

SEIBELS BRUCE GROUP INC
Form PRE 14A
November 14, 2003

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

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 Pursuant to Section 240.14a-12

The Seibels Bruce Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(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) (4) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

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

- (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)

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o 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.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

THE SEIBELS BRUCE GROUP, INC.

**1501 Lady Street
Columbia, South Carolina 29201
(803) 748-2000**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON _____, 2003**

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders (the "Special Meeting" or "Meeting") of The Seibels Bruce Group, Inc., a South Carolina corporation, (the "Company"), will be held on _____, 2003 at _____ a.m. at the offices of the Company at 1501 Lady Street, Columbia, South Carolina 29201, for the following purposes, as more fully described in the Proxy Statement accompanying this Notice:

1. To amend the Company's Articles of Incorporation to effect a 1-for-1,000 reverse stock split of the Company's common stock and pay \$3.00 per share to the holders of shares that would be converted to a fraction of one share; and
2. To transact any other business as may properly come before the Meeting or any adjournment or postponement of the Meeting.

The proposal to amend the Company's Articles of Incorporation provides for the Company to effect a 1-for-1,000 reverse stock split of the Company's issued common stock. If approved, this reverse stock split will enable the Company to "go private" and thus terminate its obligations to file annual and periodic reports and make other filings with the Securities and Exchange Commission.

We have set the close of business on _____, 2003, as the record date for determining shareholders who are entitled to notice of and to vote at the Special Meeting. If your shares are held in the name of a broker, trust or other nominee, you will need a proxy appointment form from the broker, trustee or nominee if you wish to vote personally at the Meeting.

All shareholders are cordially invited to attend the Special Meeting in person. Whether or not you expect to attend the Meeting, your vote is important. To assure your representation at the Meeting, please sign and date the enclosed proxy appointment form and return it promptly in the enclosed envelope, which requires no additional postage if mailed in the United States. You may revoke your proxy appointment at any time prior to the Special Meeting. If you attend the Special Meeting and vote by ballot, your proxy appointment will be revoked automatically, and only your vote at the Special Meeting will count.

Shareholders may be entitled to assert dissenters' rights under Chapter 13 of Title 33 of the Code of Laws of South Carolina, 1976, as amended.

By order of the Board of Directors,

Charles H. Powers
Chairman of the Board

Columbia, South Carolina
, 2003

Your vote is very important, regardless of the number of shares you own. Please read the attached proxy statement carefully, complete, sign and date the enclosed proxy appointment form as promptly as possible and return it in the enclosed envelope.

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PRELIMINARY COPY

THE SEIBELS BRUCE GROUP, INC.

**1501 Lady Street
Columbia, South Carolina 29201
(803) 748-2000**

**PROXY STATEMENT
FOR SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON _____, 2003**

The Board of Directors of The Seibels Bruce Group, Inc., (the "Company") is providing this proxy statement to you to solicit your vote for use at a Special Meeting of Shareholders to be held on _____, 2003. The Special Meeting will be held at the offices of the Company, 1501 Lady Street, Columbia, South Carolina 29201, at _____ a.m. This proxy statement and the accompanying proxy appointment form are being mailed on or about _____, 2003 to shareholders of record as of _____, 2003.

At the Special Meeting, shareholders of record will vote on approval of an amendment to the Company's Articles of Incorporation that will provide for a 1-for-1,000 reverse split of the Company's common stock. As permitted under South Carolina law, shareholders whose shares are converted into less than 1 share in the reverse split (because they had fewer than 1,000 shares at the effective time of the reverse split) will receive a cash payment from the Company for their fractional share interests of \$3.00 per share, without interest, for each share of common stock they held immediately before the reverse split.

Shareholders who own more than 1,000 shares at the effective time of the reverse split will receive 1 share for each 1,000 shares they own at the effective time of the reverse split, and a cash payment of \$3.00 per share, without interest, for the remaining shares of common stock they held immediately before the reverse split that aggregate less than 1,000 shares. We refer to the reverse stock split and cash payments to shareholders holding fewer than 1,000 shares as the "transaction."

After the transaction, we anticipate that the Company will have approximately 97 shareholders of record. As a result, the Company will no longer be required to file annual and periodic reports under the federal securities laws that are applicable to public companies. Additionally, transactions in our common stock will no longer be quoted on the OTC Bulletin Board.

A shareholder of the Company is entitled by Chapter 13 of Title 33 of the Code of Laws of South Carolina, 1976, as amended, (the "Dissenters' Rights Law") to dissent, and obtain payment of the fair value of, his shares, if the transaction reduces the number of shares owned by the shareholder to a fraction of a share. To exercise dissenters' rights, a shareholder must, at or prior to the Special Meeting of Shareholders of the Company, give written notice that he dissents from the proposed amendment to the Articles of Incorporation and not vote in favor of the proposed amendment to the Articles of Incorporation. In addition, the shareholder must comply strictly with statutory procedures at the time and in the manner set forth in the Dissenters Rights Law, a copy of which is attached to this proxy statement as Appendix B. Also see "Special Factors Dissenters' Rights; Escheat Laws" beginning on page _____.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the merits or fairness of the transaction or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

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SUMMARY TERM SHEET FOR REVERSE STOCK SPLIT

The following summary, together with the "Questions and Answers" section that follows, briefly describes the proposed amendment to our Articles of Incorporation and the reverse stock split. While this summary and the question and answer section describe what we believe are the most material terms and features of the transaction, the proxy statement contains a more detailed description of the terms. We encourage you to read the entire proxy statement and the documents we have incorporated by reference before voting. We have included section references to

direct you to a more complete description of the topics described in this summary.

As used in this proxy statement, "Seibels," the "Company," "we," "our," "ours," and "us" refer to The Seibels Bruce Group, Inc. and all of its subsidiaries, and the "transaction" refers to the reverse stock split to be effected by the amendment of our Articles of Incorporation, together with the related cash payments for fractional shares to shareholders whose number of shares is not evenly divisible by 1,000 at the effective time of the transaction.

Effects of the Transaction

If the transaction is completed:

shareholders who own fewer than 1,000 shares of common stock of record before the reverse stock split will receive cash in exchange for their shares of common stock and will no longer have any interest in our future earnings or growth;

shareholders who own 1,000 or more shares of common stock of record before the reverse stock split will receive 1 share for each 1,000 shares of common stock held before the reverse stock split, and cash in lieu of fractional shares for their remaining shares;

we will have fewer than 300 registered holders of common stock, and therefore will be eligible to terminate registration of our common stock with the Securities and Exchange Commission, which will terminate our obligation to continue filing periodic reports and proxy statements pursuant to the Securities Exchange Act of 1934 (the "1934 Act");

our common stock will no longer be quoted on the OTC Bulletin Board, and any trading in our common stock will only occur in privately negotiated sales;

the officers and directors of the Company at the effective time of the transaction will continue to serve as the officers and directors of the Company immediately after the transaction;

the rights and number of shares outstanding of our Adjustable Rate Cumulative Nonvoting Preferred Special Stock will remain unchanged;

the number of shares subject to currently outstanding options and warrants and the corresponding exercise prices will be adjusted in accordance with the terms of the applicable warrant or option plan to give effect to the reverse stock split;

the Company stock investment feature in the Company's 401(k) Plan will be terminated and the Company will purchase all of the shares of Company stock held by the Plan for the then-current fair market value of the shares in cash, which will not, in any event, be less than \$3.00 per share;

the number of our shareholders of record will be reduced from approximately 924 to approximately 97, and the number of outstanding shares of the Company's common stock will decrease by approximately 9% from 7,816,044 to approximately 7,103,000 shares on a pre-split basis (7,103 on a post-split basis);

the percentage of ownership of the Company's common stock beneficially owned by the directors of the Company as a group will increase from 52% to approximately 57% based on shares outstanding on October 24, 2003, which will not affect control of the Company;

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aggregate shareholders' equity of the Company as of September 30, 2003, will be reduced from approximately \$31,085,000 on an historical basis to approximately \$28,605,000 on a pro forma basis;

the book value per share of common stock as of September 30, 2003 will decrease from \$2.95 per share on an historical basis to approximately \$2.90 per share on a pro forma, pre-split basis;

the Company will pay cash of approximately \$2,418,000 in the aggregate to repurchase fractional shares and pay the costs of the transaction; and

net income per share of common stock (including non-recurring income and expenses) for the nine months ended September 30, 2003, will not change from \$0.04 on an historical basis when calculated on a pro forma basis (on both a basic and a fully-diluted basis).

For a description of the provisions regarding the treatment of shares held in street name, please see "Special Factors Effect of the Proposed Reverse Split on Shareholders (both Affiliated and Unaffiliated)" beginning on page . Please also read "Proposal to Amend the Company's Articles of Incorporation to Effect a Reverse Stock Split of the Common Stock" beginning on page and "Special Factors" beginning on page . (Shares held in "street name" are shares held in a stock brokerage account or by a bank or other nominee.)

The Purpose and Benefits of the Reverse Stock Split

If approved, the reverse stock split will enable the Company to go private and thus terminate its obligation to file annual and periodic reports and make other filings with the Securities and Exchange Commission ("SEC"). The purpose behind the proposal and the benefits of going private include:

eliminating the costs associated with filing documents under the 1934 Act with the SEC;

eliminating the costs of compliance with the Sarbanes-Oxley Act of 2002 and related regulations;

reducing the direct and indirect costs of administering shareholder accounts and responding to shareholder requests;

affording shareholders holding less than 1,000 shares immediately before the transaction the opportunity to receive cash for their shares without having to pay brokerage commissions and other transaction costs; and

increasing management's flexibility to consider and initiate actions that may produce long-term benefits and growth without the pressure and expectation to produce quarterly earnings per share growth.

Please read "Special Factors Purpose of the Transaction" beginning on page .

Disadvantages of the Reverse Stock Split

The disadvantages of the reverse stock split are that:

the Company's working capital or assets will be decreased, or indebtedness increased, to fund the purchase of fractional shares and the costs of the transaction;

the Company's ability to raise capital in the public securities markets will be significantly diminished;

remaining shareholders will experience reduced liquidity for their shares of common stock;

less public information about the Company will be available after the transaction; and

shareholders who are cashed out will be unable to participate in any future earnings or growth of the Company.

Please read "Special Factors Effect of the Proposed Reverse Split on Shareholders (both Affiliated and Unaffiliated)" beginning on page and "Special Factors Effect of the Proposed Reverse Split on the Company" beginning on page .

Board Determination of the Fairness of the Reverse Stock Split

The Board has determined that the reverse stock split is advisable, substantively fair to, and in the best interests of the Company and its shareholders, including both affiliated and unaffiliated shareholders, and unanimously recommends that you vote "FOR" the reverse stock split. As used in this proxy statement, the term "affiliated shareholder" means any shareholder who is a director or executive officer of the Company, the term "unaffiliated shareholder" means any shareholder other than an affiliated shareholder, and the term "executive officers" means all persons named under "Management of the Company Executive Officers and Key Employees" beginning on page .

The Board also believes that the transaction is procedurally fair because, among other things: (a) the reverse stock split is being effected in accordance with applicable requirements under South Carolina law; (b) the reverse stock split is being submitted to a vote of the Company's shareholders and is subject to the approval of holders of two-thirds of the outstanding shares of common stock; (c) shareholders who will be totally cashed-out will have the opportunity to exercise dissenters' rights; and (d) shareholders can also increase, divide or otherwise adjust their existing holdings, prior to the effective date of the reverse split, so as either to retain some or all of their shares or to be cashed-out with respect to some or all of their shares.

As of October 24, 2003, our directors and executive officers owned approximately 55% of the outstanding shares of common stock that would be entitled to vote at the Special Meeting. If our directors and executive officers exercised options they hold prior to the Special Meeting, they would own approximately the same percentage of the outstanding shares of common stock entitled to vote at the Special Meeting. See "Management of the Company Security Ownership of Management," beginning on page . Some of our executive officers may, however, sell their shares before the record date and may not be entitled to vote at the Special Meeting. See "Special Factors Interests of Executive Officers and Directors in the Transaction" beginning on page . Other than the expressed intent of directors and executive officers to vote their shares for the reverse stock split, the Company has not obtained any assurances or agreements from any of its shareholders as to how they will vote on the reverse stock split.

Please read "Special Factors Recommendation of the Board; Fairness of the Transaction" beginning on page .

Fairness Opinion of Financial Advisor

Capitalink, L.C., our financial advisor, has delivered to our Board of Directors its written opinion to the effect that, as of the date of such opinion and based upon and subject to the matters stated in the opinion, the cash consideration to be paid in the proposed transaction is fair, from a financial point of view, to our shareholders, including shareholders who will receive cash in the proposed transaction as well as those who will remain shareholders after the proposed transaction. The full text of the written opinion of Capitalink, which sets forth the assumptions made, matters considered and limitations on the review undertaken, is attached as Appendix A to this proxy statement. You should read the opinion carefully in its entirety, along with the discussion under "Special Factors Opinion and Report of the Financial Advisor" beginning on page .

The opinion of Capitalink is directed to the Company's Board of Directors, addresses only the fairness to holders of the Company's common stock from a financial point of view of the cash consideration to be paid in the proposed transaction, and does not constitute a recommendation to any shareholder as to how such shareholder should vote at the Special Meeting.

Conditions to the Completion of the Transaction

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The completion of the transaction depends upon the approval of the proposed amendment to our Articles of Incorporation that will implement the transaction by the holders of at least two-thirds of our outstanding shares of common stock. The text of the amendment is set forth under "Proposal to Amend the Company's Articles of Incorporation to Effect a Reverse Stock Split of the Common Stock Proposed Language Amending the Company's Articles of Incorporation" beginning on page .

Reservation of Rights

We reserve the right to abandon the transaction without further action by our shareholders at any time before the filing of the necessary amendment to our Articles of Incorporation with the South Carolina Secretary of State, even if the transaction has been authorized by our shareholders at the Special Meeting, and by voting in favor of the transaction you are also expressly authorizing us to determine not to proceed with the transaction if we should so decide.

Sources of Funds; Financing of the Transaction

We estimate that the total funds required to pay the consideration to shareholders entitled to receive cash for their shares and to pay the costs of the transaction will be approximately \$2,418,000. The consideration to shareholders and the costs of the transaction will be paid from working capital, proceeds from the sale of assets, or borrowings. See "Special Factors Sources of Funds and Financial Effect of the Transaction" beginning on page .

Potential Conflicts of Interest of Directors

Our directors may have interests in the transaction that are different from your interests as a shareholder, or relationships that may present conflicts of interest, including the following:

Each member of the Board of Directors holds of record 1,000 or more shares of our common stock and will retain one or more shares after the transaction; and

As a result of the transaction, the shareholders who own of record on , 2003, 1,000 or more shares, such as our directors, will increase their percentage ownership interest in the Company as a result of the transaction. For example, assuming the transaction is approved, and based on shares outstanding on October 24, 2003, the ownership percentage of the directors of the Company will increase from 52% to approximately 57% as a result of the reduction by an estimated 713,000 shares in the number of shares of common stock outstanding.

Required Vote on the Reverse Stock Split

The reverse stock split is subject to approval by the affirmative vote of holders of two-thirds of the outstanding shares of our common stock. The holder of the Company's outstanding Adjustable Rate Cumulative Nonvoting Preferred Stock does not have the right to vote those shares on the transaction.

Rights of Dissenting Shareholders

Under the South Carolina Business Corporation Act, (the "SCBCA"), S.C. Code § 33-1-101, et seq., a shareholder of the Company's common stock who does not vote in favor of the transaction and who complies with certain notice requirements, which include the delivery of written notice of intent to

demand payment prior to the vote at the Special Meeting and other procedures, will have the right to dissent from the transaction and to be paid cash for the fair value of his shares if the transaction reduces the number of shares owned by the shareholder to a fraction of a share. (A vote in favor of the transaction cast by the holder of a proxy appointment solicited by the Company will not disqualify a shareholder granting such proxy appointment from exercising dissenters' rights.) South Carolina law defines "fair value" to mean the value of the shares immediately before the effectuation of the transaction, excluding any appreciation or depreciation in anticipation of the transaction, unless such exclusion

would be inequitable. Under South Carolina law, the "fair value" of the shares is to be determined by techniques that are acceptable generally in the financial community. In order for a holder of the Company's common stock to perfect dissenters' rights, such holder must file with the Company, prior to or at the Special Meeting, a written notice of intent to demand payment. Neither delivery of a proxy appointment form directing a vote against the transaction nor a failure to vote for the transaction will constitute such written notice. Certain additional procedures must be followed in order for a Company shareholder to exercise dissenters' rights. Any deviation from such procedures may result in the forfeiture of dissenters' rights. This proxy statement does not create or modify any dissenters' rights. The only dissenters' rights shareholders have are those granted by the SCBCA. Accordingly, shareholders wishing to dissent from the transaction are urged to read carefully "Special Factors Dissenters' Rights; Escheat Laws" beginning on page and the SCBCA Code sections included herewith as Appendix B.

U. S. Federal Income Tax Consequences

Generally, for shareholders who have fewer than 1,000 shares of common stock before the reverse stock split, the receipt of cash for fractional shares will be treated for tax purposes in the same manner as if the shares were sold in the market for cash. For shareholders who will remain shareholders of the Company following the reverse stock split, the receipt of shares of new common stock will be treated as a tax-free reorganization and any cash received in lieu of fractional shares by such shareholders will be treated as "boot" for federal income tax purposes. Accordingly, if the fair market value of the boot plus the new common stock received exceeds a shareholder's total tax basis in its common stock, the gain will be recognized up to the amount of boot received. Tax matters are very complicated, and the tax consequences to you of the transaction will depend on your own situation. Please read "Special Factors Material Federal Income Tax Consequences" beginning on page .

Selected Per Share Financial Information

The following table sets forth selected historical per share financial information for the Company and unaudited pro forma per share financial information for the Company giving effect to the transaction as if it had been consummated as of the end of each period presented, in the case of book value information, and as of the beginning of the respective reporting periods, in the case of statement of operations information. The information presented below is derived from (i) the consolidated historical financial statements of the Company, including the related notes thereto, and (ii) the unaudited Pro Forma Consolidated Financial Statements, including the assumptions beginning on page . You should read this table together with the unaudited Pro Forma Consolidated Financial Statements and the related assumptions and the Selected Historical Financial beginning on page and the consolidated financial statements of the Company and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, which information is incorporated by reference in this proxy statement. As described in the assumptions to the unaudited Pro Forma Consolidated Financial Statements, the pro forma per share information assumes that 713,000 shares of our common stock are cashed-out in connection with the transaction and \$2,418,000 cash is paid in lieu of issuance of fractional shares and to pay the costs of the transaction. The pro forma information set forth below is not necessarily indicative of what the Company's actual financial position or results of operations would

have been had the transaction been consummated as of the above referenced dates or of the financial position or results of operations that may be reported by the Company in the future.

	As of and for the Nine Months Ended September 30, 2003	As of and for the Year Ended December 31, 2002
The Company Historical:		
Earnings per common share from continuing operations		
Basic	\$ 0.04	\$ 0.73
Diluted	0.04	0.72
Book value per common share(1)	2.95	2.97
Dividends per common share		
The Company Pro Forma:		
Earnings per common share from continuing operations(2)		
Basic	0.04	0.79
Diluted	0.04	0.77
Book value per common share(3)	2.90	2.91

As of and for the
 Nine Months Ended
 September 30, 2003

As of and for the
 Year Ended
 December 31, 2002

Dividends per common share

- (1) Historical book value per common share is computed by dividing common shareholders' equity by the number of common shares outstanding at the end of the respective periods, excluding the dilutive effect of options.
- (2) Pro forma earnings per share from continuing operations is computed by dividing pro forma net income from continuing operations by the historical weighted average shares outstanding for the respective periods minus the 713,000 shares of the Company's common stock assumed to be cashed-out in the transaction.
- (3) Pro forma book value per common share of the Company is computed by dividing pro forma common shareholders equity by the number of common shares outstanding at the end of the respective periods, excluding the dilutive effect of options, minus the 713,000 shares of the Company's common stock assumed to be cashed-out in the transaction.

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS
 AND THE SPECIAL MEETING**

Q: Why am I receiving these materials?

A: The Board is providing these proxy materials for you in connection with the Special Meeting, which will take place on , 2003. As a shareholder, you are invited to attend the Special Meeting and are entitled to and requested to vote on the transaction described in this proxy statement.

Q: What information is contained in these materials?

A: The information included in this proxy statement relates to the proposal to be voted on at the Special Meeting, the voting process, and other required information. Our 2002 Annual Report on Form 10-K, including our full 2002 fiscal year consolidated financial statements, and our September 30, 2003 Quarterly Report on Form 10-Q that we filed with the SEC in November 2003 are incorporated by reference in this document. See "Other Information Incorporation by Reference" beginning on page .

Q: What proposals will be voted on at the Special Meeting?

A: At the Special Meeting, shareholders will vote on the approval of a reverse stock split pursuant to an amendment to our Articles of Incorporation. The text of the amendment is set forth below under "Proposal to Amend the Company's Articles of Incorporation to Effect a Reverse Stock Split of the Common Stock Proposed Language Amending the Company's Articles of Incorporation" beginning on page . In addition, you will be asked to vote on any other business that may properly come before the Meeting or any adjournment or adjournments thereof.

Q: What is the Company's voting recommendation?

A:

Our Board recommends that you vote your shares "FOR" the reverse stock split.

Q:
What shares can I vote?

A:
You may vote all shares of Company common stock that you own as of the close of business on the record date, which was , 2003. These shares include (1) shares held directly in your name as the "shareholder of record," and (2) shares held for you as the "beneficial owner" either through a broker or bank.

Shares of the Company's Adjustable Rate Cumulative Nonvoting Preferred Special Stock will not be affected by the transaction and are not entitled to vote. For additional information, see "How many votes will I be entitled to?" below.

Q:
What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A:
Many of our shareholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Shareholder of Record

If your shares are registered directly in your name with our transfer agent, American Stock Transfer and Trust Company (the "Transfer Agent"), you are considered, with respect to those shares, the shareholder of record, and these proxy materials are being sent directly to you by the Company. As the shareholder of record, you have the right to vote by proxy or to vote in person at the Special Meeting. The Company has enclosed a proxy appointment form for you to use.

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Beneficial Owner

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held in "street name" with respect to those shares, and these proxy materials are being forwarded to you by your broker or other nominee. Your broker or other nominee is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker or other nominee how to vote and are also invited to attend the Special Meeting. However, as a beneficial owner, you are not the shareholder of record, and you may not vote these shares in person at the Special Meeting unless you obtain a signed proxy appointment form from the shareholder of record giving you the right to vote the shares. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares.

If you are the beneficial owner of fewer than 1,000 shares of common stock that are held in street name or nominee name, we will offer your broker or other nominee the opportunity to receive cash for each beneficial owner of fewer than 1,000 shares held in the broker's or nominee's name. The broker or nominee will, however, decide how to respond to this offer. See "Proposal to Amend the Company's Articles of Incorporation to Effect a Reverse Stock Split of the Common Stock" beginning on page .

Q:
Do I have any voting rights with respect to shares allocated to my account in the Company's 401(k) Plan?

A:
If you have invested in the Company stock fund of the Company's 401(k) Plan, you have the right to instruct the Plan trustee how to vote the Company shares allocated to your account. These proxy materials will be forwarded to you by the Plan trustee together with a voting instruction card for you to use to direct the Plan trustee how to vote the shares allocated to your account. If you do not direct the Plan trustee how to vote, the Plan trustee will not vote the shares allocated to your account. Not voting has the same effect as voting against the amendment.

Q:

How can I vote my shares in person at the Special Meeting?

A:

Shares held directly in your name as the shareholder of record may be voted in person at the Special Meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification.

Even if you currently plan to attend the Special Meeting, we recommend that you also submit your proxy appointment form as described below so that your vote will be counted if you later decide not to attend the Meeting.

Shares held in street name may be voted in person by you only if you obtain a signed proxy appointment form from the shareholder of record giving you the right to vote the shares.

Q:

What is a reverse stock split?

A:

At the Special Meeting you will be asked to vote on a proposal to amend the Company's Articles of Incorporation to provide for a 1-for-1,000 reverse stock split of the common stock that is outstanding as of the time the reverse stock split is effective. When the split is effective, each thousand shares of common stock will automatically become one share of common stock.

As a result of the reverse stock split, record shareholders who own fewer than 1,000 shares of common stock before the reverse split will receive cash in exchange for their shares of common stock, record shareholders who have 1,000 or more shares of common stock before the reverse stock split will receive 1 share for each 1,000 shares of common stock held before the reverse stock split, and record shareholders who have more than 1,000 share of common stock before the

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reverse stock split but whose total number of shares is not evenly divisible by 1,000 will receive cash in lieu of the remaining fractional shares.

If approved, this proposal will enable the Company to go private and thus terminate its obligations to file annual and periodic reports and make other filings with the SEC. The purpose behind the proposal and the benefits of going private include:

eliminating the costs associated with filing documents under the 1934 Act with the SEC;

eliminating the costs of compliance with the Sarbanes-Oxley Act of 2002 and related regulations;

reducing the direct and indirect costs of administering shareholder accounts and responding to shareholder requests;

affording shareholders holding less than 1,000 shares immediately before the transaction the opportunity to receive cash for their shares without having to pay brokerage commissions and other transaction costs; and

increasing management's flexibility to consider and initiate actions that may produce long-term benefits and growth without the pressure and expectation to produce quarterly earnings per share growth.

Q:

What does "going private" mean?

A:

The Company will have less than 300 shareholders of record, will be eligible to terminate the registration of its common stock under the 1934 Act and will become a "private company." In this regard, the Company, by going private, will no longer have to file periodic reports, such as annual, quarterly and other reports, with the SEC, and its executive officers, directors and 10% shareholders will no longer be required to file reports relating to their transactions in the Company's common stock with the SEC. Additionally, the

Company's common stock will cease to be quoted on the OTC Bulletin Board, and any trading in our common stock will occur only in privately negotiated sales.

Q: If I own fewer than 1,000 shares, is there any way I can continue to be a shareholder of the Company after the reverse stock split?

A: If you own fewer than 1,000 shares before the reverse stock split, the only way you can continue to be a shareholder of the Company after the reverse stock split is to purchase, prior to the effective date, sufficient additional shares to cause you to own a minimum of 1,000 shares on the effective date. However, we cannot assure you that any shares will be available for purchase.

Q: Is there anything I can do if I own 1,000 or more shares, but would like to take advantage of the opportunity to receive cash for my shares as a result of the reverse stock split?

A: If you own 1,000 or more shares before the reverse stock split, you can only receive cash for all of your shares if, prior to the effective date, you reduce your stock ownership to fewer than 1,000 shares by selling or otherwise transferring shares. However, we cannot assure you that any purchaser for your shares would be available.

Alternatively, before the effective date, you could divide the shares you own among different record holders so that fewer than 1,000 shares are held in each account. For example, you could divide your shares between your own name and a brokerage account so that fewer than 1,000 shares is held in each account.

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Q: What happens if I own a total of 1,000 or more shares beneficially, but I hold less than 1,000 shares of record in my name and less than 1,000 shares with my broker in "street name"?

A: An example of this would be that you have 500 shares registered in your own name with our transfer agent, and you have 500 shares registered with your broker in "street name." Accordingly, you are the beneficial owner of a total of 1,000 shares, but you do not own 1,000 shares of record or beneficially in the same name. If this is the case, as a result of the reverse stock split, you would receive cash for the 500 shares you hold of record. You will also receive cash for the 500 shares held of record in street name if your broker or other nominee accepts our offer for each beneficial owner of fewer than 1,000 shares of common stock held in the broker's or nominee's name to receive cash for fractional shares. If the broker or nominee does not accept our offer, you would continue to own a beneficial fractional interest in a share of our common stock.

Q: If I own at least 1,000 shares, but the shares are split among record owners as described above so that no record owner holds at least 1,000 shares, but I wish to continue to own common stock in the Company after the reverse stock split, what can I do?

A: Before the effective date, you could put all of the shares you own beneficially in one record name, either in your name or in street name, so that the total shares you own that are held of record in the same name is at least 1,000 shares, and then you would continue to be a shareholder after the effective date.

Q: How can I vote my shares without attending the Special Meeting?

A: Whether you hold your shares directly as the shareholder of record or beneficially in street name, you may direct your vote without attending the Special Meeting. You may vote by signing your proxy appointment form or, for shares held in street name, by signing the voting instruction card included by your broker or nominee and mailing it in the enclosed, pre-addressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If you sign but do not provide instructions, your shares will be voted as described below in "How are votes counted?"

Q:

Can I change my vote?

A:

You may change your proxy instructions at any time prior to the vote at the Special Meeting. For shares held directly in your name, you may change your vote by signing a new proxy appointment form bearing a later date (which automatically revokes the earlier dated proxy appointment form) or by attending the Special Meeting and voting in person. Attendance at the Special Meeting will not cause your previously signed proxy appointment to be revoked unless you specifically so request. For shares held beneficially by you, you may change your vote by submitting new voting instructions to your broker or nominee.

Q:

How are votes counted?

A:

You may vote "FOR," "AGAINST" or "ABSTAIN" on the reverse stock split. If you "ABSTAIN," it has the same effect as a vote "AGAINST." If you sign your proxy appointment form with no further instructions, your shares will be voted "FOR" the approval of the reverse stock split in accordance with the recommendations of the Board.

Q:

What is the voting requirement to approve the reverse stock split?

A:

Approval of the reverse stock split will require the affirmative vote of two-thirds of the outstanding shares of common stock of the Company. If you are a beneficial owner and do not provide the shareholder of record with voting instructions, your shares may constitute broker non-votes. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner (e.g., a broker) does not vote on a particular proposal because the nominee does not have discretionary authority to vote on that particular item and has not received instructions from the beneficial owner. In

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tabulating the voting result on the reverse split, shares that constitute broker non-votes will have the same effect as a vote "AGAINST." If you have invested in the Company stock fund of the Company's 401(k) Plan and do not instruct the Plan trustee how to vote the Company shares allocated to your account, the Plan trustee will not vote those shares. Shares allocated to 401(k) plan accounts that are not voted by the Plan trustee will also have the same effect as a vote "AGAINST."

Q:

What does it mean if I receive more than one proxy appointment or voting instruction form?

A:

It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy appointment and voting instruction forms you receive.

Q:

Where can I find the voting results of the Special Meeting?

A:

We will announce preliminary voting results at the Special Meeting and publish final results in a Current Report on Form 8-K filed with the SEC.

Q:

What happens if additional proposals are presented at the Special Meeting?

A:

Other than the proposal described in this proxy statement, we do not expect any other matters to be presented for a vote at the Special Meeting. If you grant us your proxy appointment, the persons named as proxies, Michael A. Culbertson and Bryan D. Rivers, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Meeting.

Q:

How many votes will I be entitled to?

A:

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As of the close of business on _____, 2003, the record date, we had issued and outstanding approximately 7,816,044 shares of common stock and 800,000 shares of Adjustable Rate Cumulative Nonvoting Preferred Stock. Each share of common stock is entitled to one vote per share. The Adjustable Rate Cumulative Nonvoting Preferred Stock is not entitled to vote at the Special Meeting.

Q:
What is the quorum requirement for the Special Meeting?

A:
The quorum requirement for holding the Meeting and transacting business is a majority of the issued and outstanding stock of the Company present in person or represented by proxy and entitled to be voted. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum for the transaction of business at the Meeting.

Q:
Who will count the votes?

A:
The Company's Corporate Secretary will tabulate the votes and act as the inspector of the election.

Q:
Who will bear the cost of soliciting votes for the Special Meeting?

A:
The Company is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person or by telephone by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders. We may consider retaining a proxy solicitation firm. In the event that we choose to retain such a firm, we will bear all of their fees, costs and expenses.

Q:
Am I entitled to dissenters' rights?

A:
You are only entitled to dissenters' rights if the transaction reduces the number of shares you own to a fraction of a share, if you do not vote in favor of the transaction and if you comply with very

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strict requirements under the South Carolina Business Corporation Act. See "Special Factors Dissenters' Rights; Escheat Laws" beginning on page _____.

If you have more questions about the reverse stock split or would like additional copies of this proxy statement, you should contact Michael A. Culbertson, President and Corporate Secretary of the Company, at (803) 748-2000.

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FORWARD LOOKING STATEMENTS

Forward looking statements are those statements that describe management's beliefs and expectations about the future. We have identified forward looking statements by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," and "intend." Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties, including those described in this proxy statement and in other documents filed with the SEC. Therefore, these types of statements may prove to be incorrect.

THE SPECIAL MEETING

General

We are providing this proxy statement to our shareholders of record as of _____, 2003 along with a proxy appointment form that our Board of Directors is soliciting for use at the Special Meeting of shareholders of the Company to be held on _____, 2003 at _____ a.m., Eastern Time, at the Company's offices at 1501 Lady Street, Columbia, South Carolina. At the Meeting, the shareholders will vote upon a proposal to approve the amendment to our Articles of Incorporation that will implement the transaction.

Who Can Vote at the Meeting

You are entitled to vote your common stock if our records show that you held your shares as of the record date, which is _____, 2003. On the record date, there were 7,816,044 shares of our common stock outstanding, held by approximately 924 holders of record. Each such share of our common stock is entitled to one vote on each matter submitted at the Meeting.

Attending the Meeting

If you are a beneficial owner of the Company's common stock held by a broker, bank or other nominee (i.e., in "street name" or "nominee name"), you will need proof of ownership to be admitted to the Special Meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of the Company's common stock held in street name in person at the Meeting, you will have to get a written proxy appointment form in your name from the broker, bank or other nominee who holds your shares.

Annual Report and Quarterly Report

Our Annual Report on Form 10-K for the year ended December 31, 2002, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, are incorporated by reference in this proxy statement and are available upon request from the Company. See "Other Information Where You Can Find More Information" and "Incorporation by Reference" beginning on page _____.

Vote Required

Approval of the transaction requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of the Company's common stock entitled to vote. **If you do not vote your shares, it will have the same effect as a vote "AGAINST" the transaction.**

The proposal to approve the transaction is a "non-discretionary" item, meaning that brokerage firms cannot vote shares in their discretion on behalf of a client if the client has not given voting instructions. Accordingly, shares held in street name that have been designated by brokers on proxy appointment forms as not voted with respect to that proposal ("broker non-vote shares") will not be counted as votes cast on the proposal. The trustee of the Company's 401(k) Plan cannot vote shares in its discretion on behalf of a Plan participant who has invested in the Company stock fund of the Plan if

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the participant has not given voting instructions to the trustee. Accordingly, shares allocated to participant accounts in the Company stock fund of the 401(k) Plan for which participants have not given the Plan trustee voting instructions will not be counted as votes cast on the proposal. Shares with respect to which proxies have been marked as abstentions also will not be counted as votes cast on that proposal. All shares that are counted as not voted will have the same effect as votes "AGAINST" the proposal.

Because approval of the transaction requires the affirmative vote of the holders of two-thirds of the outstanding shares of the Company's common stock, abstentions and broker non-vote shares will have the same effect as votes against the transaction. Accordingly, the Board of Directors urges you to complete, date and sign the accompanying proxy appointment form and return it promptly in the enclosed postage-prepaid envelope.

Action on other matters, if any, that are properly presented at the Meeting for consideration of the shareholders will be approved if a quorum is present and the votes cast favoring the action exceed the votes cast opposing the action. A quorum will be present if a majority of the outstanding shares of our common stock entitled to vote is represented at the Meeting in person or by proxy. Shares with respect to which proxy appointment forms have been marked as abstentions and broker non-vote shares will be treated as shares present for purposes of determining whether a quorum is present. The Board of Directors is not aware of any other business to be presented at the Meeting other than matters incidental to the conduct of the Meeting.

Our directors and executive officers, all of whom have stated they intend to vote their shares for the reverse stock split, own an aggregate of 4,261,387 outstanding shares of our common stock, which is approximately 55% of the outstanding shares of capital stock of the Company as of October 24, 2003 that would be entitled to vote at the Special Meeting. These directors and executive officers also have options that are presently exercisable that, if exercised prior to the record date, would result in these directors and executive officers owning an aggregate of 4,417,012 shares of our common stock, which also would be approximately 55% of the shares as of October 24, 2003 that would be entitled to vote at the Special Meeting. See "Management of the Company Security Ownership of Management," beginning on page . Some of our executive officers may, however, sell their shares before the record date and may not be entitled to vote at the Special Meeting. See "Special Factors Interests of Executive Officers and Directors in the Transaction" beginning on page . Other than the expressed intent of directors and executive officers to vote their shares for the reverse stock split, the Company has not obtained any assurances or agreements from any of its shareholders as to how they will vote on the reverse stock split.

Voting and Revocation of Proxy Appointments

The shares of the Company's common stock represented by properly completed proxy appointment forms received at or before the time for the Meeting (or any adjournment) will be voted as directed by the respective shareholders unless the proxy appointments are revoked as described below. If no instructions are given, executed proxy appointment forms will be voted "FOR" approval of the transaction. Proxy appointment forms marked "FOR" approval of the transaction and executed but unmarked proxy appointment forms will be voted in the discretion of the proxies named in the proxy appointments as to any proposed adjournment of the Meeting. Proxy appointment forms that are voted "AGAINST" approval of the transaction will not be voted in favor of any motion to adjourn the Meeting to solicit more votes in favor of the transaction. The proxy appointments will be voted in the discretion of the proxies on other matters, if any, that are properly presented at the Meeting and voted upon.

You may revoke your proxy appointment at any time before the vote is taken at the Meeting. To revoke your proxy appointment, you must either: notify our Corporate Secretary in writing at our

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principal executive offices; submit a later dated proxy appointment form to our Corporate Secretary; or attend the Meeting and vote your shares in person. Your attendance at the Meeting will not automatically revoke your proxy appointment. If you hold your shares in street name, please see the voting form provided by your broker for additional information regarding the voting of your shares.

Your broker may allow you to deliver your voting instructions via the telephone or the internet. Please see the voting instruction form from your broker. If your shares are not registered in your name, you will need additional documentation from your record holder to vote the shares in person.

Solicitation of Proxy Appointments

The Company will pay the costs of soliciting proxy appointments for the Special Meeting. Directors, officers and other employees of the Company or its subsidiaries may solicit proxy appointments personally, by telephone or facsimile or otherwise. None of these people will receive any special compensation for solicitation activities. We will arrange with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such brokerage firms and other custodians, nominees and fiduciaries, and we will reimburse these record holders for their reasonable out-of-pocket expenses.

Recommendation of the Board of Directors

The Board of Directors of the Company has approved the transaction and believes that it is fair to and in the best interests of the Company and its shareholders. **The Board of Directors unanimously recommends that the Company's shareholders vote "FOR" approval of the transaction.**

PROPOSAL TO AMEND THE COMPANY'S ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMMON STOCK

The following is a description of the material terms and effects of the transaction. The text of the amendment is set forth below under " Proposed Language Amending the Company's Articles of Incorporation" beginning on page , and is referred to herein as the "reverse split amendment." This discussion does not include all of the information that may be important to you. You should read the reverse split amendment and this proxy statement and related appendices before deciding how to vote at the Special Meeting.

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The Board has unanimously adopted resolutions declaring the advisability of, and submits to the shareholders for approval, an amendment to the Articles of Incorporation effecting a reverse stock split of all shares of common stock issued as of 11:59 p.m. (Eastern Time) on the date the reverse split amendment is filed with the South Carolina Secretary of State (the "effective date"), pursuant to which each 1,000 shares of common stock then issued will be converted into one share of common stock. In lieu of issuing fractional shares that will result from the reverse split to shareholders of record holding (i) less than 1,000 shares immediately prior to the reverse split or (ii) a number of shares that is not evenly divisible by 1,000, the Company will make a cash payment of \$3.00 per share.

We intend for the transaction to treat beneficial shareholders holding common stock in street name through a nominee (such as a bank or broker) in the same manner as record shareholders whose shares are registered in their names, and nominees will be instructed to effect the transaction for their beneficial holders. However, nominees will decide how to respond to this offer and they are not obligated to follow our procedures. If you hold shares in street name, you should contact your nominees if you have questions about how your nominee intends to respond to this offer or about their procedures.

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The net effect of the transaction on the record holders of the Company's common stock and preferred stock will be as follows:

Shareholder as of Effective Date	Net Effect after Transaction
Record holders of 1,000 or more shares of common stock in a record account immediately prior to the reverse split.	Each 1,000 shares of common stock held prior to the reverse split will be converted into one share of common stock. For any remaining shares that would otherwise constitute less than a whole share, the Company will make a cash payment of \$3.00 for each such share held prior to effectiveness of the transaction in lieu of issuing any fractional shares. See "Special Factors Cash Payment in Lieu of Fractional Shares" beginning on page .
Record holders of less than 1,000 shares of common stock in a record account immediately prior to the reverse split.	Each share of common stock will be cashed-out at a price of \$3.00 per share. You will not have to pay any commissions or other fees in connection with this cash-out. Holders of these shares will not have any continuing equity interest in the Company. See "Special Factors Cash Payment in Lieu of Fractional Shares" beginning on page .
Holders of Adjustable Rate Cumulative Nonvoting Preferred Special Stock.	The rights of, and number of shares outstanding, of the Adjustable Rate Cumulative Nonvoting Preferred Special Stock will remain unchanged after the transaction.

Any holder of record of less than 1,000 shares of common stock who desires to retain an equity interest in the Company after the effective date may do so by purchasing, prior to the effective date, a sufficient number of shares of common stock in the open market such that the total number of shares held by him in one record account immediately prior to the reverse split is equal to or greater than 1,000. However, due to the limited trading market for the common stock, it is possible that a shareholder desiring to retain an equity interest in the Company may not be able to purchase, at a fair price, if at all, enough shares to retain an equity interest in the Company.

Conversely, any holder of record of more than 1,000 shares who wishes to be cashed out in the reverse stock split could, prior to the effective date, dispose of a sufficient number of shares to cause the number of shares held of record by such holder on the effective date to be less than 1,000 shares. A holder of record could also achieve this result by dividing shares beneficially owned by the holder among several record accounts such that fewer than 1,000 shares are held of record in each account. For example, a beneficial holder who holds 1,025 shares in street name with a broker could have the broker transfer 200 of the shares into the beneficial holder's own name so that, on the effective date, 200 shares are held by the beneficial holder directly of record and 825 shares are held of record in street name. Since the record holders would be different, both the 200 shares and the 825 shares would be cashed out in the reverse stock split.

Similarly, if a shareholder beneficially owns a total of 1,000 shares or more, but holds them in different accounts of record so that each record account holds fewer than 1,000 shares, but the holder wishes to remain a shareholder after the reverse stock split, prior to the effective date, the shareholder could transfer all of the shares into one record account.

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Exchange of Stock Certificates

You should not send your stock certificates now. You should send them only after you receive a letter of transmittal from us. Letters of transmittal will be mailed soon after the transaction is complete.

Promptly following the consummation of the reverse split on the effective date, the Company will send letters of transmittal to all shareholders of record. The letter of transmittal is for use in transmitting common stock certificates to the Company's transfer agent. Upon proper completion and execution of a letter of transmittal and return thereof to the transfer agent, together with stock certificates, each such shareholder will receive a new stock certificate and cash in the amount to which the holder is entitled, as described above, in lieu of any fractional share into which such shareholder's shares were converted in the reverse split. After the reverse split and until surrendered, each outstanding certificate held by a shareholder of record who held shares in any increment of less than 1,000 shares immediately prior to the reverse split will be deemed for all purposes to represent only the right to receive the amount of cash to which the holder is entitled pursuant to the transaction. The Company will make payment of such amounts upon submission of a proper claim, subject to applicable escheat laws. See "Special Factors Dissenters' Rights; Escheat Laws" beginning on page .

In connection with the transaction, the common stock will be identified by a new CUSIP number, which will appear on all certificates representing shares of common stock issued after the effective date. After the effective date, each certificate representing shares of common stock that were outstanding prior to the effective date and that were held by a shareholder of record of 1,000 or more shares immediately prior to the reverse split, until surrendered and exchanged for a new certificate, will be deemed for all corporate purposes to evidence ownership of such number of shares as is set forth on the face of the certificate divided by 1,000, rounded down to the next whole number, with the shareholder entitled to receive cash in lieu of any fractional share resulting from the transaction. Any shareholder desiring to receive a new certificate bearing the new CUSIP number can do so at any time in accordance with instructions set forth in the transmittal letter or otherwise by contacting the transfer agent as set forth in the transmittal letter for surrendering his old certificates. After the effective date, an old certificate presented to the exchange agent in settlement of a trade will be exchanged for a new certificate bearing the new CUSIP number.

All amounts payable to shareholders will be subject to applicable state laws relating to abandoned property. No service charges or brokerage commissions will be payable by shareholders in connection with the transaction. No interest will be paid on the cash due to a holder of a fractional share of common stock following the reverse split. See "Special Factors Cash Payment in Lieu of Fractional Shares" beginning on page .

The shares reacquired by the Company in the transaction will be adjusted in proportion to the reverse split, and the adjusted shares will become authorized but unissued shares of common stock.

Proposed Language Amending the Company's Articles of Incorporation

The following is the text of a new paragraph in Article 5 of the Company's Articles of Incorporation, as proposed to be amended by the reverse split amendment:

Effective at 11:59 p.m. (the "Effective Time") on the date of filing of Articles of Amendment with the Secretary of State of the State of South Carolina setting forth this Amendment (the "Effective Date"), each One Thousand (1,000) shares of authorized Common Stock of the Company, whether or not issued, immediately prior to the Effective Time shall automatically be reclassified and changed into one share of Common Stock (a "New Share"). Each holder of record of shares of Common Stock so reclassified and changed shall at the Effective Time automatically become the record owner of the number of New Shares as shall result from such

reclassification and change. Each such record holder shall be entitled to receive, upon the surrender of the certificate or certificates representing the shares of Common Stock so reclassified and changed at the office of the transfer agent of the Company in such form and accompanied by such documents, if any, as may be prescribed by the transfer agent of the Company, a new certificate or certificates representing the number of New Shares of which he or she is the record owner after giving effect to the provisions of this Article 5. The Company shall not issue fractional New Shares. Shareholders entitled to receive fractional New Shares shall receive cash in lieu of any fractional shares equal to the product of (a) the number of shares of the Common Stock held by such holder immediately prior to the Effective Time which have not been

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classified into a whole New Share, *multiplied* by (b) Three and No One-Hundredths dollars (\$3.00).

The text above will give effect to the reverse split by changing and reclassifying each 1,000 shares of authorized common stock into one share of common stock on the terms described above.

Stock Options

Upon effectiveness of the reverse split, the committee of the Company's Board of Directors which administers the Company's stock option plans will make adjustments to the number of shares of common stock subject to option and to the exercise prices in accordance with the terms of the applicable plan. See "Special Factors Effect of the Proposed Reverse Split on Option Holders" beginning on page .

Warrants

Upon effectiveness of the reverse split, the Company will make adjustments to the number of shares underlying each outstanding warrant and to the exercise prices in accordance with the terms of the applicable warrant. See "Special Factors Effect of the Proposed Reverse Split on Warrant Holders" beginning on page .

401(k) Plan

Upon effectiveness of the reverse split, the Company intends to terminate the Company stock fund investment option in the Company's 401(k) Plan, and to repurchase all shares of the Company's common stock held in the Plan at the effective time of the reverse split for the then-current fair market value of the shares as determined by the Plan administrator, which value will not, in any event, be less than \$3.00 per share. See "Special Factors Effect of the Proposed Reverse Split on 401(k) Plan Participants" beginning on page .

Provisions for Unaffiliated Shareholders

In connection with the proposals above, no provision has been made to grant unaffiliated shareholders of the Company access to the corporate files of the Company or to obtain counsel or appraisal services at the expense of the Company or any other such party.

Reservation of Rights

Although the Board requests shareholder approval of the proposed amendment to the Articles of Incorporation, the Board reserves the right to decide, in its discretion, to abandon the reverse split proposal after such vote and before the effective date even if the proposal is approved. Although the Board presently believes that the proposed amendment is in the best interests of the Company and its shareholders, and thus has recommended a vote for the proposed amendment, the Board nonetheless believes that it is prudent to recognize that, between the date of this proxy statement and the effective date of such amendment, factual circumstances could possibly change such that it might not be

appropriate or desirable to effect the proposed amendment at that time.