

HALLMARK FINANCIAL SERVICES INC
 Form 4
 January 31, 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)
 01/27/2006

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 Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|
| | | | Code | V | Amount | (D) | Price |

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

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SEC 1474
 (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 | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any | 4. Transaction Code | 5. Number of Derivative Securities Acquired | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Underlying (Instr. 3 and 4) |
|--|---------------------------|--------------------------------------|-----------------------------------|---------------------|---|--|--|
|--|---------------------------|--------------------------------------|-----------------------------------|---------------------|---|--|--|

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| | Price of Derivative Security | (Month/Day/Year) | (Instr. 8) Code | (A) or Disposed of (D) (Instr. 3, 4, and 5) | V | (A) | (D) | Date Exercisable | Expiration Date | Title |
|---------------------|------------------------------------|------------------|--------------------|---|---|------------|-----|---------------------|--------------------|--------------|
| | | | | | | | | | | |
| Convertible Note | \$ 1.28 | 01/27/2006 | P | \$ | | 12,550,000 | | (3) | 07/27/2007 | COMM STOC |
| CONVERTIBLE NOTE | \$ 1.28 | 01/27/2006 | P | \$ | | 12,450,000 | | (3) | 07/27/2007 | COMM STOC |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---------------|-----------|-------------------|-------|
| | Director | 10% Owner | Officer | Other |
| NEWCASTLE PARTNERS L P 300 CRESCENT COURT STE 1110 DALLAS, TX 75201 | X | X | C.E.O. & CHAIRMAN | |
| NEWCASTLE CAPITAL MANAGEMENT LP 300 CRESCENT COURT STE 1110 DALLAS, TX 75201 | X | X | C.E.O. & CHAIRMAN | |
| NEWCASTLE CAPITAL GROUP LLC 300 CRESCENT COURT STE 1110 DALLAS, TX 75201 | X | X | C.E.O. & CHAIRMAN | |
| SCHWARZ MARK E 300 CRESCENT COURT STE 1110 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 01/31/2006

__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 01/31/2006

__Signature of Reporting Person Date

Newcastle Capital Group, L.L.C., By: /s/ Mark E. Schwarz, its managing member 01/31/2006

__Signature of Reporting Person Date

/s/ Mark E. Schwarz 01/31/2006

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__Signature of Reporting Person

Date

Newcastle Special Opportunity Fund I, L.P.

01/31/2006

__Signature of Reporting Person

Date

Newcastle Special Opportunity Fund II, L.P.

01/31/2006

__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

(1) 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 AND NCG AND SCHWARZ MAY BE DEEMED TO BENEFICIALLY OWN THE SHARES DIRECTLY OWNED BY ANY OF THEM.

(2) OWNED BY NSOFI.

(3) NOTES MAY NOT BE CONVERTED UNTIL STOCKHOLDER APPROVAL THEREOF IS OBTAINED.

(4) 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.

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