TYPE OF REPORTING PERSON

12

PN

9

CUSIP No.: 78112T 107

NAME OF REPORTING PERSON

1

The Co-Investment 2000 Fund, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)

(b)
SEC USE ONLY

3

CITIZENSHIP OR PLACE OF ORGANIZATION

4

Delaware

5 SOLE VOTING POWER

NUMBER OF
SHARES

0

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

1,309,976

7 SOLE DISPOSITIVE POWER

EACH

REPORTING

0

PERSON

8 SHARED DISPOSITIVE POWER

WITH

1,309,976

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

1,309,976

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

..

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11

4.98%

TYPE OF REPORTING PERSON

12

PN

10

CUSIP No.: 78112T 107

NAME OF REPORTING PERSON

1

Donald R. Caldwell

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)

(b)
SEC USE ONLY

3

CITIZENSHIP OR PLACE OF ORGANIZATION

4

United States

5 SOLE VOTING POWER

NUMBER OF
SHARES

26,863

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

2,485,677

7 SOLE DISPOSITIVE POWER

EACH

REPORTING

26,863

8 SHARED DISPOSITIVE POWER

WITH

2,485,677

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

2,512,540

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

..

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11

9.5%

TYPE OF REPORTING PERSON

12

IN

11

SCHEDULE 13G

CUSIP No.: 78112T 107

Item 1.(a) Name of Issuer:

Rubicon Technology, Inc. (“Issuer”)

(b) Address of Issuer’s Principal Executive Offices:

**900 East Green Street
Bensenville, Illinois 60106**

Item 2.(a) Name of Person Filing:

(b) Address of Principal Business Office or, if none, Residence:

(c) Citizenship (in the case of an entity, the jurisdiction under which it is organized):

The names, principal business offices and citizenship of the persons filing this statement are:

**Cross Atlantic Capital Partners, Inc. (“CAP”)
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware**

**XATF Management, L.P. (“XATF”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware**

**Cross Atlantic Technology Fund, L.P. (“Fund”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware**

**Cross Atlantic Capital Partners II, Inc. (“CAP II”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware**

XATF Management II, L.P. (“XATF II”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware

Cross Atlantic Technology Fund II, L.P. (“Fund II”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware

Co-Invest Capital Partners, Inc. (“Co-Invest Capital”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware

Co-Invest Management, L.P. (“Co-Invest Management”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware

The Co-Investment 2000 Fund, L.P. (“2000 Fund”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: Delaware

Donald R. Caldwell (“Mr. Caldwell”)
c/o Cross Atlantic Capital Partners, Inc.
150 North Radnor-Chester Road, Suite B101
Radnor, PA 19087
Citizenship: United States

(d) Title of Class of Securities:

Common Stock, par value \$0.001 (“Common Stock”)

(e) CUSIP Number:

78112T 107

Item 3.

Not applicable.

Item 4. Ownership.

(a) Amount beneficially owned:

As of December 31, 2014, (i) Fund II was the record holder of 1,047,698 shares of Common Stock and held currently exercisable warrants to purchase 128,033 shares of Common Stock, (ii) 2000 Fund was the record holder of 1,170,153 shares of Common Stock and held currently exercisable warrants to purchase 139,823 shares of Common Stock and (iv) Mr. Caldwell was the record holder of 10,297 shares of Common Stock and held exercisable options to purchase 16,566 shares of Common Stock.

XATF II may be deemed to beneficially own 1,175,701 shares of Common Stock as the general partner of Fund II. CAP II may be deemed to beneficially own 1,175,701 shares of Common Stock as the general partner of XATF II.

Co-Invest Management may be deemed to beneficially own 1,309,976 shares of Common Stock as the general partner of 2000 Fund. Co-Invest Capital may be deemed to beneficially own 1,309,976 shares of Common Stock as the general partner of Co-Invest Management.

Mr. Caldwell may be deemed to beneficially own 2,485,677 shares of Common Stock as sole owner of CAP II and Co-Invest Capital.

The foregoing should not be construed in and of itself as an admission by any Reporting Person as to beneficial ownership of any shares of Common Stock owned by another Reporting Person. Each of the Reporting Persons disclaims beneficial ownership of the securities held by others, including the other Reporting Persons, except to the extent of such Reporting Person's pecuniary interest therein, if any.

(b) Percent of class:

Based on 26,138,944 shares issued and outstanding as of December 31, 2014, (i) CAP II, XATF II and Fund II may be deemed to beneficially own 4.48% of the outstanding shares of Common Stock, (iii) Co-Invest Capital, Co-Invest Management and 2000 Fund may be deemed to beneficially own 4.98% of the outstanding shares of Common Stock and (iv) Mr. Caldwell may be deemed to beneficially own 9.5% of the outstanding shares of Common Stock.

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote:

See Cover Pages Items 5-9.

(ii) Shared power to vote or to direct the vote:

See Cover Pages Items 5-9.

(iii) Sole power to dispose or to direct the disposition of:

See Cover Pages Items 5-9.

(iv) Shared power to dispose or to direct the disposition of:

See Cover Pages Items 5-9.

All information in this schedule, including the numbers of shares beneficially owned, is reported as of December 31, 2014.

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities check the following .

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Under the terms of their respective partnership agreements, Fund II and 2000 Fund (collectively, the "Funds") are entitled to a reduction in the management fees payable to CAP equal, in the aggregate, to the amount of income recognized by Mr. Caldwell for federal tax purposes upon a sale of the Issuer's securities he receives as compensation for his services as a director of the Issuer. In the event such securities have not been sold prior to the dissolution of the Funds, the reduction in the management fees will be equal to the fair market value of such shares on the date of dissolution. As of December 31, 2014, Mr. Caldwell held 10,297 shares of Common Stock and exercisable options to purchase 16,566 shares of Common Stock subject to these fee adjustment arrangements.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

Not applicable.

Item 8. Identification and Classification of Members of the Group.

Not applicable.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certification.

Not applicable.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: May 6, 2015 CROSS ATLANTIC TECHNOLOGY
FUND, L.P.

By: XATF Management, L.P.,
 as its general partner

By: Cross Atlantic Capital Partners, Inc.,
 as its general partner

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

XATF MANAGEMENT, L.P.

By: Cross Atlantic Capital Partners, Inc.,
 as its general partner

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

CROSS ATLANTIC CAPITAL
PARTNERS, INC.

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

CROSS ATLANTIC TECHNOLOGY FUND
II, L.P.

XATF Management II, L.P.,
By:
as its general partner

By: Cross Atlantic Capital Partners II, Inc.,
as its general partner

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

XATF MANAGEMENT II, L.P.

By: Cross Atlantic Capital Partners II, Inc.,
as its general partner

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

CROSS ATLANTIC CAPITAL PARTNERS
II, INC.

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

THE CO-INVESTMENT 2000 FUND, L.P.

By: Co-Invest Management, L.P.,
as its general partner

By: Co-Invest Capital Partners, Inc.,
as its general partner

/s/ Brian Adamsky
Name: Brian Adamsky
Title: Chief Financial Officer and Treasurer

CO-INVEST MANAGEMENT, L.P.

By: Co-Invest Capital Partners, Inc.,
as its general partner

/s/ Brian Adamsky

Name: Brian Adamsky

Title: Chief Financial Officer and Treasurer

CO-INVEST CAPITAL PARTNERS, INC.

/s/ Brian Adamsky

Name: Brian Adamsky

Title: Chief Financial Officer and Treasurer

/s/ Donald R. Caldwell

Donald R. Caldwell