

ARCH CAPITAL GROUP LTD.  
Form 10-Q  
November 09, 2012  
[Table of Contents](#)

**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 September 30, 2012

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-26456

**ARCH CAPITAL GROUP LTD.**

(Exact name of registrant as specified in its charter)

**Bermuda**

(State or other jurisdiction of incorporation or organization)

Edgar Filing: ARCH CAPITAL GROUP LTD. - Form 10-Q

**Not Applicable**

(I.R.S. Employer Identification No.)

**Wessex House, 5th Floor, 45 Reid Street**

**Hamilton HM 12, Bermuda**

(Address of principal executive offices)

**(441) 278-9250**

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

The number of the registrant's common shares (par value, \$0.0033 per share) outstanding as of November 1, 2012 was 136,550,744.

Table of Contents

*ARCH CAPITAL GROUP LTD.*

*INDEX*

	<b>Page No.</b>
<b><i>PART I. Financial Information</i></b>	
<i>Item 1 Consolidated Financial Statements</i>	
<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Consolidated Balance Sheets</u> <u>September 30, 2012 (unaudited) and December 31, 2011</u>	3
<u>Consolidated Statements of Income</u> <u>For the three and nine month periods ended September 30, 2012 and 2011 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income</u> <u>For the nine months ended ended September 30, 2012 and 2011 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity</u> <u>For the nine months ended ended September 30, 2012 and 2011 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows</u> <u>For the nine months ended ended September 30, 2012 and 2011 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
<i>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</i>	31
<i>Item 3 Quantitative and Qualitative Disclosures About Market Risk</i>	70
<i>Item 4 Controls and Procedures</i>	70
<b><i>PART II. Other Information</i></b>	
<i>Item 1 Legal Proceedings</i>	71
<i>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</i>	71
<i>Item 5 Other Information</i>	71
<i>Item 6 Exhibits</i>	72

Table of Contents

**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 sheet of Arch Capital Group Ltd. and its subsidiaries (the Company) as of September 30, 2012, and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2012 and September 30, 2011, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2012 and September 30, 2011. 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, 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated February 29, 2012, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 3 to the accompanying consolidated financial statements, the Company changed its method of accounting for costs associated with acquiring or renewing insurance contracts. The accompanying December 31, 2011 consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP

New York, NY

November 9, 2012

Table of Contents**ARCH CAPITAL GROUP LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

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

	(Unaudited) September 30, 2012	December 31, 2011
<b>Assets</b>		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: \$9,616,883 and \$9,165,438)	\$ 9,944,186	\$ 9,375,604
Short-term investments available for sale, at fair value (amortized cost: \$840,457 and \$909,121)	845,158	904,219
Investment of funds received under securities lending, at fair value (amortized cost: \$25,651 and \$48,577)	26,279	48,419
Equity securities available for sale, at fair value (cost: \$297,506 and \$299,058)	312,371	299,584
Other investments available for sale, at fair value (cost: \$455,149 and \$235,381)	477,857	238,111
Investments accounted for using the fair value option	698,068	366,903
TALF investments, at fair value (amortized cost: \$255,615 and \$373,040)	270,206	387,702
Investments accounted for using the equity method	339,587	380,507
<b>Total investments</b>	<b>12,913,712</b>	<b>12,001,049</b>
Cash	422,440	351,699
Accrued investment income	68,069	70,739
Investment in joint venture (cost: \$100,000)	109,363	107,576
Fixed maturities and short-term investments pledged under securities lending, at fair value	34,769	56,393
Premiums receivable	773,172	501,563
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	1,733,830	1,851,584
Contractholder receivables	849,352	748,231
Prepaid reinsurance premiums	302,513	265,696
Deferred acquisition costs, net	279,171	227,884
Receivable for securities sold	894,318	462,891
Other assets	509,048	460,052
<b>Total Assets</b>	<b>\$ 18,889,757</b>	<b>\$ 17,105,357</b>
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses	\$ 8,562,328	\$ 8,456,210
Unearned premiums	1,815,524	1,411,872
Reinsurance balances payable	172,016	133,866
Contractholder payables	849,352	748,231
Senior notes	300,000	300,000
Revolving credit agreement borrowings	100,000	100,000
TALF borrowings, at fair value (par: \$186,291 and \$310,868)	185,223	310,486
Securities lending payable	35,707	58,546
Payable for securities purchased	1,012,060	480,230
Other liabilities	508,753	513,842
<b>Total Liabilities</b>	<b>13,540,963</b>	<b>12,513,283</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders Equity</b>		
Non-cumulative preferred shares	325,000	325,000
Common shares (\$0.0033 par, shares issued: 167,004,690 and 164,636,338)	556	549

Edgar Filing: ARCH CAPITAL GROUP LTD. - Form 10-Q

Additional paid-in capital	200,607	161,419
Retained earnings	5,351,241	4,796,655
Accumulated other comprehensive income, net of deferred income tax	324,132	153,923
Common shares held in treasury, at cost (shares: 30,464,512 and 30,277,993)	(852,742)	(845,472)
Total Shareholders' Equity		