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HALLMARK FINANCIAL SERVICES INC

Form 424B2

July 31, 2003

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Registration File No.: 333-104274

PROSPECTUS

HALLMARK FINANCIAL SERVICES, INC.

25,000,000 Shares

of Common Stock

Our Board of Directors declared a dividend of rights to purchase our common stock to holders of record as of June 27, 2003. Through this prospectus, we are offering the shares of common stock that rights holders may purchase upon exercising such subscription rights.

You received one right for each share of common stock you owned on the record date of June 27, 2003. Each right will entitle you to purchase 2.21 shares of our common stock at a subscription price of \$0.40 per share.

The rights are currently exercisable and will expire if they are not exercised by 5:00 p.m., New York City time, on August 29, 2003. We may extend the period for exercising the rights in our sole discretion. If you want to exercise your rights, you must submit your subscription documents to us before the expiration date. Rights that are not exercised by the expiration date will expire and will have no value.

The proceeds from the exercise of rights will be used to repay an outstanding loan made to us by Newcastle Partners, L.P., our largest stockholder. Any remaining proceeds will be used for working capital and general corporate purposes. Mark E. Schwarz, our chairman and chief executive officer, is an affiliate of Newcastle.

Shares of our common stock are traded on the American Stock Exchange Emerging Company Marketplace under the symbol "HAF. EC." On July 29, 2003, the last reported sales price for our common stock was \$0.51 per share.

AN INVESTMENT IN OUR COMMON STOCK IS VERY RISKY. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 6 OF THIS PROSPECTUS BEFORE EXERCISING YOUR SUBSCRIPTION RIGHTS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is July 31, 2003