SeaBright Holdings, Inc.

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Public Company
Founded: 2003 as SeaBright Insurance Holdings, Inc.
Employees: 324
Sales: $277.16 million (2011)
Stock Exchanges: New York
Ticker Symbol: SBX
NAICS: 524126 Direct Property and Casualty Insurance Carriers; 524298 Other Insurance Related Activities

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SeaBright Holdings, Inc., is the parent company for several insurance and related financial services entities. The company provides multijurisdictional workers' compensation insurance; maritime and alternative dispute products; underwriting and brokerage services; and integrated managed medical care services.

Originally known as SeaBright Insurance Holdings, the company was formed in 2003 through a management buyout of the former Eagle Pacific Insurance Company. Eagle Pacific, a workers' compensation provider for maritime employees, was acquired by its executives and Summit Ventures, a private equity fund. SeaBright also acquired PointSure Insurance Services, Inc., a wholesale broker and underwriter. The owners took the company public in 2005.

Since its initial public offering (IPO), SeaBright has expanded by acquiring several other related businesses. In 2007 it acquired Total HealthCare Management, Inc. (THM), a fee-based provider of medical managed care solutions. SeaBright renamed the company Paladin Managed Care Services in 2011. By the end of 2011 SeaBright Holdings included three main units: SeaBright Insurance Company (the workers' compensation provider) Paladin, and PointSure.

ORIGINS IN MARITIME INSURANCE SECTOR

SeaBright Holdings traces its roots to Eagle Pacific Insurance Company and Pacific Eagle Insurance Company. The two related entities began writing specialty workers' compensation policies in the mid-1980s, primarily in the maritime sector. Based in Seattle, Washington, the Eagle companies were originally part of a larger Seattle-based conglomerate known as Services Group of America (SGA), Drew DeSilver reported in the *Seattle Times.*

SGA sold the Eagle businesses in 1998 to Lumbermens Mutual Casualty Company, a unit of the Kemper Group, an insurance enterprise based in Chicago, Illinois. However, DeSilver continued, Kemper "soon ran into financial difficulties." After defaulting on debt in 2003, it stopped writing new policies and began "selling off pieces of its business to other companies."

COMPANY PERSPECTIVES

SeaBright Holdings, Inc., is the parent company of several diverse insurance providers whose complementary specialties help generate new customers and markets, while extending the services available to existing customers. Our high standards, service orientation, and specialized expertise have brought growth and market recognition to each subsidiary.

According to the company history on SeaBright's website, a group of Eagle Pacific and Pacific Eagle executives teamed up with Summit Partners, a private equity and venture capital firm, to form what was originally known as SeaBright Insurance Holdings, Inc. The purpose of the new company was to acquire from Kemper "the renewal rights and substantially all of the operating assets and employees" of the Eagle companies. The acquisition "gave us renewal rights to an existing portfolio of businesses, representing a valuable asset given the customer renewal rates of our business, and a fully operational infrastructure that would have taken many years to develop."

On July 14, 2003, SeaBright agreed to buy the assets of the Eagle entities and related assets, including Kemper Employers Insurance Company (KEIC) and PointSure Insurance Services, a wholesale insurance broker. The company stated, "We acquired KEIC, a shell company with no in-force policies or employees, solely for the purpose of acquiring the workers' compensation licenses in 43 states and the District of Columbia, and for its certification with the United States Department of Labor."

Writing for the *Puget Sound Business Journal,* Pat McCarrell reported that the investment group paid $15.7 million for the Eagle assets and business, and invested another $30 million for operating cash. The company stated on its website that Summit Partners, the former Eagle executives, and other co-investors put $45 million into the deal, which closed on September 30, 2003.

TAKING THE COMPANY PUBLIC

By the summer of 2004 SeaBright and Summit Ventures executives filed plans to take the company public with an $86.25 million IPO of stock. "Although SeaBright itself is just over a year old, its business dates back almost two decades," DeSilver wrote in the *Seattle Times* in September 2004. DeSilver reported that Eagle specialized in on-the-job coverage for maritime workers and "in niches, such as California's construction industry, where labor contracts rather than state law govern workers' comp matters." He added that Summit owned "all but a sliver of SeaBright" at the time of the IPO. SeaBright had $27.3 million in revenues for the first six months of 2004.

McCarrell noted in November 2004 that SeaBright's largest market was California, which made up some 57 percent of the company's direct premiums during the first three quarters of 2004. (In 2011, California accounted for 49 percent of all premiums.) Alaska was the second-largest market at 13 percent, with Hawaii accounting for 9.8 percent of premiums during that nine-month period. "About a third of SeaBright's business comes from the maritime market, primarily in ship building and repair, pier and marine construction, and stevedoring," McCarrell reported. Another 39 percent was from providing insurance for firms "with labor agreements that require the use of alternative dispute resolution or other out-of-court settlements for workers' compensation cases."

The *Seattle Times* report also stated that IPO proceeds were earmarked for expansion into more of the 40-plus states where SeaBright had acquired licenses to provide workers' compensation in the original Kemper deal. SeaBright was particularly interested in expanding into the Eastern United States and the Great Lakes area.

On January 26, 2005, SeaBright closed its IPO with net proceeds of $80.8 million from the sale of 8.625 million shares. In February 2006 the company completed a follow-on offering of another $3.9 million shares, netting $57.7 million. The stock was listed on the NASDAQ through November 6, 2008, when SeaBright shares moved to the New York Stock Exchange.

GROWING THROUGH ACQUISITION

While SeaBright leaders aimed to expand their business organically by moving into more markets across the country, they also built up the company through a series of acquisitions. In December 2007 SeaBright completed its acquisition of Total HealthCare Management (TCM) for $1.2 million. TCM was a privately held company providing medical bill review, utilization review, nurse case management, and related services. TCM became the third division of SeaBright. In May 2011 THM was renamed Paladin Managed Care Services.

As part of the strategy, SeaBright Insurance Holdings dropped "insurance" from its name in May 2010.

KEY DATES

2003: Company founded through a management buyout of the former Eagle Pacific Insurance Company led by insurance executives and private equity firm Summit Partners.
2003: SeaBright acquires Kemper Employers Insurance Company and PointSure Insurance Services, Inc., a wholesale insurance broker.
2005: SeaBright Holdings goes public, listing its shares on the New York Stock Exchange.
2007: Company acquires Total HealthCare Management, Inc. (THM), a medical insurance services provider.
2011: SeaBright Insurance Holdings, Inc., is renamed SeaBright Holdings, Inc.

The *Puget Sound Business Journal* reported that the company wanted to "better reflect the different products and services offered by SeaBright's subsidiary companies." The report also cited a statement from John Pasqualetto, SeaBright chairman, president, and CEO. Pasqualetto explained, "While insurance remains a big part of our business, PointSure and Total HealthCare Management provide fee-based services that do not involve insurance underwriting risk."

The company also made other deals to strengthen its existing businesses. For example, in July 2008, SeaBright announced that its PointSure brokerage subsidiary had acquired three wholesale broker divisions of Black/White Group. PropertyCasualty 360.com reported that the acquired companies generated $15 million in annual premium. The entities served small and mid-market clients with business owner's policies and liability insurance, the report added. Euclid Black, the founder of Black/White, told the publication that SeaBright was acquiring his company' operations west of the Mississippi River, while his firm was retaining the East Coast operations. The report also cited Craig Pankow, PointSure president, as stating the deal will provide his firm with a "stronger platform" to support its national expansion plans.

TOLL FROM ECONOMIC SLOWDOWN

While SeaBright had grown through five years of acquisitions through 2008, its deal-making activities stalled with the economic slowdown that began in 2008. Like many companies, SeaBright saw its revenues stall in the tough economic climate. SeaBright reported 2009 total revenues of $273 million with net income of $13.5 million. In 2010 its revenues rose to $298 million but its net loss was $1.5 million. For 2011 SeaBright reported lower revenues of $277 million and a net loss of $14.5 million.

On August 19, 2011, the A.M. Best Co. ratings agency announced it had revised its outlook for SeaBright Holdings and SeaBright Insurance Company from stable to negative. "These rating actions reflect the significant downturn in SeaBright's operating results in 2010 and 2011, which were driven by weakened underwriting performance associated with reserve strengthening actions for accident years 2007 through 2009, primarily related to increasing medical cost trends," A.M. Best stated. "Additionally, SeaBright continues to face marketplace challenges associated with its geographic and coverage lines expansion, which is likely to limit any turnaround in the company's operating performance over the near term."

However, A.M. Best also affirmed the companies' financial strength and issuer credit ratings. Despite the revised outlook, the ratings agency stated, those affirmations "recognize SeaBright's solid risk-adjusted capitalization, historically profitable operating results and the experienced management team within its niche workers' compensation market."

As the slowdown continued, SeaBright was mentioned as a potential takeover target. PropertyCasualty360.com reported in December 2010 that SeaBright was among several possible 2011 acquisition targets identified by investment banker Keefe, Bruyette & Woods. The forecast came on the heels of an active financial services mergers and acquisitions market during the second half of 2010. With smaller companies struggling, the report noted, "The most likely targets are still small- to mid-cap specialty and commercial lines players with niche-market expertise."

In early 2012 Adam Cancryn wrote for *SNL Insurance* that the workers' compensation sector "might draw interest from diversified insurers looking to add niche businesses for cheap." The report cited a research note from analyst Randy Binner of FBR Capital Markets who tagged SeaBright as an attractive acquisition candidate. Binner said SeaBright was "suffering from a jump in loss reserves and a potential ratings downgrade." Analyst Paul Newsome of Sandler O'Neill told Cancryn that a SeaBright buyer "would likely have to restructure the business" and "be willing to pour enough capital into the company to keep it afloat through the challenging short-term environment."

Cancryn's January 17 report came a day after *SNL Insurance Weekly* reported that Patriot National Insur-

ance Group and its CEO, Steven Mariano, had built up a stake in SeaBright exceeding 5 percent of the company's outstanding stock. According to the report, Patriot and Mariano stated they had acquired more than 1.1 million shares of SeaBright stock "for investment purposes."

Despite takeover rumors and revenue challenges, SeaBright had returned to profitability by the first quarter of 2012, reporting net income of $8.1 million on revenues of $73.3 million. CEO John Pasqualetto stated the quarterly results marked "a return to profitability as well as stable loss reserves." He added, "Our bottom line has benefitted from the impact of changes in our underwriting standards combined with enhancements in claims management." Pasqualetto also noted SeaBright had achieved "consistent and meaningful price increases" in California and other states.

In its analysis of that first quarter 2012 earnings report, Zacks Equity Research stated SeaBright had "suffered due to the economic slowdown in the U.S. and the overall challenging business climate in recent years." However, the research report continued, management had actively responded to those challenges. "It is reducing its exposure to businesses and areas which are no longer viable," such as the California construction business. At the same time, Zacks continued, SeaBright was "increasing its exposure to other targeted businesses such as health care and manufacturing," as well as increasing its distribution network and enhancing technology. "Though these actions will eventually facilitate earnings growth," Zacks added, "we do not expect any material changes in the near term until the economy recovers from the slump."

Bobby L. Hickman

PRINCIPAL SUBSIDIARIES

Paladin Managed Care Services, Inc.; PointSure Insurance Services, Inc.; SeaBright Insurance Company.

PRINCIPAL COMPETITORS

Chartis Inc.; Hartford Life Insurance Company; Liberty Mutual Holding Company Inc.; Zurich Financial Services AG.

FURTHER READING

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"SeaBright Switches to NYSE." *Puget Sound Business Journal,* October 24, 2008. Accessed June 25, 2012. http://www.bizjournals.com/seattle/stories/2008/10/20/daily38.html.