

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

HALLMARK FINANCIAL SERVICES INC
Form 8-K/A
February 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 3, 2002

HALLMARK FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Nevada	0-16090	87-0447375
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

14651 Dallas Parkway, Suite 900, Dallas, Texas	75254
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 404-1637

Not Applicable
(Former name or former address, if changed since last report.)

The Registrant hereby amends Item 7(a) and Item 7(b) of its Current Report on Form 8-K filed on December 4, 2002, for the purpose of providing financial statements required in connection with the Registrant's acquisition of Millers General Agency, Inc., Financial and Actuarial Resources, Inc. and Effective Litigation Management, Inc.

Item 7. Financial Statements and Exhibits.
a) Financial statements of business acquired.

Report of Independent Accountants

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

To the Boards of Directors and Stockholders of
Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.

In our opinion, the accompanying combined balance sheets and the related combined statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Millers General Agency, Inc., Effective Litigation Management, Inc. and Financial and Actuarial Resources, Inc. at December 31, 2001, and the results of their operations and their cash flows for the eleven months ended November 30, 2002 and the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Companies' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Dallas, Texas
February 12, 2003

Report of Independent Accountants

To the Boards of Directors and Stockholder of
Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.

In our opinion, the accompanying combined balance sheet and the related combined statement of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Millers General Agency, Inc., Effective Litigation Management, Inc. and Financial and Actuarial Resources, Inc. at December 31, 2002, and the results of their operations and their cash flows for the month ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Companies' management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the combined financial statements, Millers General Agency, Inc., Effective Litigation Management, Inc. and Financial and Actuarial Resources, Inc. were acquired by Hallmark Financial Services, Inc. effective December 1, 2002 in a purchase business combination recorded under

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

the push-down method of accounting, resulting in a new basis of accounting for the successor period beginning December 1, 2002.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Dallas, Texas
February 12, 2003

Millers General Agency, Inc., Effective Litigation Management, Inc. and Financial and Actuarial Resources, Inc. COMBINED BALANCE SHEETS

	December 31,	
	2002 (Successor)	2001 (Predecessor)
ASSETS		

Cash and cash equivalents	\$ 825,876	\$ -
Accounts receivable	2,128,942	1,411,393
Prepaid agent commission	3,899,393	2,622,819
Other current assets	15,788	8,173
	-----	-----
Total current assets	6,869,999	4,042,385
Furniture, fixtures and equipment, net	486,398	143,265
Profit sharing commission receivable	866,663	-
Deferred tax asset	642,129	889,542
Goodwill	2,434,049	-
Other intangible assets	540,319	-
	-----	-----
Total assets	\$ 11,839,557	\$ 5,075,192
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Unearned revenue	\$ 6,871,690	\$ 4,478,238
Accounts payable	406,970	212,326
Commission payable	593,821	-
Accrued agent profit sharing	449,789	341,777
Payable to Phoenix Indemnity Insurance Co.	480,000	-
Current portion of long term notes payable	83,517	315,959
Other current liabilities	410,059	387,584
	-----	-----
Total current liabilities	9,295,846	5,735,884
Commitments and contingencies		
Long term notes payable	-	83,517
Pension liability	603,863	-
	-----	-----
Total long term liabilities	603,863	83,517
	-----	-----
Total liabilities	9,899,709	5,819,401

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Common stock	2,100	2,100
Additional paid-in capital	2,097,900	900
Retained earnings (accumulated deficit)	1,796	(747,209)
Accumulated other comprehensive income (loss)	(161,948)	-
	-----	-----
Total stockholders' equity	1,939,848	(744,209)
Total liabilities and stockholders' equity	\$ 11,839,557	\$ 5,075,192
	=====	=====

The accompanying notes are an integral part
of these financial statements

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
COMBINED STATEMENTS OF OPERATIONS

	Eleven Months Ending November 30, 2002 (Predecessor)	One Month Ending December 31, 2002 (Successor)	Twelve Months Ending December 31, 2001 (Predecessor)
	-----	-----	-----
Revenues			
Commissions and fees	\$ 10,863,314	\$ 1,560,798	\$ 9,417,949
Interest and other income	13,992	500	12,993
	-----	-----	-----
Total revenues	10,877,306	1,561,298	9,430,942
Expenses			
Commissions and other selling expenses	6,649,989	740,636	5,648,707
Salaries and employee benefits	1,256,885	423,108	1,382,514
General and administrative	1,945,318	356,177	1,780,833
Depreciation and amortization	72,243	37,425	140,354
Interest expense	22,298	832	50,228
	-----	-----	-----
Total expenses	9,946,733	1,558,178	9,002,636
Income before taxes	930,573	3,120	428,306
Federal income tax expense	344,896	1,324	161,890
	-----	-----	-----
Net income	\$ 585,677	\$ 1,796	\$ 266,416
	=====	=====	=====

The accompanying notes are an integral part
of these financial statements

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY

Additional	Retained	Accumul
	Earnings	Other
		Comprehe

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

	Number of Shares	Par Value	Paid in Capital	(Accumulated Deficit)	Incom (Loss)
	-----	-----	-----	-----	-----
December 31, 2000 (Predecessor)	2,100	\$ 2,100	\$ 900	\$ (1,013,625)	\$
Net income				266,416	
December 31, 2001 (Predecessor)	2,100	\$ 2,100	\$ 900	\$ (747,209)	\$
Predecessor net income for the eleven months ending November 30, 2002				585,677	
November 30, 2002 (Predecessor)	2,100	\$ 2,100	\$ 900	\$ (161,532)	\$
December 1, 2002 (Successor)	2,100	\$ 2,100	\$2,097,900	\$ -	\$
Comprehensive loss: Successor net income for the one month ending December 31, 2002				1,796	
Other comprehensive loss: Minimum pension liability					(255,
Tax effect of minimum pension liability					93,
Net minimum pension liability					(161,
Total comprehensive loss					
December 31, 2002 (Successor)	2,100	\$ 2,100	\$2,097,900	\$ 1,796	\$ (161,

The accompanying notes are an integral part
of these financial statements.

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
COMBINED STATEMENTS OF CASH FLOWS

	Eleven Months Ending November 30, 2002 (Predecessor)	One Month Ending December 31, 2002 (Successor)	Twelve Months Ending December 31, 2001 (Predecessor)
	-----	-----	-----
Cash flows from operating activities: Net income	\$ 585,677	\$ 1,796	\$ 266,416
Adjustments to reconcile net income to cash provided by (used in) operating activities:			

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Depreciation and amortization	72,243	37,425	140,354
Gain on sale of office furniture	(9,000)	-	-
Change in accounts receivable	21,126	(170,051)	(829,181)
Change in prepaid commissions	(1,240,372)	(36,203)	(363,761)
Change in profit sharing receivable	(803,002)	(63,661)	-
Change in deferred tax asset	2,929	(1,215)	164,725
Change in unearned revenue	1,641,599	183,229	297,564
Change in commission payable	-	593,821	-
Change in accrued agent profit sharing	35,730	72,281	(449,608)
Change in other current assets	-	(7,614)	-
Change in other current liabilities	275,675	271,200	94,355
	-----	-----	-----
Net cash provided by (used in) operating activities	582,605	881,008	(679,136)
	-----	-----	-----
Cash flows from investing activities:			
Purchases of furniture, fixtures and equipment	(1,022)	-	(72,304)
Proceeds from sales of furniture, fixtures and equipment	9,000	-	3,075
	-----	-----	-----
Net cash provided by (used in) investing activities	7,978	-	(69,229)
	-----	-----	-----
Cash flows from financing activities:			
Book overdraft	(302,041)	(27,707)	329,756
Repayment of borrowings	(288,534)	(27,425)	(288,862)
	-----	-----	-----
Net cash provided by (used in) financing activities	(590,583)	(55,132)	40,894
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	-	825,876	(707,471)
Cash at beginning of period	\$ -	\$ -	\$ 707,471
	-----	-----	-----
Cash at end of period	\$ -	\$ 825,876	\$ -
	=====	=====	=====
Supplemental cash flow information:			
Interest paid	\$ 22,298	\$ 832	\$ 49,887
	=====	=====	=====
Income taxes paid	\$ -	\$ -	\$ 10,718
	=====	=====	=====

The accompanying notes are an integral part
of these financial statements.

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
Notes to Combined Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Millers General Agency, Inc., Effective Litigation Management, Inc. and

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Financial and Actuarial Resources, Inc. (hereinafter collectively referred to as the "Company") are a regional managing general agency, a third party claims administrator and a financial administrative service company, respectively. The Company markets through an independent agency force low hazard commercial insurance policies primarily in the rural areas of Texas, New Mexico, Idaho, Oregon and Washington. The Company also underwrites and administers the claims on these insurance policies. On December 1, 2002, the Company was acquired by Hallmark Financial Services, Inc. ("HFS") in a purchase business combination recorded under the "push down" method of accounting, resulting in a new basis of accounting for the "Successor" period beginning December 1, 2002. Information relating to all "Predecessor" periods prior to the acquisition is presented using the Company's historical basis of accounting.

Basis of Combination

The accompanying combined financial statements include the accounts of Millers General Agency, Inc., Effective Litigation Management, Inc. and Financial and Actuarial Resources, Inc. Combined financial statements are presented due to the related operations and management of the Company. All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

Revenue Recognition

Commission revenue and commission expense related to insurance policies serviced by the Company are recognized during the period covered by the policy. Profit sharing commission is recognized when the ratio of ultimate losses and loss expenses incurred to earned premium ("loss ratio") as determined by a qualified actuary fall below contractual thresholds. The profit sharing commission is an estimate that varies with the estimated loss ratio and is sensitive to changes in that estimate. For each 0.5% change in the loss ratio, the profit sharing commission changes by approximately \$120,000.

Claim servicing fees are recognized during the period covered by the insurance policy with a portion of the fees related to casualty claims deferred and recognized over two years following the expiration of the policy.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the useful lives of 5 years for office furniture and equipment, 3 years for software and 10 years for leasehold improvements. Gains and losses on dispositions are shown on the statement of operations as other income.

Cash and Cash Equivalents

Cash and cash equivalents includes an overnight investment sweep account at Bank of America, N.A. used to fund the operations of the Millers General Agency, Inc.

Agent Profit Sharing Commission

The Company annually pays a profit sharing commission to its independent agency force based upon the results of the business produced by each agent. The Company estimates and accrues this liability to commission expense in the year the business is produced.

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Federal Income Taxes

The Company accounts for taxes (including deferred taxes) utilizing the asset and liability method, as required by Statement of Financial Accounting Standards No. 109 ("FAS 109"). Under this method, balance sheet amounts for deferred income taxes are computed based on the tax effect of the differences between the financial reporting and federal income tax bases of assets and liabilities using tax rates which are expected to be in effect when these differences are anticipated to reverse.

In accordance with FAS 109, total tax expense (or benefit) is the amount of income taxes expected to be paid (or received) for the current year plus (or minus) the deferred income tax expense (or benefit) represented by the change in deferred income tax accounts at the beginning and end of the year. The effect of changes in tax rates and federal income tax laws are reflected in income in the period such changes are enacted.

The tax effect of future taxable temporary differences (liabilities) and future deductible temporary differences (assets) are separately calculated and recorded when such differences arise. A valuation allowance, reducing any recognized deferred tax asset, must be recorded if it is determined that it is more likely than not that such deferred tax will not be realized.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions. This affects amounts reported in the financial statements and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

2. FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment consist of the following:

	December 31, 2002	December 31, 2001
	-----	-----
Office furniture and equipment	\$ 377,564	\$ 265,922
Software	389,696	79,648
Leasehold improvements	19,850	-
	-----	-----
	787,110	345,570
 Accumulated depreciation	 (300,712)	 (202,305)
	-----	-----
	\$ 486,398	\$ 143,265
	=====	=====

Depreciation expense was \$47,906 for the eleven months ending November 30, 2002 and \$8,748 for the one month ending December 31, 2002, as compared to \$51,806 for the twelve months ending December 31, 2001. Amortization expense was \$24,337 for the eleven months ending November 30, 2002 and \$28,677 for the one month ending December 31, 2002, as compared to \$88,548 for the twelve months ending December 31, 2001.

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

3. FEDERAL INCOME TAXES

The components of federal income tax expense (benefit) are as follows:

	Eleven Months Ending November 30, 2002 (Predecessor) -----	One Month Ending December 31, 2002 (Successor) -----	Twelve Months Ending December 31, 2001 (Predecessor) -----
Current	\$ 341,967	\$ 2,538	\$ (2,836)
Deferred	2,929	(1,214)	164,726
	-----	-----	-----
	\$ 344,896	\$ 1,324	\$ 161,890
	=====	=====	=====

Total income tax expense (benefit) is different from the amount computed using statutory tax rates applied to pre-tax income for the following reasons:

	Eleven Months Ending November 30, 2002 (Predecessor) -----	One Month Ending December 31, 2002 (Successor) -----	Twelve Months Ending December 31, 2001 (Predecessor) -----
Tax expense at statutory rates	\$ 316,395	\$ 1,062	\$ 145,624
Meals and entertainment	794	98	164
Nondeductible dues	-	58	30
State tax	27,707	106	16,072
	-----	-----	-----
Total income tax expense	\$ 344,896	\$ 1,324	\$ 161,890
	=====	=====	=====

Deferred tax assets are attributable to the following temporary differences:

	December 31, 2002 -----	December 31, 2001 -----
Unearned commissions	\$ 2,303,576	\$ 1,655,605
Goodwill	(2,200)	290,313
Prepaid commissions	(1,441,606)	(969,656)
Accrued agent profit sharing	-	(164,241)
Profit sharing commission receivable	(320,405)	-
Agency relationship amortization	(199,756)	-
Pension liability	221,014	-
Federal NOL	77,071	77,071
All others	4,435	450
	-----	-----
Valuation allowance	\$ 642,129	\$ 889,542
	-----	-----
	\$ 642,129	\$ 889,542
	=====	=====

As of December 1, 2002, the Company had a tax net operating loss carryforward of approximately \$226,679 for income tax purposes which expires between 2019 and 2021. There are certain limitations that

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

could be imposed by the Internal Revenue Code regarding the amount of carryforwards that may be utilized each year. The Company had a current tax payable (receivable) balance of \$308,456 and (\$36,050) as of December 31, 2002 and 2001, respectively.

4. INTANGIBLE ASSETS

The Company's intangible assets are composed of \$2,434,049 of goodwill and \$540,319 for the Company's relationships with its independent agents. These assets were acquired on December 1, 2002 with the acquisition of the Company by Hallmark Financial Services, Inc. The Company's agency relationships are valued at \$542,580 and are being amortized over twenty years. The Company recognized \$2,261 of amortization expense for the one month ending December 31, 2002 and will recognize \$27,129 in amortization expense for each of the next five years and \$404,674 for the remainder of the asset's life.

5. NOTES PAYABLE

The Company's notes payable balance of \$83,517 as of December 31, 2002 consists of two notes payable to Millers Insurance Company. Each of these notes carries an interest rate of 9% and matures in March 2003.

[This space left blank intentionally.]

6. RETIREMENT PLANS

Certain employees of the Company were participants in a defined benefit cash balance plan covering all full-time employees who had completed at least 1,000 hours of service. This plan was frozen in March 2001 in anticipation of distribution of plan assets to members upon plan termination. All participants were vested when the plan was frozen.

	11 month Ending 11/30/02 (Predecessor) -----	1 month Ending 12/31/02 (Successor) -----	Year Ending 12/31/01 (Predecessor) -----
Assumptions (end of period)			
Discount rate used in determining benefit obligation	6.50%	6.50%	7.25%
Rate of compensation increase	N/A	N/A	N/A
Reconciliation of funded status (end of period):			
Vested benefit obligation	\$ (11,792,123)	\$ (11,755,854)	\$ (10,793,748)
Accumulated benefit obligation	(11,794,169)	(11,757,910)	(10,830,974)
Projected benefit obligation	(11,794,169)	(11,757,910)	(10,830,974)
Fair value of plan assets	11,445,744	11,154,047	12,528,900
	-----	-----	-----
Funded status	\$ (348,425)	\$ (603,863)	\$ 1,697,926
Unrecognized net obligation/(asset)	-	-	-

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Unrecognized prior service cost	-	-	-
Unrecognized actuarial (gain)/loss	2,450,806	267,798	228,554
	-----	-----	-----
Prepaid/(accrued) pension cost	\$ 2,102,381	\$ (336,065)	\$ 1,926,480
Changes in projected benefit obligation:			
Benefit obligation as of beginning of period	\$ 10,830,974	\$ 11,794,169	\$ 9,419,143
Service cost	-	-	18,672
Interest cost	710,763	63,625	757,443
Plan amendments	-	-	-
Actuarial liability (gain)/loss	1,213,134	(3,994)	1,756,078
Effect of curtailment (plan freeze)	-	-	(170,729)
Benefits paid	(960,702)	(95,890)	(949,633)
	-----	-----	-----
Benefit obligation as of end of period	\$ 11,794,169	\$ 11,757,910	\$ 10,830,974
	11 month	1 month	Year
	Ending	Ending	Ending
	11/30/02	12/31/02	12/31/01
	(Predecessor)	(Successor)	(Predecessor)
	-----	-----	-----
Change in plan assets:			
Fair value of plan assets as of beginning of period	\$ 12,528,900	\$ 11,445,744	\$ 14,542,959
Actual return on plan assets (net of expenses)	(122,454)	(195,807)	(1,064,426)
Employer contributions	-	-	-
Benefits paid	(960,702)	(95,890)	(949,633)
	-----	-----	-----
Fair value of plan assets as of end of period	\$ 11,445,744	\$ 11,154,047	\$ 12,528,900
	-----	-----	-----
Net periodic pension cost:			
Service cost - benefits earned during the period	\$ -	\$ -	\$ 18,672
Interest cost on projected benefit obligation	710,763	63,625	757,443
Expected return on plan assets	(886,664)	(75,985)	(1,044,192)
Amortizations			
Net obligation/(asset)	-	-	9,385
Unrecognized prior service cost	-	-	(12,518)
Unrecognized (gain)/loss	-	-	(24,155)
	-----	-----	-----
Net periodic pension cost (credit)	\$ (175,901)	\$ (12,360)	\$ (295,365)
Discount rate (beginning of year)	7.25%	6.50%	7.75%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	N/A	N/A	5.00%

As of December 31, 2002, the fair value of the plan assets was composed of cash and cash equivalents of \$740,031, bonds and notes of \$5,661,985 and equity securities of \$4,752,031.

The Company sponsors a defined contribution profit sharing plan whereby all employees are eligible to participate on the first day of the

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

quarter following their employment date and are considered fully-vested after five years of service. Participants are permitted to contribute 1% to 15% of their annual compensation on a tax deferred basis and the Company has matched 50% on the first 6% contributed by each employee. Employer contributions approximated \$23,318 for the first eleven months of 2002 and \$2,034 for the one month ending December 31, 2002, as compared to \$15,497 contributed for the twelve months ending December 31, 2001. Profit sharing contributions are based on the Company's performance and are authorized annually at the discretion of the Board of Directors. There were no profit sharing contributions made to the plan in 2002 or 2001.

7. COMMON STOCK

Common stock consists of the following:

	December 31, 2002	December 31, 2001
	-----	-----
Millers General Agency, Inc. common stock, \$1.00 par value, 100 shares authorized and issued	\$ 100	\$ 100
Effective Litigation Management, Inc. common stock \$1.00 par value, 1,000 shares authorized and issued	1,000	1,000
Financial and Actuarial Resources, Inc. common stock \$1.00 par value, 1,000 shares authorized and issued	1,000	1,000
	-----	-----
	\$ 2,100	\$ 2,100
	=====	=====

8. COMMITMENTS AND CONTINGENCIES

The Company was self-insured for medical and dental coverage for its employees, with stop-loss coverage for individual claims exceeding \$50,000. As of January 1, 2003, the Company is fully insured for medical claims of its employees. Total expense for medical claims were \$82,362 for the first eleven months of 2002 and \$21,979 for the one month ending December 31, 2002 as compared to \$130,700 for the twelve months ending December 31, 2001.

The Company currently reimburses its former parent, Millers American Group ("MAG") for rent under MAG's operating lease. MAG leases office space under an operating lease that expires in 2009 with an option to terminate the lease in 2005. The lease provides for increasing rents over the lease term. Rental expense on space formerly occupied by the Company, and space currently occupied under the MAG lease was \$143,234 for the first eleven months of 2002 and \$48,362 for the one month ending December 31, 2002 as compared to \$126,302 for the twelve months ending December 31, 2001. The Company intends to either have this lease assigned to it or to sublease this space from MAG at its current terms.

Future minimum lease payments as of December 31, 2002 are as follows:

2003	\$491,475
2004	\$486,798
2005	\$506,892
2006	\$500,151

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

2007	\$494,148
Thereafter	\$947,117

Item 7. Financial Statements and Exhibits. b) Pro forma financial information

The following unaudited Pro Forma Consolidated Balance Sheet of Hallmark Financial Services, Inc. ("HFS") is presented as if the acquisition of Millers General Agency, Inc. ("MGA"), Effective Litigation Management, Inc. ("ELM") and Financial and Actuarial Resources, Inc. ("FAR") had occurred on September 30, 2002. The following unaudited Pro Forma Consolidated Statements of Operations of HFS for the nine months ended September 30, 2002 and for the year ended December 31, 2001 assume these transactions as described above had occurred as of January 1, 2001. The Pro Forma Consolidated Balance Sheet was derived from the Consolidated Balance Sheet of HFS and its subsidiaries filed with HFS' Quarterly Report on Form 10-QSB as of and for the nine months ended September 30, 2002. The Pro Forma Consolidated Statements of Operations were derived from the Consolidated Statements of Operations of HFS and its subsidiaries filed with HFS' Quarterly Report on Form 10-QSB as of and for the nine months ended September 30, 2002 and Annual Report on Form 10-KSB as of and for the year ended December 31, 2001. In management's opinion, all of the material adjustments necessary to reflect the effects of the acquisition transactions have been made. The Pro Forma Consolidated Balance Sheet is not necessarily indicative of what the actual financial position would have been assuming such transactions had been completed as of September 30, 2002, nor does it purport to present the future financial position of HFS. Additionally, the Pro Forma Consolidated Statements of Operations are not necessarily indicative of what the actual results of operations of HFS would have been assuming such transactions had been completed at the beginning of the periods presented, nor do they purport to present the results of operations for future periods. Further, the Pro Forma Consolidated Statement of Operations for the interim period ended September 30, 2002 is not necessarily indicative of the results of operations for a full year.

The Acquisition

On December 3, 2002, HFS acquired from Millers American Group, Inc. ("Millers") all of the outstanding stock of two inactive subsidiaries, ELM and FAR. HFS simultaneously acquired from The Millers Insurance Company ("MIC"), an indirect subsidiary of Millers, all of the outstanding stock of MGA, an active Texas managing general agency, as well as certain contracts and fixed assets. Immediately following these transactions, the newly acquired subsidiaries of HFS employed all MIC personnel and began providing fee-based claims and financial administrative services to MIC. The effective date of the above transactions is December 1, 2002.

The aggregate purchase price for the acquired subsidiaries and assets was \$2,580,000, consisting of \$2,100,000 in cash and MGA's assumption of \$480,000 in debt owed by MIC to Phoenix Indemnity Insurance Company ("Phoenix"), another indirect subsidiary of Millers. The purchase price was determined through negotiations between HFS and Millers. HFS funded the cash portion of the purchase price from an interim financing facility previously provided by Newcastle Partners, L.P., an affiliate of Mark E. Schwarz, Chairman of HFS.

The following table summarizes the estimated fair values of the assets

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

acquired and liabilities assumed at the date of acquisition.

At December 1, 2002
(\$000s)

Current assets	\$ 5,234
Furniture, fixtures and equipment	522
Deferred tax asset, net	547
Other non-current assets	803
Intangible assets	543
Goodwill	2,434
Total assets acquired	10,083
Current liabilities	7,635
Additional minimum pension liability	348
Total liabilities assumed	7,983
Net assets acquired	\$ 2,100

The acquired intangible assets of \$543,000 represent the estimated fair value of MGA's relationship with its independent agents. These assets are being amortized over twenty years.

The Company is considering an election under Internal Revenue Code Section 338(h)(10) that would, if made, cause the tax basis of the assets acquired to increase from historic carrying value to fair market value, resulting in some amount of tax deductible goodwill. The balance of the deferred tax asset as of the date of acquisition would be reduced to zero with a corresponding increase to goodwill.

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
UNAUDITED CONSOLIDATED PRO FORMA BALANCE SHEET
(\$ in thousands)

	Hallmark Financial Services, Inc. September 30, 2002	MGA, ELM and FAR September 30, 2002	Combined Historical September 30, 2002	Pro fo Adjust
	-----	-----	-----	-----
Assets				
Investments:				
Debt securities, held to maturity, at amortized cost	\$ 8,280		\$ 8,280	
Equity securities, available for sale, at market value	93		93	

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Short-term investments, at cost which approximates Market value	6,442		6,442	
Total investments	14,815	-	14,815	
Cash and cash equivalents	6,361	27	6,388	
Restricted cash	1,607		1,607	
Prepaid reinsurance premiums	9,068		9,068	
Premiums receivable from lender for financed premiums (net of allowance for doubtful accounts of \$172)	11,510		11,510	
Premiums receivable	891		891	
Reinsurance recoverable	13,272		13,272	
Commission and fee receivable	-	1,859	1,859	
Deferred policy acquisition costs	1,246		1,246	
Prepaid commissions	-	3,835	3,835	
Excess of cost over net assets acquired	4,431		4,431	2,
Current federal income taxes recoverable	-	(81)	(81)	
Deferred federal income taxes	279	893	1,172	
Accrued investment income	69		69	
Other assets	733	103	836	
Total assets	\$ 64,282	\$ 6,636	\$ 70,918	\$ 4,

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
UNAUDITED CONSOLIDATED PRO FORMA BALANCE SHEET
(\$ in thousands)

	Hallmark Financial Services, Inc. September 30, 2002	MGA, ELM and FAR September 30, 2002	Combined Historical September 30, 2002	Pro fo Adjust
Liabilities and stockholders' equity				
Liabilities:				
Notes payable	\$ 12,317	\$ 165	\$ 12,482	\$ 2,
Unpaid losses and loss adjustment expense	17,202		17,202	
Unearned premiums	15,367		15,367	
Unearned commissions and fees	-	5,953	5,953	
Accrued agent profit sharing	-	643	643	
Reinsurance balances payable	3,217		3,217	
Drafts outstanding	610		610	
Accrued ceding commission refund	2,217		2,217	
Accounts payable and other accrued expenses	2,506	427	2,933	
Pension liability			-	
Current federal income taxes payable	67		67	
Total liabilities	53,503	7,188	60,691	3,
Stockholders' equity:				
Common stock	356	2	358	
Capital in excess of par value	10,875	1	10,876	1,

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Retained earnings	591	(555)	36	
Accumulated other comprehensive income			-	
Treasury stock	(1,043)	-	(1,043)	
	-----	-----	-----	-----
Total stockholders' equity	10,779	(552)	10,227	1,
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 64,282	\$ 6,636	\$ 70,918	\$ 4,
	=====	=====	=====	=====

- (a) Recognition of claim fee receivable and unearned claim fee revenue of \$569 for the assignment of a claims administration agreement to the Company.
- (b) Recognition of fixed assets acquired separately from the acquisition of MGA, ELM and FAR from Millers Insurance Company of \$450.
- (c) Recognition of \$2,434 of goodwill from the Hallmark Financial Services, Inc. acquisition of the Company.
- (d) Recognition of \$543 of agency relationship intangible asset from the Hallmark Financial Services, Inc. acquisition of the Company.
- (e) Recognition of a minimum pension liability of \$349 and resulting tax effect of \$128 from the frozen defined benefit cash balance plan.
- (f) Recognition of \$2,100 of 11.75% fixed rate debt incurred to complete the acquisition.

[This space left blank intentionally.]

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
UNAUDITED CONSOLIDATED PRO FORMA STATEMENTS OF OPERATIONS
(\$ in thousands)

	Hallmark Financial Services, Inc. 12 Months Ending December 31, 2001	MGA, ELM and FAR 12 Months Ending December 31, 2001	Combined Historic Twelve Months Ending December 31, 2001
	-----	-----	-----
Gross premiums written	\$ 49,614		\$ 49,614
Ceded premiums written	(33,822)		(33,822)
	-----		-----
Net premiums written	\$ 15,792		\$ 15,792
	=====		=====
Revenues			
Gross premiums earned	\$ 49,525	\$ -	\$ 49,525
Ceded premiums earned	(33,149)		(33,149)
	-----	-----	-----
Net premiums earned	16,376	-	16,376
Commission income	-	9,297	9,297
Investment income, net of expenses	1,043		1,043
Finance charges	3,095		3,095
Processing and service fees	1,120	120	1,240
Other income	368	13	381
	-----	-----	-----
Total revenue	22,002	9,430	31,432
Benefits, losses and expenses:			

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Losses and loss adjustment expenses	43,735		43,735
Reinsurance recoveries	(27,857)		(27,857)
	-----	-----	-----
Net losses and loss adjustment expenses	15,878	-	15,878
Acquisition costs, net	(399)		(399)
Other acquisition and underwriting expenses (net of ceding commission)	3,673	5,649	9,322
Operating expenses	3,346	3,303	6,649
Interest expense	1,021	50	1,071
Amortization of intangible assets	157		157
Litigation costs	-		-
	-----	-----	-----
Total benefits, losses and expenses	23,676	9,002	32,678
Loss from operations before federal income	(1,674)	428	(1,246)
Federal income tax benefit	(544)	162	(382)
	-----	-----	-----
Net (loss) income	\$ (1,130)	\$ 266	\$ (864)
	=====	=====	=====
Basic and diluted (loss) earnings per share (11,049,133 shares outstanding)	\$ (0.10)	\$ 0.02	\$ (0.08)
	=====	=====	=====

- (a) Includes twelve months of depreciation expense of \$344 of acquired fixed assets from Millers Insurance Company separate from the acquisition of MGA, ELM and FAR.
- (b) Includes twelve months amortization expense of \$27 of agency relationships.
- (c) Includes twelve months of interest expense of \$247 related to debt incurred to complete the acquisition.

Millers General Agency, Inc., Effective Litigation Management, Inc. and
Financial and Actuarial Resources, Inc.
UNAUDITED CONSOLIDATED PRO FORMA STATEMENTS OF OPERATIONS
(\$ in thousands)

	Hallmark Financial Services, Inc. 9 Months Ending September 30, 2002	MGA, ELM and FAR 9 Months Ending September 30, 2002	Combined Historic Nine Months Ending September 30, 2002
	-----	-----	-----
Gross premiums written	\$ 37,542		\$ 37,542
Ceded premiums written	(22,131)		(22,131)
	-----		-----
Net premiums written	\$ 15,411		\$ 15,411
	=====		=====
Revenues			
Gross premiums earned	\$ 38,682	\$ -	\$ 38,682
Ceded premiums earned	(24,388)		(24,388)
	-----	-----	-----
Net premiums earned	14,294	-	14,294
Commission income	-	8,435	8,435

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Investment income, net of expenses	417		417
Finance charges	1,804		1,804
Processing and service fees	335	215	550
Other income	257	13	270
	-----	-----	-----
Total revenue	17,107	8,663	25,770
Benefits, losses and expenses:			
Losses and loss adjustment expenses	26,584		26,584
Reinsurance recoveries	(15,908)		(15,908)
	-----	-----	-----
Net losses and loss adjustment expenses	10,676	-	10,676
Acquisition costs, net	(486)		(486)
Other acquisition and underwriting expenses (net of ceding commission)	4,001	5,642	9,643
Operating expenses	1,662	2,695	4,357
Interest expense	630	20	650
Amortization of intangible assets	-		-
Litigation costs	-		-
	-----	-----	-----
Total benefits, losses and expenses	16,483	8,357	24,840
Loss from operations before federal income	624	306	930
Federal income tax benefit	213	114	327
	-----	-----	-----
Net income (loss)	\$ 411	\$ 192	\$ 603
	=====	=====	=====
Basic and diluted earnings (loss) per share (11,049,133 shares outstanding)	\$ 0.04	\$ 0.02	\$ 0.05
	=====	=====	=====

- (a) Includes nine months of depreciation expense of \$258 of acquired fixed assets from Millers Insurance Company separate from the acquisition of MGA, ELM and FAR.
- (b) Includes nine months of amortization expense of \$20 of agency relationships.
- (c) Includes nine months of interest expense of \$185 related to debt incurred to complete the acquisition .

Item 7. Exhibits.

Exhibits.

2(a) * Purchase Agreement dated November 26, 2002, among Hallmark Financial Services, Inc., Millers American Group, Inc. and The Millers Insurance Company.

2(b) * Assumption Agreement dated December 1, 2002, among The Millers Insurance Company, Millers General Agency, Inc. and Phoenix Indemnity Insurance Company.

* Previously filed with the Company's Form 8-K filed with the Commission on December 4, 2002.

SIGNATURES

Edgar Filing: HALLMARK FINANCIAL SERVICES INC - Form 8-K/A

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HALLMARK FINANCIAL SERVICES, INC.

Date: February 13, 2003

By: /s/ Timothy A. Bienek

Timothy A. Bienek, President and
Chief Operating Officer

be insured under a single policy;

Table of Contents

privacy practices;

deposits of securities for the benefit of policyholders;

prior approval of certain corporate transactions;

payment of sales compensation to third parties;

approval of policy forms; and

guaranty fund and voluntary market regulations and assessments.

In addition, state insurance department examiners perform periodic financial, market conduct and other examinations of insurance companies. Compliance with applicable laws and regulations is time consuming and personnel-intensive. Our last financial examination was completed by the Ohio Department of Insurance on June 18, 2003 for the period ending December 31, 2001. We were notified in 2005 that Departments of Insurance from Ohio, Pennsylvania and Hawaii will be examining our insurance subsidiaries in 2006 for the period ending December 31, 2005. We expect the state of Ohio to coordinate this examination. Any adverse findings by these insurance departments, or any others that conduct examinations, can result in significant fines and penalties, negatively affecting our profitability. We have not been notified by any regulatory agency that we are in violation of any of the applicable laws and regulations referred to above nor are we aware of any such violation.

In addition, insurance-related laws and regulations may become more restrictive in the future, and new restrictive laws may be enacted. New or more restrictive regulation in the future, including changes in current tax or other regulatory interpretations affecting the alternative risk transfer insurance model, could make it more expensive for us to conduct our business, restrict the premiums we are able to charge or otherwise change the way we do business.

As a holding company, we are dependent on the results of operations of our insurance company subsidiaries to meet our obligations and pay future dividends.

We are a holding company and a legal entity separate and distinct from our insurance company subsidiaries. As a holding company without significant operations of its own, one of our sources of funds are dividends and other distributions from our insurance company subsidiaries. Statutory and regulatory restrictions limit the aggregate amount of dividends or other distributions that our insurance subsidiaries may declare or pay within any twelve-month period without advance regulatory approval, and require insurance companies to maintain specified levels of statutory capital and surplus. Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. As a result, we may not be able to receive dividends from our insurance subsidiaries at times and in amounts necessary to meet our operating needs, to pay dividends to our shareholders or to pay corporate expenses.

We are currently rated A (Excellent) by A.M. Best, their third highest rating out of 16 rating categories. A decline in our rating below A- could adversely affect our position in the insurance market, make it more difficult to market our insurance products and cause our premiums and earnings to decrease.

Financial ratings are an important factor influencing the competitive position of insurance companies. A.M. Best ratings, which are commonly used in the insurance industry, currently range from A++ (Superior) to F (In Liquidation), with a total of 16 separate ratings categories. A.M. Best currently assigns us a financial strength rating of A (Excellent). This is a recent upgrade from our previous rating of A- prior to June 2004. The objective of A.M. Best is

rating system is to provide potential policyholders and other interested parties an opinion of an insurer's financial strength and ability to meet ongoing obligations, including paying claims. This rating reflects A.M. Best's analysis of our balance sheet, financial position, capitalization and management. It is not an evaluation of an investment in our common shares, nor is it directed to investors in our common shares and is not a recommendation to buy, sell or hold our common shares. This rating is subject to periodic review and may be revised downward, upward, or revoked at the sole discretion of A.M. Best.

If our rating is reduced by A.M. Best below our previous rating of A- , we believe that our competitive position in the insurance industry could suffer, and it could be more difficult for us to market our insurance products.

Table of Contents

A downgrade could result in a significant reduction in the number of insurance contracts we write and in a substantial loss of business, as such business could move to other competitors with higher ratings, causing premiums and earnings to decrease.

New claim and coverage issues are continually emerging in the insurance industry, and these new issues could negatively impact our revenues, our business operations or our reputation.

As insurance industry practices and regulatory, judicial, and industry conditions change, unexpected and unintended issues related to pricing, claims, coverage and business practices may emerge. Plaintiffs often target property and casualty insurers in purported class action litigation relating to claims handling and insurance sales practices. A recent example of emerging class action litigation relates to the use of an applicant's credit rating as a factor in making risk selection and pricing decisions. The resolution and implications of new underwriting, claims and coverage issues could have a negative effect on our insurance business by extending coverage beyond our underwriting intent, increasing the size of claims or otherwise requiring us to change our business practices. The effects of unforeseen emerging claim and coverage issues could negatively impact our revenues, results of operations and our reputation.

If our claims payments and related expenses exceed our reserves, our financial condition and results of operations could be adversely affected.

Our success depends upon our ability to accurately assess and price the risks covered by the insurance policies that we write. We establish reserves to cover our estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums earned on the insurance policies that we write. Reserves do not represent an exact calculation of liability. Rather, reserves are estimates of our expectations regarding the ultimate cost of resolution and administration of claims under the insurance policies that we write. These estimates are based upon actuarial and statistical projections, assessments of currently available data, historical claims information, as well as estimates and assumptions regarding future trends in claims severity and frequency, judicial theories of liability and other factors. We continually refine our reserve estimates in an ongoing process as experience develops and claims are reported and settled. Each year, our reserves are certified by an accredited actuary from Great American.

Establishing an appropriate level of reserves is an inherently uncertain process. The following factors may have a substantial impact on our future actual losses and loss adjustment expense experience:

- the amount of claims payments;
- the expenses that we incur in resolving claims;
- legislative and judicial developments; and
- changes in economic conditions, including the effect of inflation.

Such developments could cause our level of reserves to be inadequate. To the extent that actual losses and loss adjustment expenses exceed expectations and the reserves reflected on our financial statements, we will be required to immediately reflect those changes by increasing reserves. When we increase reserves, the pre-tax income for the period in which we do so will decrease by a corresponding amount. In addition to having a negative effect on reserves and pre-tax income, increasing or strengthening reserves causes a reduction in our insurance companies' surplus and could cause a downgrading of the rating of our insurance company subsidiaries. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

Our inability to retain our senior executives and other key personnel could adversely affect our business.

Our success depends in part upon the ability of our executive management and other key personnel to implement our business strategy and on our ability to attract and retain qualified employees. The Company's loss of certain senior executives and other key personnel or the failure to attract and develop talented new executives and managers could adversely affect our business. We currently have an employee retention agreement with only one member of our executive management.

Table of Contents

Market fluctuations, changes in interest rates or a need to generate liquidity can have significant and negative effects on our investment portfolio.

Our results of operations depend in part on the performance of our invested assets. As of December 31, 2005, 87.2% of our investment portfolio (excluding cash and cash equivalents) was invested in fixed maturities and 10.3% was invested in equity securities. As of December 31, 2005, approximately 68.7% of our fixed maturity portfolio was invested in U.S. Government and government agency fixed income securities and approximately 97.0% was invested in fixed maturities rated AAA , AA and A by Standard & Poor s Corporation.

Certain risks are inherent in investing in fixed maturities including loss upon default and price volatility in reaction to changes in interest rates and general market factors. The fair value of our fixed maturities will fluctuate as interest rates change. The current environment of increasing interest rates may cause the market value of our fixed maturities to decrease. At December 31, 2005, we had pretax net unrealized losses of \$4.4 million on fixed maturities. Changes in interest rates may result in fluctuations in the income from, and the valuation of, our fixed income investments. Large investment losses would significantly decrease our asset base, and affect our ability to underwrite new business.

Historically, and during the most recent extended low interest rate period, we have not had the need to sell our investments to generate liquidity. If we were forced to sell portfolio securities early for liquidity purposes rather than holding them to maturity, we would recognize gains or losses on those securities earlier than anticipated.

We may not be successful in reducing our risk and increasing our underwriting capacity through reinsurance arrangements, which could adversely affect our business, financial condition and results of operations.

In order to reduce our underwriting risk and increase our underwriting capacity, we transfer portions of our insurance risk to other insurers through reinsurance contracts. Ceded premiums written amounted to 21.8% and 26.0%, respectively, of our gross premiums written for the year ended December 31, 2005 and 2004. The availability, cost and structure of reinsurance protection are subject to prevailing market conditions that are outside of our control and which may affect our level of business and profitability. We have recently increased our participation in the risk retention for certain products in part because we believe the current price increases in the reinsurance market are excessive for the reinsurance exposure assumed. In order for these contracts to qualify for reinsurance accounting and to provide the additional underwriting capacity that we desire, the reinsurer generally must assume significant risk and have a reasonable possibility of a significant loss. Our reinsurance facilities are generally subject to annual renewal. We may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable rates. If we are unable to renew our expiring facilities or obtain new reinsurance facilities, either our net exposure to risk would increase or, if we are unwilling to bear an increase in net risk exposures, we would have to reduce the amount of risk we underwrite which could adversely impact our results of operations.

We are subject to credit risk with respect to the obligations of our reinsurers and certain of our insureds. The inability of our risk sharing partners to meet their obligations could adversely affect our profitability.

Although the reinsurer is liable to us to the extent of risk ceded by us, we remain ultimately liable to the policyholder on all risks, even those reinsured. As a result, ceded reinsurance arrangements do not limit our ultimate obligations to policyholders to pay claims. We are subject to credit risks with respect to the financial strength of our reinsurers. We are also subject to the risk that our reinsurers may dispute their obligations to pay our claims. As a result, we may not recover sufficient amounts for claims that we submit to our reinsurers in a timely manner, if at all. As of December 31, 2005, we had a total of \$68.7 million of unsecured reinsurance recoverables and our largest unsecured recoverable from a single reinsurer, Platinum Underwriters Reinsurance, was \$32.2 million. In addition, our reinsurance agreements are subject to specified limits and we would not have reinsurance coverage to the extent that we exceed those limits.

With respect to our insurance programs, we are subject to credit risk with respect to the payment of claims and on the portion of risk exposure either ceded to the captives or retained by our clients. The credit worthiness of prospective risk sharing partners is a factor we consider when entering into or renewing these alternative risk

Table of Contents

transfer programs. We typically collateralize balances due through funds withheld or letters of credit. To date, we have not, in the aggregate, experienced material difficulties in collecting balances from our risk sharing partners. No assurance can be given, however, regarding the future ability of these entities to meet their obligations. The inability of our risk sharing partners to meet their obligations could adversely affect our profitability.

We may not be successful in executing our business plan for our US Virgin Islands servicing operations.

Hudson Management Group, Ltd. was formed on July 29, 2004 and received approval of its application to the US Virgin Islands Economic Development Commission for a grant of certain tax abatements and other benefits in June, 2005. We have hired an initial staff of professionals, but in order to execute our business plan, we will need to hire additional qualified professionals and possibly obtain additional regulatory approvals. We also need to establish critical market relationships with our insurance customers and adopt procedures and controls necessary to operate effectively and profitably. Finally, we have developed a business strategy for our US Virgin Islands servicing operations based on professional advice and available guidance from the Internal Revenue Service. Our failure to effectively implement our business plan could prevent us from realizing our US Virgin Islands operating efficiencies.

Your interests as a holder of our common shares may be different than the interests of our majority shareholder, Great American Insurance Company.

As of December 31, 2005, American Financial Group, Inc., through its wholly-owned subsidiary Great American, owns 53.5% of our outstanding common shares. The interests of American Financial Group, Inc. may differ from the interests of our other shareholders. American Financial Group, Inc.'s representatives hold four out of eight seats of our Board of Directors. As a result, American Financial Group, Inc. has the ability to exert significant influence over our policies and affairs including the power to affect the election of our Directors, appointment of our management and the approval of any action requiring a shareholder vote, such as amendments to our Articles of Incorporation or Code of Regulations, transactions with affiliates, mergers or asset sales.

Subject to the terms of our right of first refusal to purchase its shares in certain circumstances, American Financial Group, Inc. may be able to prevent or cause a change of control of the Company by either voting its shares against or for a change of control or selling its shares and causing a change of control. The ability of our majority shareholder to prevent or cause a change of control could delay or prevent a change of control, or cause a change of control to occur at a time when it is not favored by other shareholders. As a result, the trading price of our common shares could be adversely affected.

We may have conflicts of interest with our majority shareholder, Great American Insurance Company, that we are unable to resolve in our favor.

From time to time, Great American and its affiliated companies engage in underwriting activities and enter into transactions or agreements with us or in competition with us, which may give rise to conflicts of interest. We do not have any agreement or understanding with any of these parties regarding the resolution of potential conflicts of interest. In addition, we may not be in a position to influence any party's decision not to engage in activities that would give rise to a conflict of interest. These parties may take actions that are not in the best interests of our other shareholders.

We rely on Great American to provide certain services to us including internal audit, actuarial, legal, and other support services. If Great American no longer controlled a majority of our shares, it is possible that many of these services would cease or, alternatively be provided at an increased cost to us. This could impact our personnel resources, require us to hire additional professional staff and generally increase our operating expenses.

Provisions in our organizational documents, Ohio corporate law and the insurance laws of Ohio, Pennsylvania and Hawaii could impede an attempt to replace or remove our management or Directors or prevent or delay a merger or sale, which could diminish the value of our common shares.

Our Amended and Restated Articles of Incorporation and Code of Regulations, the corporate laws of Ohio and the insurance laws of various states contain provisions that could impede an attempt to replace or remove our

Table of Contents

management or Directors or prevent the sale of our Company that shareholders might consider to be in their best interests. These provisions include, among others:

a classified Board of Directors consisting of eight Directors divided into two classes;

the inability of our shareholders to remove a Director from the Board without cause;

requiring a vote of holders of 50% of the common shares to call a special meeting of the shareholders;

requiring a two-thirds vote to amend the shareholder protection provisions of our Code of Regulations and to amend the Articles of Incorporation;

requiring the affirmative vote of a majority of the voting power of our shares represented at a special meeting of shareholders;

excluding the voting power of interested shares to approve a control share acquisition under Ohio law; and

prohibiting a merger, consolidation, combination or majority share acquisition between us and an interested shareholder or an affiliate of an interested shareholder for a period of three years from the date on which the shareholder first became an interested shareholder, unless previously approved by our Board.

These provisions may prevent shareholders from receiving the benefit of any premium over the market price of our common shares offered by a bidder in a potential takeover. In addition, the existence of these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts.

The insurance laws of most states require prior notice or regulatory approval of changes in control of an insurance company or its holding company. The insurance laws of the States of Ohio, Hawaii and Pennsylvania, where our U.S. insurance companies are domiciled, provide that no corporation or other person may acquire control of a domestic insurance or reinsurance company unless it has given notice to such insurance or reinsurance company and obtained prior written approval of the relevant insurance regulatory authorities. Any purchaser of 10% or more of our aggregate outstanding voting power could become subject to these regulations and could be required to file notices and reports with the applicable regulatory authorities prior to such acquisition. In addition, the existence of these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts.

Future sales of our common shares may affect the trading price of our common shares.

We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the trading price of our common shares. Sales of substantial amounts of our common shares in the public market by Great American Insurance Company or our other shareholders, or the possibility or perception that such sales could occur, could adversely affect prevailing market prices for our common shares. If such sales reduce the market price of our common shares, our ability to raise additional capital in the equity markets may be adversely affected.

Great American and Alan Spachman, our Chairman and President, own 10,200,000 and 3,080,000, respectively, of our issued and outstanding shares. Upon the effectiveness of the registration statement containing this prospectus, all shares covered by that registration statement could be sold into the public markets, subject to certain restrictions. In addition, we filed a registration statement on Form S-8 under the Securities Act to register 1,338,800 of the common

shares issued or reserved for issuance for awards granted under our Long Term Incentive Plan. Shares registered under our registration statement on Form S-8 also could be sold into the public markets, subject to applicable vesting provisions and any volume limitations and other restrictions applicable to our officers and Directors selling shares under Rule 144. The sale of the shares under these registration statements in the public market, or the possibility or perception that such sales could occur, could adversely affect prevailing market prices for our common shares.

Table of Contents

We completed our initial public offering in February 2005, and we do not have a significant presence in the market. You may have difficulty selling your common shares because of the limited trading volume for such shares.

As a new public company whose common shares recently began trading on the Nasdaq National Market, there may be less coverage by security analysts, the trading price may be lower, and it may be more difficult for our shareholders to dispose of their common shares due to the lower trading volume in our common shares. Our lack of a significant presence in the market could serve to limit the distribution of news relating to National Interstate and limit investor interest in our common shares. In addition, the Company does not manage analysts' or investors' earnings expectations. One or more of these factors could result in price volatility and serve to depress the liquidity and market prices of our common shares.

We face ongoing challenges as a result of being a public company and our financial results could be adversely affected.

As a public company, we incur significant legal, accounting and other expenses that result from corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as rules implemented by the Securities and Exchange Commission and the National Association of Securities Dealers. We expect these rules and regulations to increase our legal and finance compliance costs and to make some activities more time-consuming and costly. We continue to evaluate and monitor developments with respect to compliance with public company requirements, and we cannot predict or estimate the amount or timing of additional costs we may incur.

Once we become an accelerated filer, as defined by Securities and Exchange Commission rules and regulations, we will be required to comply with Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. This will occur for the year ending December 31, 2006. We have committed a significant amount of resources to cure any internal control deficiencies in advance of that deadline. Any failure to do so could adversely impact our operating results.

USE OF PROCEEDS

We will not receive any of the proceeds upon the sale of the common shares offered hereby by any selling shareholder.

SELLING SHAREHOLDERS

Under a registration rights agreement among us, Great American Insurance Company and Alan Spachman, we are required, following the one-year anniversary of our initial public offering, to use our reasonable best efforts to register Great American's and Mr. Spachman's common shares on a shelf registration statement. The registration statement containing this prospectus will satisfy our obligation to register these common shares on a shelf registration statement.

The selling shareholders may from time to time offer and sell pursuant to this prospectus any or all of the common shares listed below. When we refer to the selling shareholders in this prospectus, we mean those persons listed in the table below and donees and pledgees selling shares received from a named selling shareholder after the date of this prospectus.

The table below sets forth the name of each selling shareholder and number of common shares that each selling shareholder may offer pursuant to this prospectus. Information concerning the selling shareholders may change from time to time and any changed information will be set forth in supplements to this prospectus to the extent required.

All of the information contained in the table below is based upon information provided to us by the selling shareholders. We have not independently verified this information. The selling shareholders may from time to time offer and sell any or all of the securities under this prospectus. Because the selling shareholders are not obligated to

Table of Contents

sell the common shares, we cannot estimate how many common shares the selling shareholders will hold upon consummation of any such sales.

Name	Shares Owned Before Offering		Shares Offered	Shares Owned After Offering Assuming All Shares Offered Are Sold	
	Number(1)	Percentage of Our Common Shares Outstanding(2)		Number	Percentage of Our Common Shares Outstanding
Great American Insurance Company(3)	10,200,000	53.4%	10,200,000	0	*
Alan R. Spachman(4)	3,096,000	16.2%	3,080,000	16,000	*

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act and includes the number of common shares that may be acquired pursuant to options that are currently exercisable or will be exercisable within 60 days of March 23, 2006.
- (2) As of March 20, 2006, there were 19,114,200 common shares outstanding. The number of common shares outstanding does not include shares held by our subsidiary, National Interstate Insurance Company, which are treated as treasury shares.
- (3) Great American Insurance Company is our majority shareholder.
- (4) Mr. Alan Spachman is our President and Chairman of the Board.

PLAN OF DISTRIBUTION

This prospectus relates to the offer and sale from time to time by the selling shareholders of our common shares. We will not receive any of the proceeds from the sale by the selling shareholders of the common shares. We will bear all fees and expenses incident with our obligation to register the common shares on the shelf registration statement containing this prospectus other than the fees and expenses of any separate legal counsel retained by the selling shareholders and the cost of all brokers and underwriting discounts, commissions and transfer taxes, if any, attributable to the common shares sold by the selling shareholders.

The selling shareholders may offer and sell the common shares from time to time in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. These prices will be determined by the selling shareholders or by agreement between such holder and any underwriters or dealers who may receive fees or commissions in connection with such sale. Such sales may be effected by a variety of methods, including the following:

on any national securities exchange or quotation service on which the common shares may be listed or quoted at the time of sale;

in the over-the-counter market

in transactions otherwise than on these exchanges or systems or the over-the-counter market;

in privately negotiated transactions;

through the writing of options;

in a block trade in which a broker-dealer will attempt to sell a block of securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;

through one or more underwriters on a firm commitment or best-efforts basis;

through broker-dealers, which may act as agents or principals;

directly to one or more purchasers;

Table of Contents

through agents; or

in any combination of the above or by any other legally available means.

In connection with the sales of the common shares or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the offered securities, short and deliver the common shares to close out such short positions, or loan or pledge the common shares to broker-dealers that in turn may sell such securities.

If a material arrangement with any underwriter, broker, dealer or other agent is entered into for the sale of the common shares through a secondary distribution or a purchase by a broker or dealer, or if other material changes are made in the plan of distribution of the common shares, a prospectus supplement will be filed, if necessary, under the Securities Act of 1933 disclosing the material terms and conditions of such arrangement. The underwriter or underwriters with respect to an underwritten offering of the common shares and the other material terms and conditions of the underwriting will be set forth in a prospectus supplement relating to such offering and, if an underwriting syndicate is used, the managing underwriter or underwriters will be set forth on the cover of the prospectus supplement. In connection with the sale of the common shares, underwriters will receive compensation in the form of underwriting discounts or commissions and may also receive commissions from purchasers of common shares for whom they may act as agent. Underwriters may sell to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent.

The selling shareholders have advised us that there are currently no plans, arrangements or understandings between any selling shareholders and any underwriter, broker-dealer or agent regarding the sale of the common shares by the selling shareholders. Selling shareholders may decide not to sell all or a portion of the common shares offered by them pursuant to this prospectus. In addition, any selling shareholder may transfer, devise or give the common shares by other means not described in this prospectus. If we are notified by a selling shareholder that a donee or pledgee intends to sell more than 500 common shares, a prospectus supplement will be filed. Any common shares covered by this prospectus that qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus.

The selling shareholders and any underwriters, broker-dealers or agents participating in the distribution of the common shares may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of the common shares by the selling shareholders and any commissions received by any such underwriters, broker-dealers or agents may be deemed to be underwriting commissions under the Securities Act. If the selling shareholders were deemed to be underwriters, the selling shareholders may be subject to statutory liabilities including, but not limited to, those of Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act.

The selling shareholders and any other person participating in the distribution will be subject to the applicable provisions of the Exchange Act and the rules and regulations under the Exchange Act, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the common shares by the selling shareholders and any other relevant person. Regulation M may also restrict the ability of any person engaged in the distribution of the common shares to engage in market-making activities with respect to the particular common shares being distributed. All of the above may affect the marketability of the common shares and the ability of any person or entity to engage in market-making activities with respect to the common shares.

In accordance with the registration rights agreement, we have agreed to indemnify the selling shareholders against certain civil liabilities, including certain liabilities arising under the Securities Act, and the selling shareholders will be

entitled to contribution from us in connection with those liabilities. The selling shareholders have agreed to indemnify us against certain civil liabilities, including liabilities arising under the Securities Act, and we will be entitled to contribution from the selling shareholders in connection with those liabilities. The selling

Table of Contents

shareholders also may agree to indemnify any agent, underwriter, broker or dealer that participates in transactions involving sales of common shares against certain civil liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the common shares offered by this prospectus will be passed upon on our behalf by Thompson Hine LLP.

EXPERTS

Our consolidated financial statements and schedules as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, incorporated by reference in this prospectus and registration statement have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon incorporated by reference in this prospectus, and have been so incorporated in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. *Other Expenses of Issuance and Distribution.***

The following table sets forth an estimate of the expenses, other than underwriting discounts and commissions, payable in connection with the sale and distribution of the securities being registered. All such expenses will be borne by us.

SEC Registration Fee	29,002
Accounting fees and expenses	2,000
Legal fees and expenses	7,500
Printing fees and expenses	2,000
Total	40,502

Item 15. *Indemnification of Directors and Officers.*

Under Ohio law, Ohio corporations are authorized to indemnify directors, officers, employees, and agents within prescribed limits and must indemnify them under certain circumstances. Ohio law does not provide statutory authorization for a corporation to indemnify directors, officers, employees and agents for settlements, fines or judgments in the context of derivative suits. However, it provides that directors (but not officers, employees and agents) are entitled to mandatory advancement of expenses, including attorneys' fees, incurred in defending any action, including derivative actions, brought against the director, provided that the director agrees to cooperate with the corporation concerning the matter and to repay the amount advanced if it is proved by clear and convincing evidence that his act or failure to act was done with deliberate intent to cause injury to the corporation or with reckless disregard to the corporation's best interests.

Ohio law does not authorize payment of judgments to a director, officer, employee or agent after a finding of negligence or misconduct in a derivative suit absent a court order. Indemnification is permitted, however, to the extent such person succeeds on the merits. In all other cases, if a director, officer, employee or agent acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, indemnification is discretionary except as otherwise provided by a corporation's articles, code of regulations or by contract except with respect to the advancement of expenses of directors.

Under Ohio law, a director is not liable for monetary damages unless it is proved by clear and convincing evidence that his action or failure to act was undertaken with deliberate intent to cause injury to the corporation or with reckless disregard for the best interests of the corporation. There is, however, no comparable provision limiting the liability of officers, employees or agents of a corporation. The statutory right to indemnification is not exclusive in Ohio, and Ohio corporations may, among other things, procure insurance for such persons.

Our Code of Regulations provides that we shall indemnify any person made or threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by us or in our right) by reason of the fact that he or she is or was our Director or officer, or is or was serving at our request as a director, officer, employee, agent of another corporation, partnership, joint venture,

trust, or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the action, suit, or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

In addition, our Code of Regulations provides that we shall indemnify any person made or threatened to be made a party to any threatened, pending or completed action or suit by us or in our right to procure a judgment in our favor by reason of the fact that he or she is or was our Director or officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests except

II-1

Table of Contents

that no indemnification shall be made if it is proved by clear and convincing evidence that such person's action or failure to act involved an act or omission undertaken with deliberate intent to cause injury to us or undertaken with reckless disregard for our best interests; and no indemnification shall be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to us unless and only to the extent that the court of common pleas or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court of common pleas or such other court shall deem proper.

American Financial Group, Inc., the indirect beneficial owner of a majority of our outstanding common shares, maintains, at American Financial Group, Inc.'s expense, Directors and Officers Liability Insurance. The Directors and Officers liability portion of such policy covers all Directors and officers of American Financial Group, Inc. and of the companies, including us, that are, directly or indirectly, more than 50% owned by American Financial Group, Inc. The policy provides for payment on behalf of the Directors and officers, up to the policy limits and after expenditure of a specified deductible, of all Loss (as defined) from claims made against them during the policy period for defined wrongful acts, which include errors, misstatements or misleading statements, acts or omissions and neglect or breach of duty by Directors and officers in the discharge of their individual or collective duties as such. The insurance includes the cost of investigations and defenses, appeals and bonds and settlements and judgments, but not fines or penalties imposed by law. The policy contains various exclusions and reporting requirements.

Item 16. Exhibits.

Exhibit No.	Description Of Document
4.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Registration Statement No. 333-119270 filed on November 12, 2004)
4.2	Amended and Restated Code of Regulations (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to Registration Statement No. 333-119270 filed on November 12, 2004)
4.3	Registration Rights Agreement (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to Registration Statement No. 333-119270 filed on November 12, 2004)
5.1	Opinion of Thompson Hine LLP
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Thompson Hine LLP (contained in Exhibit 5.1)
24.1	Power of Attorney

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

Table of Contents

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that paragraphs (a)(1)(i), (ii) and (iii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this Registration Statement.

(2) That, for the purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) each prospectus filed by the Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of a registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness and the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be

deemed to be the initial bona fide offering thereof.

II-3

Table of Contents

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15 of this Registration Statement, or otherwise (other than insurance), the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it or them is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Village of Richfield, State of Ohio, on March 23, 2006.

NATIONAL INTERSTATE CORPORATION

By: /s/ Alan R. Spachman

Alan R. Spachman,
Chairman of the Board and President

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities noted on March 23, 2006.

Signature	Title
/s/ Alan R. Spachman Alan R. Spachman	Chairman of the Board and President (Principal Executive Officer)
/s/ Julie A. McGraw Julie A. McGraw	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Theodore H. Elliott, Jr.* Theodore H. Elliott, Jr.	Director
/s/ Gary J. Gruber* Gary J. Gruber	Director
/s/ Keith A. Jensen* Keith A. Jensen	Director
/s/ James C. Kennedy* James C. Kennedy	Director
/s/ Donald D. Larson* Donald D. Larson	Director
/s/ Joel Schiavone* Joel Schiavone	Director
/s/ K. Brent Somers* K. Brent Somers	Director

* By: Paul F. Haffner, attorney-in-fact