

Specialty Underwriters Alliance, Inc.  
Form DFAN14A  
April 24, 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. )

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.



(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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.. 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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On April 24, 2009, Hallmark Financial Services, Inc. issued the following press release:

HALLMARK FINANCIAL ISSUES LETTER TO STOCKHOLDERS OF  
SPECIALTY UNDERWRITERS' ALLIANCE

FORT WORTH, Texas, April 24, 2009 (GLOBE NEWSWIRE) – Stockholders of Specialty Underwriters' Alliance, Inc. (NASDAQ:SUAI) should expect to receive by mail as early as today the following letter dated April 22, 2009 from Hallmark Financial Services, Inc. (NASDAQ:HALL). The letter has also been posted to <http://www.suaitownhall.com>.

ATTENTION SPECIALTY UNDERWRITERS' STOCKHOLDERS

VOTE FOR HALLMARK FINANCIAL'S THREE HIGHLY QUALIFIED,  
INDEPENDENT DIRECTOR NOMINEES

VOTE THE GOLD PROXY CARD TODAY!

April 22, 2009

Dear Fellow SUA Stockholders,

Hallmark Financial Services, Inc. ("Hallmark") is the second largest stockholder of Specialty Underwriters' Alliance, Inc. ("SUA" or the "Company"), beneficially owning 9.9% of the Company's outstanding common stock. We are asking for your vote at the 2009 annual meeting of stockholders of SUA in order to elect our three highly qualified, independent director nominees: Robert M. Fishman, Mark E. Pape and C. Gregory Peters. Our nominees possess a wealth of property and casualty insurance industry expertise.

Directors That Are Truly Independent Need to Be in the SUA Board Room and in Sufficient Number

In its effort to discredit us, the Company has written to you that Hallmark's campaign represents some disguised effort by Hallmark to obtain control of the SUA Board. The fact is that THE CANDIDATES WE NOMINATED SET FORTH ON THE GOLD PROXY CARD ARE ENTIRELY INDEPENDENT OF HALLMARK and, if elected, will just like all directors have fiduciary responsibilities to act in the best interests of all stockholders. Our nominees would bring significant industry, financial and public company expertise, as well as a fresh perspective, to the current board. If elected, these nominees will represent less than a majority of the SUA Board (and 50% of the independent directors) but nevertheless we believe will have a sufficient presence TO MAKE A DIFFERENCE on the issues that matter to stockholders. In this light, it is our hope you will agree that simply adding one stockholder-nominated director to the current seven person board – the hollow gesture offered by the Company to Hallmark to avoid a shakeup of the status quo – is simply not acceptable.

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Our Focus...and Their Hope

Hallmark's nominees are focused on the following critical issues that we believe currently face SUA, as further discussed in our proxy statement:

- We believe SUA is underperforming financially
- We believe SUA's strategic and business model is weak
- We believe SUA suffers from corporate governance deficiencies
- We believe SUA has not created stockholder value

Curiously, rather than addressing these critical financial, strategic and governance problems facing SUA, the Company appears to blame the economic environment alone for the Company's problems and low stock price. The Company stated in its letter to stockholders dated April 1, 2009 that "the capital markets and general business activities have been severely impacted by the economic environment and credit crisis...[and that it believes] these events have adversely impacted our business and our current stock valuation." The implication is that, as general business conditions improve, somehow things will get better for SUA and its stockholders. We do not believe this will happen without seriously addressing the problems facing the Company.

SUA's numerous missteps long preceded the economic downturn and the Company's failure to address this does nothing to improve operations or enhance stockholder value. Consider that, among other things:

- Since its IPO in November 2004 through December 31, 2008, the Company's cumulative total stockholder return has been negative 72%, far underperforming the S&P 500 (when that index reflects the worst bear market in a generation).
- The Company's annual growth in book value per share for the five-year period ended December 31, 2008 has been a paltry 1.6%.
- During the same five-year period, the Company has only reported a cumulative total of \$2.271 million in net income, or an average of \$454,000 annually. As a result, the Company's average return on equity has been a mere fraction of a single percent.
- According to SNL Financial, SUA's expense ratio has been significantly higher than the industry average for each year during the past four completed fiscal years. In fact, SUA's expense ratio has averaged more than fourteen percentage points higher than the industry average during this period.
- As of December 31, 2008, SUA had only nine partner-agents. SUA's top five partner-agents in 2008 made up over 90% of SUA's written premiums, which is relatively unchanged from 2005, when these same five partner-agents made up 100% of SUA's written premiums. SUA's failure to expand its partner-agent relationships puts the Company's business at risk if its relationship with one significant partner-agent (such as Risk Transfer Holdings) were to deteriorate.

IF YOU WANT NEW HIGHLY QUALIFIED INDEPENDENT DIRECTORS WHO RECOGNIZE AND WILL SEEK TO SERIOUSLY ADDRESS THE DIFFICULT FINANCIAL, BUSINESS AND STRATEGIC CHALLENGES WE BELIEVE FACE SUA – VOTE THE GOLD PROXY CARD!

### Corporate Governance Deficiencies

The Company states that it has purportedly reached out to large stockholders following conference calls (excluding Hallmark, we would add) in trumpeting its Board and its corporate governance. However, the following actions in 2008 in our view constitute genuine corporate governance problems:

- In 2008, the current Board approved bylaw amendments that eliminated basic rights of stockholders, including changes which:

expressly eliminated stockholders' rights (a) to call special meetings of stockholders and (b) to fill vacancies on the SUA Board (even when directors have been removed by stockholders); and

TM added stringent advance notice requirements for stockholder nominations of directors.

- In 2008, the Board and management approved eight new employment and change of control agreements with members of SUA's senior management team obligating the Company to make golden parachute payments to executives in certain circumstances, including a change of control.
- In 2008, without engaging in any meaningful dialogue, the SUA Board determined to reject a bona fide offer from a credible buyer (Hallmark), which we believe had real prospects to enhance stockholder value.

To defend its behavior last summer, the Company would have you believe that it was Hallmark, and not SUA or Courtney Smith (the Company's Chief Executive Officer), that was "unresponsive" when Hallmark made its offer in June 2008. We believe this characterization of the events of last June is disingenuous and self-serving. The incident that SUA is relying on for this assertion is a perfunctory two sentence email from Mr. Smith to Mr. Schwarz (Hallmark's Executive Chairman), sent after several attempts by Mr. Schwarz to speak with Mr. Smith and which formally directed Mr. Schwarz to forward "in writing" any "additional information that [Hallmark] would like to share with [SUA]." While Hallmark stood ready and willing at any time to engage in a dialogue that might help SUA reach a more thoughtful decision on Hallmark's offer, SUA on the other hand appears to act as if formally requesting "additional information" in writing satisfied the Board's obligations to have all of the information required to act in the best interests of stockholders, and that somehow Hallmark's failure to send any such information made Hallmark the "unresponsive" party.

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Hallmark's Interest and the Shakeup It Has Caused

Hallmark did not withdraw its proposal to acquire SUA and Mr. Schwarz has attempted to discuss a potential transaction which would benefit all stockholders with SUA senior officers as recently as March 2, 2009. While SUA now wields our continuing interest in the Company as a scare tactic with stockholders to maintain the status quo, it is our view that our continuing interest in a transaction is a significant positive for SUA stockholders. In fact, SUA's effort to obtain a "standstill" obligation from Hallmark as part of its proposal to add just one Hallmark nominee – an obligation that would prevent Hallmark from pursuing any transaction (or from nominating additional director candidates) for the foreseeable future – would in our view harm SUA's stockholders. We believe this demand further underscores that the hollow compromise offered by SUA was designed to avoid addressing the serious and real issues we believe face the Company.

Interestingly, while the SUA Board rejected our proposal out of hand last summer, we point out that SUA now writes that it in fact will consider a sale or merger of the Company. But how – we ask – can this same current Board be trusted to make an informed decision on behalf of SUA's stockholders on a proposed transaction – or on any other potentially value enhancing opportunity – for the benefit of SUA stockholders? Our nominees will, subject to their fiduciary duties, not approve any proposed transaction, whether made by Hallmark or a third party, unless they believe it will be in the best interests of all stockholders and maximize stockholder value.

**HALLMARK'S NOMINEES ARE HIGHLY QUALIFIED INDEPENDENT DIRECTORS WHO POSSESS THE RIGHT COMBINATION OF SKILLS AND EXPERIENCE TO ASSIST THE BOARD IN MAKING THE TOUGH DECISIONS NECESSARY FOR RESTORING AND ENHANCING STOCKHOLDER VALUE AT SUA.**

Hallmark strongly urges you to reject the status quo at SUA, and to sign and return the GOLD PROXY CARD to elect Hallmark's nominees.

Thank you for your time.

Sincerely,

/s/ Mark E. Schwarz

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

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

105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
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or  
CALL TOLL FREE (800) 322-2885