

ARCH CAPITAL GROUP LTD.  
Form 10-Q  
May 08, 2008

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

***FORM 10-Q***

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2008  
Or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period to

Commission file number: **0-26456**

***ARCH CAPITAL GROUP LTD.***

(Exact name of registrant as specified in its charter)

**Bermuda**  
(State or other jurisdiction of incorporation or  
organization)

**Not Applicable**  
(I.R.S. Employer Identification No.)

**Wessex House, 45 Reid Street**  
**Hamilton HM 12, Bermuda**  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(441) 278-9250**

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common shares as of the latest practicable date.

<u>Class</u>		<u>Outstanding at April 30, 2008</u>
Common Shares, \$0.01 par value	-	64,086,081

# ***ARCH CAPITAL GROUP LTD.***

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Arch Capital Group Ltd.:

We have reviewed the accompanying consolidated balance sheets of Arch Capital Group Ltd. and its subsidiaries (the Company) as of March 31, 2008, and the related consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the three-month periods ended March 31, 2008 and March 31, 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity, comprehensive income, and of cash flows for the year then ended (not presented herein), and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

May 8, 2008

## ARCH CAPITAL GROUP LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)

	(Unaudited) March 31, 2008	December 31, 2007
<b>Assets</b>		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: 2008, \$7,511,224; 2007, \$7,037,272)	\$7,591,695	\$7,137,998
Short-term investments available for sale, at fair value (amortized cost: 2008, \$629,249; 2007, \$700,262)	631,285	699,036
Short-term investment of funds received under securities lending agreements, at fair value	1,228,868	1,503,723
Other investments (cost: 2008, \$308,075; 2007, \$323,950)	316,252	353,694
Investment funds accounted for using the equity method	294,379	235,975
Total investments	10,062,479	9,930,426
Cash	258,680	239,915
Accrued investment income	73,686	73,862
Fixed maturities and short-term investments pledged under securities lending agreements, at fair value	1,190,086	1,463,045
Premiums receivable	880,946	729,628
Funds held by reinsureds	72,844	74,752
Unpaid losses and loss adjustment expenses recoverable	1,652,117	1,609,619
Paid losses and loss adjustment expenses recoverable	110,962	132,289
Prepaid reinsurance premiums	419,046	480,462
Deferred income tax assets, net	55,645	57,051
Deferred acquisition costs, net	311,364	290,059
Receivable for securities sold	671,354	17,359
Other assets	595,266	525,800
<b>Total Assets</b>	<b>\$16,354,475</b>	<b>\$15,624,267</b>
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses	\$7,319,141	\$7,092,452
Unearned premiums	1,810,324	1,765,881
Reinsurance balances payable	322,280	301,309
Senior notes	300,000	300,000
Securities lending collateral	1,228,868	1,503,723
Payable for securities purchased	710,994	23,155
Other liabilities	658,324	601,936
<b>Total Liabilities</b>	<b>12,349,931</b>	<b>11,588,456</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Non-cumulative preferred shares (\$0.01 par value, 50,000,000 shares authorized)		
- Series A (issued: 2008 and 2007, 8,000,000)	80	80
- Series B (issued: 2008 and 2007, 5,000,000)	50	50
Common shares (\$0.01 par value, 200,000,000 shares authorized, issued: 2008, 64,649,618; 2007, 67,318,466)	646	673
Additional paid-in capital	1,269,821	1,451,667
Retained earnings	2,617,539	2,428,117
Accumulated other comprehensive income, net of deferred income tax	116,408	155,224
<b>Total Shareholders' Equity</b>	<b>4,004,544</b>	<b>4,035,811</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$16,354,475</b>	<b>\$15,624,267</b>

See Notes to Consolidated Financial Statements



**ARCH CAPITAL GROUP LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**(U.S. dollars in thousands, except share data)**

	<b>(Unaudited)</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Net premiums written	\$811,342	\$871,745
Increase in unearned premiums		