SeaBRIGHT
INSURANCE HOLDINGS, INC.

John G. Pasqualetto
Chairman, President & CEO

March 31, 2006

The Honorable Christopher Cox, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1070

Subject: Exposure Draft of Final Report of Advisory Committee on Smaller Public Companies (File Number 265-23)

Dear Chairman Cox:

I am writing to express my support of the Advisory Committee on Smaller Public Companies (the "Advisory Committee") and its efforts to provide relief from some of the provisions of the Sarbanes-Oxley Act of 2002 ("SOX") that are disproportionately burdensome to smaller public companies. I am the Chairman, President and Chief Executive Officer of SeaBright Insurance Holdings, Inc. ("SeaBright"), whose wholly-owned subsidiaries are SeaBright Insurance Company, a specialty provider of multi-jurisdictional workers' compensation insurance, and PointSure Insurance Services, Inc., a wholesale insurance broker and third party claims administrator. SeaBright was formed in 2003 for the purpose of completing a management-led buyout of the renewal rights, operating assets and employees of our predecessor, who began writing specialty workers' compensation insurance nearly 20 years ago. We completed the initial public offering of 8,625,000 shares of our common stock in January 2005 and in February 2006, we completed a follow-on offering of 3,910,000 shares of our common stock.

As a small, young and rapidly growing company operating in highly competitive and cyclical markets, capital preservation and growth are among the key objectives to our future success. In this challenging and competitive business environment, the cost and effort required to comply with SOX Section 404 are stifling. Under the current regulations, we expect to become an accelerated filer at the end of this year. To date, we have spent over $150,000 in external compliance costs. We estimate that our total external compliance costs will exceed $850,000, or nearly 5% of our 2005 net income. Neither of these figures takes into consideration the substantial internal compliance costs that we have incurred and will continue to incur, nor the opportunity cost of diverting funds from other important objectives in order to prepare for compliance. Certainly, a total compliance cost above $1 million would not be an unreasonable estimate.

Some good will come from this effort, but at what cost? We are a well-run company with an active board of talented and skilled external directors and a "tone at the top" that emphasizes honest and ethical behavior. Fundamentally, we operate our business today the same way we did prior to beginning the Section 404 compliance effort. Some key internal controls have been strengthened and others have been added or documented where necessary. But I ask again, at what cost? Without the burdensome requirements of Section 404, we could have achieved the same positive results at a fraction of the cost.

It is unfortunate that all public companies are today painted with the same broad brush of suspicion as a result of the shameful acts of a few. Prior to the corporate debacles that spurred the creation of SOX, the vast majority of registrants were well-run companies led by honest and ethical executives and boards of directors (and they continue to be so today). For these companies, much of what is required by SOX Section 404 represents little more than a drain of valuable corporate resources and a windfall to (i) public accounting firms who, one might argue, in their zeal to retain profitable clients, turned their heads to

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questionable business practices; and (ii) consulting firms that have been formed to take advantage of an opportunity.

The burdens placed on public companies today, not the least of which are those imposed by Section 404, are driving many companies to go private, to postpone or cancel their plans to go public, or to undertake their registrations on foreign exchanges. A number of foreign companies have withdrawn their listings in the U.S. market or have conducted new offerings in foreign markets. One recent magazine article reported that in 2005, the London Stock Exchange reported 129 new foreign listings, while Nasdaq reported a net of 14 new listings from foreign firms and the New York Stock Exchange reported a net of just six.[1] Another article reported that "in 2000, an estimated 90 percent of all capital raised by non-domestic companies came through new stock and securities listings in New York. At the close of 2005, the situation had reversed, with just 10 percent of new listings by foreign companies taking place in New York."[2]

These and other developments should serve as a clarion call to Congress and the Commission that action to reform SOX is necessary. The burdens imposed on public companies, particularly smaller public companies, are driving many of them from the U.S. capital markets. I believe that this legislation was created by well-intentioned members of Congress who saw a problem and felt a duty to address it. However, it appears that they didn't fully appreciate the magnitude of the burden that they were placing on public companies, as evidenced by the Commission's estimate in 2003 that the average annual cost of compliance with Section 404 would be $91,000. In a survey of smaller Nasdaq-listed public companies, Nasdaq determined that the average cost of compliance was $1 million, with some companies reporting costs as high as $15 million. The total cost of Section 404 implementation extrapolated to all Nasdaq issuers was conservatively estimated at $3.5 billion. On average, these numbers were 2.5 times the companies' fully loaded audit fees.[3]

We strongly support the Advisory Committee's efforts to reduce the burdens currently placed on smaller public companies. With regard to the Advisory Committee's draft report, I submit for the Commission's consideration the following specific recommendations:

1. Recommendation III.P.2. Eliminate the proposed revenue filters for smaller public companies. We believe that market capitalization levels provide an adequate means by which to identify smaller public companies that should be entitled to exemptive relief from some of the provisions of Section 404. As the Advisory Committee points out in its report, smaller public companies (public companies with market capitalizations less than approximately $787 million) account for the lowest six percent of U.S. equity market capitalization. Revenue size is not necessarily an indicator of the risk or complexity of a company's operations. For example, it seems somewhat arbitrary that a smaller public company with revenues of $260 million (which may result from a high volume of simple, relatively small-dollar transactions) would not enjoy the same relief as a company with revenues of $240 million (which may result from a relatively small number of large, complex transactions requiring significant judgment).

2. Recommendation III.P.2. Delete the "unless and until" language of the recommendation and provide permanent exemptive relief from external auditor involvement for smaller public companies. As discussed above, the burdens of full compliance with Section 404 are

[1] *SOX Act Losing Luster As Costs Spark Unrest*, BestWeek (March 20, 2006)
[2] *US Markets Missing Out*, Corporate Secretary (March 2006)
[3] Statement of Edward S. Knight, Executive Vice President and General Counsel, The Nasdaq Stock Market, Inc. at the June 17, 2005 meeting of the SEC Advisory Committee on Smaller Public Companies.

disproportionately burdensome to smaller public companies. The majority of our estimated costs of compliance relate to Section 404 audit fees.

3. Consider dropping altogether the Section 404 external audit requirement. I was interested to read in an editorial in the April 19, 2005 issue of the Wall Street Journal that a report published by the Association of Certified Fraud Examiners in 2004 noted that "internal controls accounted for only 8% of fraud detection, or less than half of the 18% detected 'by accident.'" [4] This begs the question – why we are spending billions of dollars documenting and auditing controls that are, according to the results of this study, relatively insignificant when it comes to detecting fraud? CEO's and CFO's of public companies are required to certify the accuracy and correctness of their companies' financial statements, as well as the effectiveness of their disclosure controls and procedures and internal controls over financial reporting. In doing so, they put themselves at great personal risk. Independent public accountants are required to opine on a registrant's financial statements, also putting themselves and their firms at significant risk. Shouldn't that be enough motivation for executives and auditors alike to "do the right thing?" Is a separate audit of a registrant's internal controls necessary? Do the benefits of such an effort really justify the cost? There will always be unscrupulous, immoral and dishonest people in this world and some of them will rise to prominent positions of leadership in public companies. Isn't our focus better placed on prosecuting and punishing those individuals when they defraud a company's employees, creditors and investors rather than on creating a burdensome regulatory structure whose benefit is arguably far outweighed by its enormous cost?

Failing to remove burdensome regulations such as SOX Section 404's undifferentiated overkill of business controls, will ultimately lead to job losses. The only beneficiaries are independent public accountants, with skyrocketing fees and scarce service capacity. Small business needs access to the public capital markets. Clearly, small business and start-up entrepreneurship have been the greatest creators of new jobs in the U.S. SeaBright alone has grown its work force by over 50% and plans to add more this year. Let's use some common sense judgment and make the needed adjustments to SOX, adopting changes that restore our economic environment to one that promotes and supports entrepreneurship rather than inhibits it.

We applaud the Commission's efforts to understand and respond to the great burdens placed on small public companies. Thank you for inviting public input and dialogue and for considering our recommendations.

Respectfully,

/s/ John G. Pasqualetto

John G. Pasqualetto
Chairman, President and
Chief Executive Officer

[4] *Sox and Stocks,* The Wall Street Journal, April 19, 2005