

HALLMARK FINANCIAL SERVICES INC  
 Form 4  
 June 02, 2006

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 NEWCASTLE PARTNERS L P

2. Issuer Name and Ticker or Trading Symbol  
 HALLMARK FINANCIAL SERVICES INC [HAF]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)  
 300 CRESCENT COURT, STE 1110  
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)  
 05/25/2006

Director  10% Owner  
 Officer (give title below)  Other (specify below)  
 C.E.O. & Chairman

DALLAS, TX 75201

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|----------------------------------------------------|--------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
|                                 |                                      |                                                    | Code                           | V                                                                 | Amount                                                                                        | (A) or (D)                                               | Price                                                 |
| Common Stock                    | 05/25/2006                           |                                                    | C                              |                                                                   | 9,863,785<br>(3)                                                                              | A                                                        | \$ 1.28                                               |
| Common Stock                    | 05/25/2006                           |                                                    | C                              |                                                                   | 9,785,187<br>(4)                                                                              | A                                                        | \$ 1.28                                               |
|                                 |                                      |                                                    |                                |                                                                   |                                                                                               |                                                          | 77,677,072                                            |
|                                 |                                      |                                                    |                                |                                                                   |                                                                                               |                                                          | 87,462,259                                            |
|                                 |                                      |                                                    |                                |                                                                   |                                                                                               |                                                          | D (1) (2)                                             |
|                                 |                                      |                                                    |                                |                                                                   |                                                                                               |                                                          | D (1) (5)                                             |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

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 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Security (Instr. 3 and 4) |
|--------------------------------------------|--------------------------------------------------------|--------------------------------------|----------------------------------------------------|--------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| Convertible Note                           | \$ 1.28                                                | 05/25/2006                           |                                                    | C                              | \$ 12,550,000                                                                           | 05/25/2006 07/27/2007                                    | Common Stock                                                |
| Convertible Note                           | \$ 1.28                                                | 05/25/2006                           |                                                    | C                              | \$ 12,450,000                                                                           | 05/25/2006 07/27/2007                                    | Common Stock                                                |

## Reporting Owners

| Reporting Owner Name / Address                                                        | Relationships |           |                   |       |
|---------------------------------------------------------------------------------------|---------------|-----------|-------------------|-------|
|                                                                                       | Director      | 10% Owner | Officer           | Other |
| NEWCASTLE PARTNERS L P<br>300 CRESCENT COURT<br>STE 1110<br>DALLAS, TX 75201          | X             | X         | C.E.O. & Chairman |       |
| NEWCASTLE CAPITAL MANAGEMENT LP<br>300 CRESCENT COURT<br>STE 1110<br>DALLAS, TX 75201 | X             | X         | C.E.O. & Chairman |       |
| NEWCASTLE CAPITAL GROUP LLC<br>300 CRESCENT COURT<br>STE 1110<br>DALLAS, TX 75201     | X             | X         | C.E.O. & Chairman |       |
| SCHWARZ MARK E<br>300 CRESCENT COURT<br>STE 1110<br>DALLAS, TX 75201                  | X             | X         | C.E.O. & Chairman |       |

## Signatures

Newcastle Partners, L.P., By: Newcastle Capital Management, L.P., its general partner, By: Newcastle Capital Group, L.L.C. its general partner, by: /s/ Mark E. Schwarz, its managing member 06/02/2006

\_\_Signature of Reporting Person Date

Newcastle Capital Management, L.P., By: Newcastle Capital Group, L.L.C. its general partner, By: /s/ Mark E. Schwarz, its managing member 06/02/2006

\_\_Signature of Reporting Person Date

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|                                                                                                                                                                                                                |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Newcastle Capital Group, L.L.C., By: /s/ Mark E. Schwarz, its managing member                                                                                                                                  | 06/02/2006 |
| __Signature of Reporting Person                                                                                                                                                                                | Date       |
| /s/ Mark E. Schwarz                                                                                                                                                                                            | 06/02/2006 |
| __Signature of Reporting Person                                                                                                                                                                                | Date       |
| Newcastle Special Opportunity Fund I, L.P., By: Newcastle Capital Management, L.P., its general partner, By: Newcastle Capital Group, L.L.C. its general partner, by:/s/ Mark E. Schwarz, its managing member  | 06/02/2006 |
| __Signature of Reporting Person                                                                                                                                                                                | Date       |
| Newcastle Special Opportunity Fund II, L.P., By: Newcastle Capital Management, L.P., its general partner, By: Newcastle Capital Group, L.L.C. its general partner, by:/s/ Mark E. Schwarz, its managing member | 06/02/2006 |
| __Signature of Reporting Person                                                                                                                                                                                | Date       |

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).  
Newcastle Capital Management, L.P. ("NCM") is the general partner of each of Newcastle Partners, L.P. ("NP"), Newcastle Special Opportunity Fund I, L.P. (NSOFI) and Newcastle Special Opportunity Fund II, L.P. ("NSOFII"). Newcastle Capital Group, L.L.C. ("NCG") is the general partner of NCM and Mark E. Schwarz ("Schwarz") is the managing member of NCG. Accordingly, each of NCM, NCG and Schwarz may be deemed to beneficially own the shares directly owned by any of them.
- (1) Owned by NSOFI.
- (2) Owned by NSOFI.
- (3) Includes 9,804,687 shares issued in respect of the conversion of the entire outstanding principal amount of the convertible note held by NSOFI and 59,098 shares issued in respect of the conversion of accrued and unpaid interest thereon.
- (4) Includes 9,726,562 shares issued in respect of the conversion of the entire outstanding principal amount of the convertible note held by NSOFII and 58,625 shares issued in respect of the conversion of accrued and unpaid interest thereon.
- (5) Owned by NSOFII.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.