

Specialty Underwriters Alliance, Inc.  
Form PRRN14A  
March 30, 2009

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

SCHEDULE 14A  
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

Specialty Underwriters' Alliance, Inc.  
(Name of Registrant as Specified in Its Charter)

Hallmark Financial Services, Inc.  
American Hallmark Insurance Company of Texas  
Hallmark Specialty Insurance Company

Mark E. Schwarz

C. Gregory Peters  
Mark E. Pape  
Robert M. Fishman

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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.. Fee paid previously with preliminary materials:

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.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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PRELIMINARY COPY - SUBJECT TO COMPLETION, DATED MARCH 30, 2009

HALLMARK FINANCIAL SERVICES, INC.

April \_\_, 2009

Dear Fellow Stockholder:

Hallmark Financial Services, Inc. (“Hallmark” or “we”), together with its subsidiaries, is the beneficial owner of an aggregate of 1,429,615 shares of Common Stock of Specialty Underwriters’ Alliance, Inc. (“SUA” or the “Company”), representing approximately 9.9% of the outstanding Common Stock of the Company. For the reasons set forth in the attached Proxy Statement, we do not believe the Board of Directors of the Company is acting in the best interests of its stockholders. We are therefore seeking your support at the annual meeting of stockholders (the “Annual Meeting”) scheduled to be held in the Lake County Room located at 222 South Riverside Plaza, 19th Floor, Chicago, IL 60606 on Tuesday, May 5, 2009 at 9:00 a.m., local time, for the following:

1. to elect Hallmark’s slate of three director nominees to the Company’s Board of Directors in opposition to three of the Company’s incumbent directors;
2. to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2009; and
3. to transact such other business as may properly come before the Annual Meeting, or any adjournment thereof.

Through the attached Proxy Statement, we are soliciting proxies to elect not only our three director nominees, but also the candidates who have been nominated by SUA other than \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_. This gives stockholders the ability to vote for the total number of directors up for election at the Annual Meeting. The names, backgrounds and qualifications of SUA’s nominees, and other information about them, can be found in the Company’s proxy statement. There is no assurance that any of SUA’s nominees will serve as directors if our nominees are elected.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed GOLD proxy card today. The attached Proxy Statement and the enclosed GOLD proxy card are first being furnished to the stockholders on or about April \_\_, 2009.

If you have already voted a proxy card furnished by the Company’s management, you have every right to change your votes by signing, dating and returning a later dated proxy.

If you have any questions or require any assistance with your vote, please contact MacKenzie Partners, Inc., which is assisting us, at their address and toll-free numbers listed on the following page.

Thank you for your support,

Mark E. Schwarz  
Director & Executive Chairman  
Hallmark Financial Services, Inc.

If you have any questions, require assistance in voting your GOLD proxy card,  
or need additional copies of Hallmark's proxy materials, please call  
MacKenzie Partners, Inc. at the phone numbers listed below.

105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
proxy@mackenziepartners.com

or  
CALL TOLL FREE (800) 322-2885

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ANNUAL MEETING OF STOCKHOLDERS  
OF  
SPECIALTY UNDERWRITERS' ALLIANCE, INC.

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PROXY STATEMENT  
OF  
HALLMARK FINANCIAL SERVICES, INC.

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PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

Hallmark Financial Services, Inc., a Nevada corporation ("Hallmark" or "we"), together with its subsidiaries, is one of the largest stockholders of Specialty Underwriters' Alliance, Inc., a Delaware corporation ("SUA" or the "Company"). We are writing to you in connection with the election of three director nominees to the board of directors of SUA (the "Board") at the annual meeting of stockholders scheduled to be held in the Lake County Room located at 222 South Riverside Plaza, 19th Floor, Chicago, IL 60606 on Tuesday, May 5, 2009 at 9:00 a.m., local time, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof (the "Annual Meeting"). This proxy statement (the "Proxy Statement") and the enclosed GOLD proxy card are first being furnished to stockholders on or about April \_\_, 2009.

This Proxy Statement and the enclosed GOLD proxy card are being furnished to stockholders of SUA by Hallmark in connection with the solicitation of proxies from the Company's stockholders for the following:

1. the election of Hallmark's director nominees, Robert M. Fishman, Mark E. Pape and C. Gregory Peters (the "Nominees"), to serve as directors of SUA, in opposition to the Company's incumbent directors whose terms expire at the Annual Meeting;
2. the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2009; and
3. the transaction of such other business as may properly come before the Annual Meeting, or any adjournment thereof.

This Proxy Statement is soliciting proxies to elect not only our three director nominees, but also the candidates who have been nominated by SUA other than \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_. This gives stockholders who wish to vote for our three nominees the ability to vote for a full slate of seven nominees.

Hallmark, American Hallmark Insurance Company of Texas ("AHIC"), Hallmark Specialty Insurance Company ("HSIC"), Mark E. Schwarz (Mr. Schwarz together with Hallmark, AHIC and HSIC, the "Hallmark Parties"), Robert M. Fishman, Mark E. Pape and C. Gregory Peters are members of a group formed in connection with this proxy solicitation and are deemed participants in this proxy solicitation.

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SUA has set the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting as March 25, 2009 (the "Record Date"). The mailing address of the principal executive offices of SUA is 222 South Riverside Plaza, Chicago, Illinois 60606. Stockholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to SUA, as of the Record Date, there were 14,437,355 shares of common stock, \$0.01 par value per share (the "Shares") outstanding and entitled to vote at the Annual Meeting. As of the Record Date, Hallmark, along with all of the participants in this solicitation, were the beneficial owners of an aggregate of 1,429,615 Shares, which represents approximately 9.9% of the Shares outstanding (based on the Company's proxy statement). The participants in this solicitation intend to vote such Shares (i) for the election of the Nominees and (ii) for the ratification of the appointment of PricewaterhouseCoopers LLP as described herein.

THIS SOLICITATION IS BEING MADE BY HALLMARK AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF SUA. HALLMARK IS NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING. SHOULD OTHER MATTERS, WHICH HALLMARK IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

HALLMARK URGES YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF ITS NOMINEES.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY SUA'S MANAGEMENT TO THE COMPANY, YOU MAY REVOKE THAT PROXY AND VOTE FOR THE ELECTION OF HALLMARK'S NOMINEES BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING TO HALLMARK, C/O MACKENZIE PARTNERS, INC. WHICH IS ASSISTING IN THIS SOLICITATION, OR TO THE SECRETARY OF SUA, OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting

This Proxy Statement and our GOLD proxy card are available at [www.\\_\\_\\_\\_\\_.com](http://www._____.com)

IMPORTANT

Your vote is important, no matter how many or how few Shares you own. We urge you to sign, date, and return the enclosed GOLD proxy card today to vote FOR the election of our Nominees.

- If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it to Hallmark, c/o MacKenzie Partners, Inc., in the enclosed envelope today.
- If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked “withhold” as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to Hallmark. Remember, you can vote for our three independent nominees only on our GOLD proxy card. So please make certain that the latest dated proxy card you return is the GOLD proxy card.

If you have any questions regarding your proxy,  
or need assistance in voting your Shares, please call:

105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
proxy@mackenziepartners.com

or  
CALL TOLL FREE (800) 322-2885

## BACKGROUND TO SOLICITATION

- We made our first investment in Shares of SUA in February 2008.
- On February 29, 2008, Mark Schwarz and Mark Morrison, our Executive Chairman and Chief Executive Officer, respectively, met with Courtney Smith, SUA's Chief Executive Officer, along with SUA's Chief Financial Officer and its General Counsel, at SUA's Chicago headquarters to discuss Hallmark's and SUA's respective businesses.
- On March 31, 2008, Mr. Morrison had a telephone conversation with Mr. Smith, during which the benefits and possible structure of a potential Hallmark-SUA business combination, including by way of a stock-for-stock transaction, were discussed.
- On April 9, 2008, SUA disclosed in a Current Report on Form 8-K that the Company had entered into new employment agreements and a change in control agreement with certain key employees, including Courtney Smith and Peter Jokiel.
- On May 30, 2008, Mr. Morrison sent Mr. Smith an email outlining in greater detail our view of the significant and compelling benefits of a potential stock-for-stock business combination between Hallmark and SUA. Mr. Morrison also reiterated a desire to host Mr. Smith in Dallas, and noted that Mr. Schwarz and he would be traveling to Chicago soon and proposed a dinner meeting. Mr. Smith responded to Mr. Morrison's note by email on June 2, 2008 stating the following: "Thanks for your thoughtful note Mark....To be candid, we just do not see the kind of strategic fit which can best benefit SUA with your company. Thank you for your interest and great success in your endeavors."
- Between June 3, 2008 and June 12, 2008, we made significant additional purchases of Shares of SUA.
- On June 13, 2008, Mr. Schwarz sent to Mr. Smith a letter proposing a dinner meeting, and a meeting was confirmed for the evening of June 16, 2008.
- On June 16, 2008, during their dinner meeting, Mr. Schwarz handed to Mr. Smith a private letter addressed to the Board, which also included a specific transaction proposal (the "June 16 Letter"). In the June 16 Letter, we set forth our willingness to enter into discussions with the Board to pursue negotiations of a definitive merger agreement to acquire 100% of the Shares of SUA for a price of \$6.50 per share in Hallmark stock (the "Offer"). This Offer represented a 30% premium to the June 13, 2008 closing price of \$4.99 per Share and an even greater 37% premium to SUA's trailing 30-day average closing price of \$4.74. The June 16 Letter further stated that (i) the Offer was not subject to any financing contingency and (ii) the Offer was subject to confirmatory due diligence, the negotiation of a definitive acquisition agreement and the receipt of all necessary stockholder and regulatory approvals. We expressed in the June 16 Letter that we were prepared to commence due diligence and begin discussions immediately, and because the proposed consideration would consist of Hallmark stock, that we would also provide SUA the opportunity to conduct appropriate due diligence. We emphasized the significant and compelling benefits we believe existed for SUA stockholders through a Hallmark-SUA transaction, and requested a meeting with the Board and/or management of SUA as soon as possible to discuss the Offer in order to facilitate a possible transaction. We noted that our senior management stood ready to meet and answer any questions concerning our Offer.

- During their dinner meeting, Mr. Schwarz also informed Mr. Smith that we would be required to make an upcoming Schedule 13D filing with the SEC based on our ownership of Shares of SUA.
- Between June 17, 2008 and June 20, 2008, Mr. Schwarz made numerous attempts to speak with Mr. Smith and SUA's advisors regarding the Offer but was consistently rebuffed. In an email on June 20, 2008, Mr. Schwarz posed the following question to Mr. Smith: "if you are endeavoring to make the best decision possible on behalf of shareholders, why deny yourself the benefit of having all information available to you before making an important decision."
- On June 23, 2008, we filed a Schedule 13D with the SEC in which we disclosed our beneficial ownership of 9.6% of the outstanding Shares of SUA, making us the largest SUA stockholder. Pursuant to legal requirements, we also disclosed the fact that we had delivered the Offer to the Board on June 16, 2008.
- On June 23, 2008, following our Schedule 13D filing, SUA publicly acknowledged receipt of the Offer from us.
- On June 26, 2008, by way of a press release, SUA rejected our Offer. The brief press release stated that "[a]fter due deliberation, the [SUA] Board unanimously concluded not to accept this offer, remain independent and continue with the execution of its current business strategy, which the Board believes represents a better long-term value for the company's shareholders."
- On July 1, 2008, we sent a public letter (the "July 1 Letter") to the Board reaffirming the Offer included in the June 16 Letter. We reiterated that the proposed Offer price represented a significant 37% premium to SUA's trailing 30-day average closing price of \$4.74 on June 13, 2008, the trading day prior to the delivery of the Offer. In the July 1 Letter, we also expressed our deep disappointment with SUA's publicly-stated response to our Offer, and asked how, in light of the numerous attempts we had made to speak to representatives of SUA regarding the Offer, it was possible "that, on behalf of [SUA] shareholders, the [SUA] Board fully and fairly considered Hallmark's proposal while at the same time refusing to engage us in any dialogue?" We stated that our Offer was subject only to confirmatory due diligence, the negotiation of a mutually satisfactory definitive agreement and customary stockholder and regulatory approvals. We also restated that our senior management stood ready to meet with SUA to answer any questions regarding the Offer.
- On July 1, 2008, we also amended our Schedule 13D filing to include the June 16 Letter and the July 1 Letter as exhibits. We also reported beneficial ownership of 9.7% of SUA's outstanding Shares as of July 1, 2008.
- On July 2, 2008, SUA sent a public letter to Hallmark stating that, since the Board had previously rejected Hallmark's Offer contained in the June 16 Letter, SUA saw no reason to reconsider that Offer. The letter stated that the Board "thoroughly considered the Hallmark proposal" and restated that "it unanimously concluded that the Hallmark proposal should be rejected..."

- In its Quarterly Report filed on Form 10-Q with the SEC on August 8, 2008, SUA disclosed that the Board had adopted amended and restated bylaws, effective on August 5, 2008 (the “Bylaws”). The Bylaws included certain “defensive” measures including the elimination of stockholders’ rights to fill vacancies on the Board or to call special meetings and the addition of advance notice provisions for nominations by stockholders.
- On January 13, 2009, we delivered a nomination letter to the Secretary of SUA nominating the Nominees for election to the Board at the Annual Meeting.
- On January 16, 2009, we amended our Schedule 13D filing to disclose our nomination of the Nominees and other related agreements. We also reported our beneficial ownership of 9.9% of SUA’s outstanding Shares as of January 16, 2009.
- On February 26, 2009, Mr. Schwarz sent to Mr. Smith a letter proposing a dinner meeting, and a meeting was confirmed for the evening of March 2, 2009. Mr. Schwarz was informed that, in addition to Mr. Smith, Scott Goodreau, SUA’s General Counsel, would also attend the meeting.
- On March 2, 2009, Mr. Schwarz, Mr. Smith and Mr. Goodreau engaged in a dinner meeting. During the meeting a wide-ranging conversation took place that covered a variety of topics, including, but not limited to, general industry, economic and market conditions, recent developments in both Hallmark’s and SUA’s respective businesses, SUA’s formation and early history, Hallmark’s view regarding SUA’s business model, Hallmark’s continuing interest in entering into discussions with the Board to pursue negotiations of a definitive merger, the important differences between a share exchange and a cash merger, and Hallmark’s reasons for delivering a nomination letter to the Secretary of SUA nominating the Nominees for election to the Board at the Annual Meeting.
- On March 23, 2009, Hallmark filed an Acquisition Statement on Form A with the Illinois Department of Insurance seeking approval to increase Hallmark’s ownership position in the Company in excess of 10% of the Company’s outstanding Common Stock through open market purchases of Common Stock.
- On March 26, 2009, Mr. Schwarz delivered a letter to Mr. Smith expressing Mr. Schwarz’s interest in meeting with members of the Board consistent with the suggestion of Mr. Smith to Mr. Schwarz on March 2, 2009.

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## REASONS FOR OUR SOLICITATION

We believe SUA has failed to create value for its stockholders.

We believe SUA's stock price performance during the more than four-year period, from its initial public offering on November 23, 2004 through December 31, 2008, demonstrates the Company's inability to create value for its stockholders.

On November 23, 2004, the Company completed its initial public offering at \$9.50 per Share. On December 31, 2008, SUA's Share price closed at \$2.63, resulting in a -72% cumulative total stockholder return during this period. The Share price closed at \$3.10 on March 27, 2009.

The following graph illustrates, for the period of November 23, 2004 through December 31, 2008, the significant under-performance of the cumulative total stockholder return on SUA's Shares compared to the cumulative total return of the Standard & Poor's 500 Stock Index and the S&P 500 Property & Casualty Insurance Index.<sup>1</sup>

We believe SUA's inability to create value for its stockholders is also reflected in its low growth in book value per Share.

The table below depicts SUA's reported book value per Share for each of the five years ending December 31, 2008. As illustrated in this table, book value per Share has only grown 1.6% annually during this period.

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<sup>1</sup> The graph assumes that the Shares were purchased at the price of \$100 per Share and that the value of the investment in each Share and the indices was \$100 at the beginning of the period. The graph further assumes the reinvestment of dividends when paid. The graph is reprinted from SUA's Annual Report on Form 10-K for the year ended December 31, 2008.

| Year          | Book<br>Value<br>Per Share |
|---------------|----------------------------|
| 2004          | \$ 8.09                    |
| 2005          | \$ 6.76                    |
| 2006          | \$ 7.42                    |
| 2007          | \$ 8.42                    |
| 2008          | \$ 8.62                    |
| Annual growth | 1.6%                       |

Certain characteristics of SUA's business may contribute to the Company's inability to create value for its stockholders.

We believe SUA is overly dependent on a limited number of partner agents and has demonstrated an inability to meaningfully grow its partner agent relationships.

According to SUA's Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 10-K"), SUA has only nine partner agents. As illustrated in the table below, the top five partner agents in 2008 make up over 90% of SUA's written premiums, based on information contained in the 2008 10-K. This is relatively unchanged from 2005, when these same five partner agents made up 100% of SUA's written premium, based on information contained in SUA's Annual Report on Form 10-K for the year ended December 31, 2006 (the "2006 10-K"). This table in our view demonstrates SUA's inability to meaningfully expand its partner agent relationships. We believe a lack of premium production from any one of these partner agents could adversely affect SUA's business. Similarly, a reliance on any one partner agent to produce premiums may adversely affect SUA's business. For the year ended December 31, 2008, SUA's partner agent Risk Transfer Holdings, Inc. produced approximately 44.7% of total gross written premiums as compared to approximately 55.3% for the year ended December 31, 2005, based on information contained in the 2008 10-K and the 2006 10-K. We believe any deterioration of SUA's relationship with Risk Transfer Holdings, Inc. or decrease in its premium production could have a material adverse effect on the Company's results in future periods.

| Top-5 Partner Agents           | 2008<br>Percentage<br>of Gross<br>Written<br>Premium | 2005<br>Percentage<br>of Gross<br>Written<br>Premium |
|--------------------------------|--|--|
| Risk Transfer Holdings, Inc.   | 44.7%  | 55.3%  |
| American Team Managers         | 16.0%  | 24.4%  |
| AEON Insurance Managers        | 13.4%  | 12.1%  |
| Appalachian Underwriters, Inc. | 5.6%   | 0.5%   |
| Specialty Risk Solutions, LLC  | 11.7%  | 7.7%   |
| Top-5 Total                    | 91.4%  | 100.0%   |