

HALLMARK FINANCIAL SERVICES INC
 Form 4
 May 27, 2008

FORM 4

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

OMB APPROVAL

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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 *
 SCHWARZ MARK E

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
 200 CRESCENT COURT, STE 1400
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)
 05/22/2008

Director 10% Owner
 Officer (give title below) Other (specify below)
 Executive Chairman

DALLAS, TX 75201
 (City) (State) (Zip)

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

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) | | |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|-----|-------|
| | | | | (A) or (D) | 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 | 2. Conversion or Exercise | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any | 4. Transaction Code | 5. Number of Derivative Securities | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | 8. D |
|---------------------------------|---------------------------|--------------------------------------|-----------------------------------|---------------------|------------------------------------|--|---|------|
|---------------------------------|---------------------------|--------------------------------------|-----------------------------------|---------------------|------------------------------------|--|---|------|

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| (Instr. 3) | Price of Derivative Security | (Month/Day/Year) | (Instr. 8) | Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
|------------------------------|------------------------------------|------------------|------------|---|------|---|-----|-----|---------------------|--------------------|-----------------|--|
| Director Stock Options | \$ 11.46 | 05/22/2008 | P | 5,000 | | | | | 11/23/2008 | 05/22/2008 | Common Stock | 5,000 |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|--|---------------|-----------|--------------------|-------|
| | Director | 10% Owner | Officer | Other |
| SCHWARZ MARK E 200 CRESCENT COURT STE 1400 DALLAS, TX 75201 | X | X | Executive 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 | 05/27/2008 |
| __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 | 05/27/2008 |
| __Signature of Reporting Person | Date |
| Newcastle Capital Group, L.L.C., By: /s/ Mark E. Schwarz, its managing member | 05/27/2008 |
| __Signature of Reporting Person | Date |
| /s/ Mark E. Schwarz | 05/27/2008 |
| __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).
- (1) 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.
- (2)

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19,167 stock (including 5,000 stock options granted May 22, 2008) are held by Mr. Schwarz. In addition, the Reporting Persons may be deemed to beneficially own 14,579,445 non-derivative securities of the Issuer, which includes (1) 48,821 shares of common stock owned by Mr. Schwarz, (2) 9,738,243 shares of common stock owned by NP, (3) a total of 3,274,830 shares of common stock owned by NSOFI and NSOFIL, (4) 2,400 shares of common stock owned by NFF and (5) 1,515,151 shares of common stock controlled by NCM pursuant to an account management agreement under which NCM holds the power to vote and dispose of such shares.

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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