ARCH CAPITAL GROUP LTD.
Form DEF 14A
March 31, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

ARCH CAPITAL GROUP LTD.

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Wessex House
45 Reid Street
Hamilton HM 12, Bermuda

441 278 9250 Telephone
441 278 9255 Fax

March 31, 2005

Dear Shareholder:

I am pleased to invite you to the annual general meeting of the shareholders of Arch Capital Group Ltd. to be held on April 28, 2005, at 8:30 a.m. (local time), at The Fairmont Hamilton Princess Hotel, 76 Pitts Bay Road, Hamilton HM 12, Bermuda. The enclosed proxy statement provides you with detailed information regarding the business to be considered at the meeting.

Your vote is very important. Whether or not you plan to attend the meeting, please sign the enclosed proxy card and mail it promptly in the enclosed envelope.

Sincerely,

Constantine Iordanou
President and Chief Executive Officer

ARCH CAPITAL GROUP LTD.
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that the annual general meeting of the shareholders of Arch Capital Group Ltd. will be held on April 28, 2005, at 8:30 a.m. (local time), at The Fairmont Hamilton Princess Hotel, 76 Pitts Bay Road, Hamilton HM 12, Bermuda, for the following purposes:

PROPOSAL 1: To elect four Class I Directors to serve for a term of three years or until their respective successors are elected and qualified.

PROPOSAL 2: To approve our 2005 Long Term Incentive and Share Award Plan.

PROPOSAL 3: To elect certain individuals as Designated Company Directors of certain of our non-U.S. subsidiaries.

PROPOSAL 4: To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2005.

PROPOSAL 5: To conduct other business if properly raised.

Only shareholders of record as of the close of business on March 21, 2005 may vote at the meeting.

Our audited financial statements for the year ended December 31, 2004, as approved by our Board of Directors, will be presented at this annual general meeting.

Your vote is very important. Please complete, sign, date and return your proxy card in the enclosed envelope promptly.

This proxy statement and accompanying form of proxy are dated March 31, 2005 and are first being mailed to shareholders on or about April 1, 2005.

Dawna Ferguson
Secretary

Hamilton, Bermuda
March 31, 2005

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THE ANNUAL GENERAL MEETING

We are furnishing this proxy statement to holders of our common shares in connection with the solicitation of proxies by our Board of Directors at the annual general meeting, and at any adjournments and postponements of the meeting.

Time and Place

The annual general meeting will be held at 8:30 a.m. (local time) on April 28, 2005 at The Fairmont Hamilton Princess Hotel, 76 Pitts Bay Road, Hamilton HM 12, Bermuda.

Record Date; Voting at the Annual General Meeting

Our Board of Directors has fixed the close of business on March 21, 2005 as the record date for determination of the shareholders entitled to notice of and to vote at the annual general meeting and any and all postponements or adjournments of the meeting. On the record date, there were 35,101,042 common shares outstanding and entitled to vote, subject to the limitations in our bye-laws described below. At that date, there were an estimated 240 holders of record and approximately 8,300 beneficial holders of the common shares. On the record date, there were 37,327,502 preference shares outstanding and entitled to vote, subject to the limitations in the certificate of designations and our bye-laws described below. There were 24 holders of record and beneficial holders of the preference shares. Each holder of record of shares on the record date is entitled to cast one vote per share, subject to the limitations described below. A shareholder may vote in person or by a properly executed proxy on each proposal put forth at the annual general meeting.

Limitation on Voting Under Our Bye-Laws

Under our bye-laws, if the votes conferred by shares of Arch Capital Group Ltd. ("ACGL" or the "Company"), directly or indirectly or constructively owned (within the meaning of section 958 of the Internal Revenue Code of 1986, as amended (the "Code")) by any U.S. person (as defined in section 7701(a)(30) of the Code) would otherwise represent more than 9.9% of the voting power of all shares entitled to vote generally at an election of directors, the votes conferred by such shares or such U.S. person will be reduced by whatever amount is necessary so that after any such reduction the votes conferred by the shares of such person will constitute 9.9% of the total voting power of all shares entitled to vote generally at an election of directors.

There may be circumstances in which the votes conferred on a U.S. person are reduced to less than 9.9% as a result of the operation of our bye-laws because of shares, including shares held by private equity investment funds affiliated with Warburg Pincus LLC ("Warburg Pincus funds") and Hellman & Friedman LLC ("Hellman & Friedman funds"), that may be attributed to that person under the Code.

Notwithstanding the provisions of our bye-laws described above, after having applied such provisions as best as they consider reasonably practicable, the Board may make such final adjustments to the aggregate number of votes conferred by the shares of any U.S. person that they consider fair and reasonable in all the circumstances to ensure that such votes represent 9.9% of the aggregate voting power of the votes conferred by all shares of ACGL entitled to vote generally at an election of directors.

In order to implement our bye-laws, we will assume that all shareholders (other than the Warburg Pincus funds and the Hellman & Friedman funds) are U.S. persons unless we receive assurances satisfactory to us that they are not U.S. persons.

Quorum; Votes Required for Approval

The presence of two or more persons representing, in person or by properly executed proxy, not less than a majority of the voting power of our shares outstanding and entitled to vote at the annual general meeting is necessary to constitute a quorum. If a quorum is not present, the annual general meeting may be adjourned from time to time until a quorum is obtained. The affirmative vote of a majority of the voting power of the shares represented at the annual general meeting will be required for approval of each of the proposals, except that Proposal 1 will be determined by a plurality of the votes cast.

An automated system administered by our transfer agent will tabulate votes cast by proxy at the annual general meeting, and our transfer agent will tabulate votes cast in person. Abstentions and broker non-votes (*i.e.*, shares held by a broker which are represented at the meeting but with respect to which such broker does not have discretionary authority to vote on a particular proposal) will be counted for purposes of determining whether or not a quorum exists.

Several of our officers and directors will be present at the annual general meeting and available to respond to questions. Our independent auditors are expected to be present at the annual general meeting, will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Voting and Revocation of Proxies

All shareholders should complete, sign and return the enclosed proxy card. All shares represented at the annual general meeting by properly executed proxies received before or at the annual general meeting, unless those proxies have been revoked, will be voted at the annual general meeting, including any postponement or adjournment of the annual general meeting. If no instructions are indicated on a properly executed proxy, the proxies will be deemed to be FOR approval of each of the proposals described in this proxy statement.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by either:

- filing, including by facsimile, with the Secretary of the Company, before the vote at the annual general meeting is taken, a written notice of revocation bearing a later date than the date of the proxy or a later-dated proxy relating to the same shares or

- attending the annual general meeting and voting in person.

In order to vote in person at the annual general meeting, shareholders must attend the annual general meeting and cast their vote in accordance with the voting procedures established for the annual general meeting. Attendance at the annual general meeting will not in and of itself constitute a revocation of a proxy. Any written notice of revocation or subsequent proxy must be sent so as to be delivered at or before the taking of the vote at the annual general meeting to Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda, Facsimile: (441) 278-9255, Attention: Secretary.

Solicitation of Proxies

Proxies are being solicited by and on behalf of the Board of Directors. In addition to the use of the mails, proxies may be solicited by personal interview, telephone, telegram, facsimile and advertisement in periodicals and postings, in each case by our directors, officers and employees.

We have retained MacKenzie Partners, Inc. to aid in the solicitation of proxies and to verify records related to the solicitation. We will pay MacKenzie Partners, Inc. fees of not more than $4,500 plus expense reimbursement for its services. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward solicitation materials to beneficial owners and will be reimbursed for their reasonable expenses incurred in so doing. We may request by telephone, facsimile, mail, electronic mail or other means of communication the return of the proxy cards.

Other Matters

Our audited financial statements for the year ended December 31, 2004, as approved by our Board of Directors, will be presented at this annual general meeting.

As of the date of this proxy statement, our Board of Directors knows of no matters that will be presented for consideration at the annual general meeting, other than as described in this proxy statement. If any other matters shall properly come before the annual general meeting or any adjournments or postponements of the annual general meeting and shall be voted on, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any of those matters. The persons named as proxies intend to vote or not vote in accordance with the recommendation of our Board of Directors and management.

Principal Executive Offices

Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda (telephone number: (441) 295-1422), and our principal executive offices are located at Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda (telephone number: (441) 278-9250).

PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors of ACGL is currently comprised of 12 members, divided into three classes, serving staggered three-year terms. The Board of Directors intends to present for action at the annual general meeting the election of Paul B. Ingrey, Kewsong Lee, David R. Tunnell and Robert F. Works, whose present terms expire this year, to serve as Class I Directors for a term of three years or until their successors are duly elected and qualified. Such nominees were recommended for approval by the Board of Directors by the nominating committee of the Board.

Unless authority to vote for these nominees is withheld, the enclosed proxy will be voted for these nominees, except that the persons designated as proxies reserve discretion to cast their votes for other persons in the unanticipated event that any of these nominees is unable or declines to serve.

Nominees

Set forth below is information regarding the nominees for election:

Name	Age	Position
Paul B. Ingrey	65	Chairman* and Class I Director of ACGL
Kewsong Lee	39	Class I Director of ACGL
David R. Tunnell	34	Class I Director of ACGL
Robert F. Works	57	Class I Director of ACGL

* Mr. Ingrey will become chairman of ACGL on April 1, 2005.

Paul B. Ingrey has served as a director of ACGL since October 2001 and as vice chairman of ACGL from April 2004 until March 31, 2005. On April 1, 2005, he will become chairman of ACGL. Prior to April 2004, Mr. Ingrey served as chief executive officer of Arch Reinsurance Ltd. ("Arch Re (Bermuda)") from October 2001 and was elected chairman of Arch Re (Bermuda) in March 2002. He was retired from 1996 to 2001. Mr. Ingrey was the founder of F&G Re Inc., a reinsurance subsidiary of USF&G Corporation, and served as its chairman and chief executive officer from 1983 to 1996. Prior to that, he was senior vice president of Prudential Reinsurance, an underwriter of property and casualty reinsurance. He has also served as a director of USF&G Corporation (until its sale to The St. Paul Companies, Inc. in 1998) and E.W. Blanch Holdings, Inc., the holding company for E.W. Blanch Co., which provides risk management and distribution services through several subsidiaries (until its sale to Benfield Greig, the London-based international reinsurance broker, in April 2001) and he was formerly a director of Fairfax Financial Holdings Limited, an insurance and reinsurance company with a focus on property and casualty insurance until September 2002. He holds a B.A. degree from Colgate University and an M.B.A. degree from the School of Risk Management, Insurance and Actuarial Science of St. John's University (formerly the College of Insurance).

Kewsong Lee has served as a director of ACGL since November 2001. Mr. Lee has served as a member and managing director of Warburg Pincus LLC and a general partner of Warburg Pincus & Co. since January 1997. He has been employed at Warburg Pincus since 1992. Prior to joining Warburg Pincus, Mr. Lee was a consultant at McKinsey & Company, Inc., a management consulting company, from 1990 to 1992. His present service as a director includes membership on the boards of Knoll, Inc., Eagle Family Foods, Inc., TransDigm Inc. and several privately held companies. He holds an A.B. degree from Harvard College and an M.B.A. degree from Harvard Business School. Mr. Lee was appointed to our Board of Directors pursuant to our shareholders agreement ("Shareholders Agreement"), which is an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2004 ("2004 Annual Report").

David R. Tunnell has been a director of ACGL since May 2002. He has served as a managing director of Hellman & Friedman LLC since 2003. Prior to joining Hellman & Friedman LLC in 1994, Mr. Tunnell was employed by Lazard Frères & Co. in New York from 1992 to 1994. Mr. Tunnell currently serves as a director of Blackbaud, Inc. and as chairman of Vertafore, Inc. He holds an A.B. degree from Harvard College and an M.B.A. degree from Harvard Business School. Mr. Tunnell was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2004 Annual Report.

Robert F. Works has been a director of ACGL since June 1999. Mr. Works was a managing director of Jones Lang LaSalle (previously LaSalle Partners) until he retired on December 31, 2001. He joined Jones Lang LaSalle in 1981, where he has served in various capacities, including manager of both the Property Management and Investment Management teams of the Eastern Region of the United States. Mr. Works was also manager for the Times Square Development Advisory and Chelsea Piers Lease Advisory on behalf of New York State and the President of GCT Ventures and the Revitalization of Grand Central Terminal for the Metropolitan Transportation Authority until he retired on December 31, 2001. He holds a B.A. degree from the College of William and Mary.

Required Vote

A plurality of the votes cast at the annual general meeting will be required to elect the above nominees as Class I Directors of ACGL.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF ALL NOMINEES TO THE BOARD OF DIRECTORS.

Continuing Directors and Executive Officers

As previously announced, Robert Clements, who was elected chairman and director of ACGL at the time of its formation in March 1995, is stepping down as chairman and a director of ACGL, effective March 31, 2005. He will continue to provide guidance to ACGL as a consultant. See "Proposal 1 Election of Directors Director Compensation."

The following individuals are our continuing directors:

Name	Age	Position	Term Expires*
Constantine Iordanou	55	President and Chief Executive Officer of ACGL and Class II Director of ACGL	2006
Peter A. Appel	43	Class II Director of ACGL	2006
Wolfe "Bill" H. Bragin	60	Class III Director of ACGL	2007
John L. Bunce, Jr.	46	Class II Director of ACGL	2007
Sean D. Carney	36	Class III Director of ACGL	2007
James J. Meenaghan	66	Class II Director of ACGL	2006
John M. Pasquesi	45	Vice Chairman and Class II Director of ACGL	2006

* Indicates expiration of term as a director of ACGL

Constantine Iordanou has been president and chief executive officer of ACGL since August 2003 and a director since January 1, 2002. From January 2002 to July 2003, Mr. Iordanou was chief executive officer of Arch Capital Group (U.S.) Inc. From March 1992 through December 2001, Mr. Iordanou served in various capacities for Zurich Financial Services and its affiliates, including as senior executive vice president of group operations and business development of Zurich Financial Services, president of Zurich-American Specialties Division, chief operating officer and chief executive officer of Zurich-American and chief executive officer of Zurich North America. Prior to joining Zurich, he served as president of the commercial casualty division of the Berkshire Hathaway Group and served as senior vice president with the American Home Insurance Company, a member of the American International Group. He holds an aerospace engineering degree from New York University.

Peter A. Appel was president and chief executive officer of ACGL from May 5, 2000 through July 31, 2003 and has been a director of ACGL since November 1999. Since August 2003, he has been a private investor. He was executive vice president and chief operating officer of ACGL from November 1999 to May 5, 2000, and general counsel and secretary of ACGL from November 1995 to May 5, 2000. Mr. Appel previously served as a managing director of ACGL from November 1995 to November 1999. From September 1987 to November 1995, Mr. Appel practiced law with the New York firm of Willkie Farr & Gallagher LLP, where he was a partner from January 1995. He holds an A.B. degree from Colgate University and a law degree from Harvard University.

Wolfe "Bill" H. Bragin has served as a director of ACGL since May 2002. He served as vice president of GE Asset Management from 1985 until his retirement in 2002. He also served as a managing director of GE Asset Management until 2002. Mr. Bragin had been employed by various affiliates of General Electric Company since 1974, including GE Capital (formerly known as GE Credit Corporation), specializing in equipment leasing and private investments, through 1984, and, thereafter, GE Asset Management's Private Placement Group, specializing in private equity investments. Mr. Bragin has previously served as a director of both privately-held and publicly-traded companies. He holds a B.S. degree from the University of Connecticut and an M.B.A. degree from Babson Institute of Business Administration. Mr. Bragin was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2004 Annual Report.

John L. Bunce, Jr. has served as a director of ACGL since November 2001. Mr. Bunce is a managing director of Hellman & Friedman LLC, which he joined in 1988. Before joining Hellman & Friedman LLC, Mr. Bunce was vice president of TA Associates. Previously, he was employed in the mergers & acquisitions and corporate finance departments of Lehman Brothers Kuhn Loeb. He is currently also a director of National Information Consortium, Inc. and Western Wireless Corporation. He has also served as a director of Duhamel Falcon Cable Mexico, Eller Media Company, Falcon Cable TV, National Radio Partners, VoiceStream Wireless Corporation, and Young & Rubicam, Inc. Mr. Bunce also was an advisor to American Capital Corporation and Post Oak Bank. He holds an A.B. degree from Stanford University and an M.B.A. degree from Harvard Business School. Mr. Bunce was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2004 Annual Report.

Sean D. Carney has served as a director of ACGL since July 2003. He has been a managing director of Warburg Pincus LLC since January 2001 and has been employed by Warburg Pincus since November 1996. From November 1995 to November 1996, Mr. Carney was employed by McKinsey & Company. He holds an A.B. from Harvard College and an M.B.A from Harvard Business School. Mr. Carney was appointed to our Board of Directors pursuant to our Shareholders Agreement, which is an exhibit to our 2004 Annual Report.

James J. Meenaghan has been a director of the Company since October 2001. From October 1986 until his retirement in 1992, Mr. Meenaghan was chairman, president and chief executive officer of Home Insurance Companies. He also served as president and chief executive officer of John F. Sullivan Co. from 1983 to 1986. Prior thereto, Mr. Meenaghan held various positions over 20 years with the Fireman's Fund Insurance Company, including president and chief operating officer and vice chairman of its parent company, American Express Insurance Services Inc. He holds a B.S. degree from Fordham University.

John M. Pasquesi has been vice chairman and a director of ACGL since November 2001. Mr. Pasquesi has been the managing member of Otter Capital LLC, a private equity investment firm founded by him in January 2001. Prior to January 2001, Mr. Pasquesi was a managing director of

Hellman & Friedman LLC since 1988. He holds an A.B. degree from Dartmouth College and an M.B.A. degree from Stanford Graduate School of Business.

The following individuals are our executive officers and members of senior management who do not serve as directors of ACGL.

Name	**Age**	**Position**
John D. Vollaro	60	Executive Vice President, Chief Financial Officer and Treasurer of ACGL
Dwight R. Evans	52	Chairman and Chief Executive Officer of Arch Worldwide Reinsurance Group
Ralph E. Jones III	48	President and Chief Executive Officer of Arch Insurance Group Inc.
Marc Grandisson	37	President and Chief Executive Officer of Arch Re (Bermuda)
Mark D. Lyons	49	Executive Vice President and Chief Actuary of Arch Insurance Group Inc.
John F. Rathgeber	50	President and Chief Executive Officer of Arch Reinsurance Company
Louis T. Petrillo	39	President and General Counsel of Arch Capital Services Inc.

John D. Vollaro has been executive vice president and chief financial officer of ACGL since January 2002 and treasurer of ACGL since May 2002. Prior to joining us, Mr. Vollaro acted as an independent consultant in the insurance industry since March 2000. Prior to March 2000, Mr. Vollaro was president and chief operating officer of W.R. Berkley Corporation from January 1996 and a director from September 1995 until March 2000. Mr. Vollaro was chief executive officer of Signet Star Holdings, Inc., a joint venture between W.R. Berkley Corporation and General Re Corporation, from July 1993 to December 1995. Mr. Vollaro served as executive vice president of W.R. Berkley Corporation from 1991 until 1993, chief financial officer and treasurer of W.R. Berkley Corporation from 1983 to 1993 and senior vice president of W.R. Berkley Corporation from 1983 to 1991. He holds a B.S. degree from Long Island University.

Dwight R. Evans has served as chairman and chief executive officer of Arch Worldwide Reinsurance Group, an executive position of ACGL, since February 2005. Prior to February 2005, he served as chairman and chief executive officer of Arch Re (Bermuda) from April 2004 and as president of Arch Re (Bermuda) from October 2001. From 1998 until October 2001, Mr. Evans was executive vice president of St. Paul Re. From 1983 until 1998, Mr. Evans was employed as executive vice president for F&G Re Inc. Prior to that, Mr. Evans served as assistant vice president at Skandia Reinsurance Company and as a reinsurance underwriter at Prudential Reinsurance Company (now Everest Re Company). He holds a B.A. degree from Ohio University.

Ralph E. Jones III joined Arch Insurance Group Inc. ("Arch Insurance Group") as president and chief executive officer on July 1, 2003. Mr. Jones has also served as chairman and chief executive officer of Arch Worldwide Insurance Group, an executive position of ACGL, since September 2003. Prior to his tenure with Arch, he was chief executive officer of Chubb Specialty Insurance, a strategic business unit within the Chubb Group of Insurance Companies since November 1999. Previously, he was managing director of Hiscox Insurance Company, Ltd., the United Kingdom and European property and casualty business of Hiscox, plc. Mr. Jones began his career with Chubb, where he served in various senior executive positions, including chief underwriting officer of Chubb Insurance Company of Europe and worldwide manager of its Executive Protection Department. He holds a B.A. from Wesleyan University.

Marc Grandisson has served as president and chief executive officer of Arch Re (Bermuda) since February 2005. He served as president and chief operating officer of Arch Re (Bermuda) from April 2004 to February 2005 and as senior vice president, chief underwriting officer and chief actuary of Arch Re (Bermuda) from October 2001. From March 1999 until October 2001, Mr. Grandisson was employed as vice president and actuary of the reinsurance division of Berkshire Hathaway. From July 1996 until February 1999, Mr. Grandisson was employed as vice president-director of F&G Re Inc. From July 1994 until July 1996, Mr. Grandisson was employed as an actuary for F&G Re. Prior to that, Mr. Grandisson was employed as an actuarial assistant of Tillinghast-Towers Perrin. Mr. Grandisson holds an M.B.A. degree from the Wharton School of the University of Pennsylvania. He is also a fellow of the Casualty Actuarial Society.

Mark D. Lyons serves as executive vice president of group operations and chief actuary of Arch Insurance Group. From August 2002 to 2003, he was senior vice president of group operations and chief actuary of Arch Insurance Group. From 2001 until August 2002, Mr. Lyons worked as an independent consultant. From 1992 to 2001, Mr. Lyons was executive vice president of product services at Zurich U.S. From 1987 until 1992, he was a vice president and actuary at Berkshire Hathaway Insurance Group. Mr. Lyons holds a B.S. degree from Elizabethtown College. He is also an associate of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

John F. Rathgeber has served as president and chief executive officer of Arch Reinsurance Company since April 2004 and as managing director and chief operating officer of Arch Reinsurance Company since December 2001. From 1998 until 2001, Mr. Rathgeber was executive vice president of the financial solutions business unit of St. Paul Re. From November 1992 until 1996, Mr. Rathgeber was employed as a vice president in the non-traditional underwriting department at F&G Re, and from 1996 until 1998, Mr. Rathgeber served as a senior vice president of non-traditional reinsurance. Prior to joining F&G Re, Mr. Rathgeber was employed by Prudential Re from 1980 until 1992. During that time, he held various underwriting positions, and from 1988 until 1992, Mr. Rathgeber was a director in the actuarial department. Mr. Rathgeber holds a B.A. from Williams College. He is also a chartered property and casualty underwriter, a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Louis T. Petrillo has been president and general counsel of Arch Capital Services Inc. since April 2002. From May 2000 to April 2002, he was senior vice president, general counsel and secretary of ACGL. From 1996 until May 2000, Mr. Petrillo was vice president and associate general counsel of ACGL's reinsurance subsidiary. Prior to that time, Mr. Petrillo practiced law at the New York firm of Willkie Farr & Gallagher LLP. He holds a B.A. degree from Tufts University and a law degree from Columbia University.

Composition of the Board of Directors

The Board of Directors is required to determine which directors satisfy the criteria for independence under the rules of the National Association of Securities Dealers, Inc. (the "NASD"). To be considered independent, a director may not maintain any relationship that would interfere with his or her independent judgment in completing the duties of a director. The rules state that certain relationships preclude a board finding of independence, including a director who is, or during the past three years was, employed by the company, and any director who accepts any payments from the company in excess of $60,000 during the current year or any of the past three years, other than director fees or payments arising solely from investments in the company's securities. The rules specifically provide that ownership of company stock by itself would not preclude a board finding of independence. As of April 1, 2005, our Board of Directors will consist of 11 directors, including 9 non-employee directors. Of such non-employee directors, two are former employees who concluded their services as employees during 2003 and, therefore, are not considered independent under applicable NASD rules. Our Board of Directors has concluded that the following seven non-employee directors are independent in accordance with the director independence standards set forth in Rule 4200 of the rules of the NASD: Wolfe "Bill" H. Bragin, John L. Bunce, Jr., Sean D. Carney, Kewsong Lee, James J. Meenaghan, David R. Tunnell and Robert F. Works.

Pursuant to the Shareholders Agreement entered into in connection with the capital infusion in November 2001, the Warburg Pincus funds and the Hellman & Friedman funds are entitled to nominate a prescribed number of directors based on the respective retained percentages of their preference shares purchased in November 2001. Currently, our Board includes three directors nominated by the Warburg Pincus funds and two directors nominated by the Hellman & Friedman funds. As long as the Warburg Pincus funds retain at least 75% of their original investment and Hellman & Friedman funds retain at least 60% of their original investment (or, depending upon the size of the Board, at lower retained percentages), these shareholders together will be entitled to nominate a majority of directors to our Board. Messrs. Bragin, Carney and Lee are the designees of the Warburg Pincus funds, and Messrs. Tunnell and Bunce are the designees of the Hellman & Friedman funds.

Meetings and Committees of the Board of Directors

The Board of Directors held four meetings during 2004. The Board of Directors has established standing audit, compensation, executive, finance and investment, nominating and underwriting oversight committees. Each of the committees, except for the underwriting oversight committee, has a written charter, which are posted on our website at *www.archcapgroup.bm*. None of the material on our website is incorporated herein by reference. In addition, a transaction committee was formed under the subscription agreement entered into in connection with our November 2001 capital infusion (the "Subscription Agreement"), which is an exhibit to our 2004 Annual Report. Each director attended 75% or more of all meetings of the Board and any committees on which the director served during fiscal year 2004. Directors are encouraged but not required to attend our annual general meetings of shareholders. All of our directors at the date of the 2004 annual general meeting attended that meeting.

As long as at least one representative of the Warburg Pincus funds is on the Board of Directors, each board committee will include at least one representative of the Warburg Pincus funds, and as long as at least one representative of the Hellman & Friedman funds is on the Board, each board committee will include at least one representative of the Hellman & Friedman funds. The foregoing is subject to the restrictions on service on the audit committee under the rules of the NASD and the Securities and Exchange Commission (the "SEC").

Audit Committee

The audit committee assists the Board of Directors in monitoring (1) the integrity of our financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of our internal audit function and independent auditors and (4) the compliance by the Company with legal and regulatory requirements. In 2004, our Board of Directors adopted a revised written charter for the audit committee. The audit committee currently consists of James J. Meenaghan (chairman), Wolfe "Bill" H. Bragin and Robert F. Works. All of such audit committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of audit committees and the independence requirements under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Board of Directors has determined that Mr. Meenaghan qualifies as an "audit committee financial expert" under the rules of the SEC. The audit committee held six meetings during 2004. The report of the audit committee begins on page 12.

Compensation Committee

The compensation committee of the Board of Directors approves the compensation of our senior executives and has overall responsibility for approving and evaluating, and making recommendations to the Board regarding, our officer compensation plans, policies and programs. The compensation committee currently consists of John L. Bunce, Jr. (chairman), Kewsong Lee, James J. Meenaghan and Robert F. Works. All of such compensation committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of compensation committees. None of the members of the committee are or have been officers or employees of the Company. In addition, no executive officer of the Company served on any Board of Directors or compensation committee of any entity (other than ACGL) with which any member of our Board serves as an executive officer. The compensation committee held three meetings during 2004. The report of the compensation committee begins on page 22.

Executive Committee

The executive committee of the Board of Directors may generally exercise all the powers and authority of the Board of Directors, when it is not in session, in the management of our business and affairs, unless the Board of Directors otherwise determines. As of April 1, 2005, the executive committee consists of John L. Bunce, Jr., Constantine Iordanou and Kewsong Lee. The executive committee held one meeting during 2004.

Finance and Investment Committee

The finance and investment committee of the Board of Directors oversees the Board of Directors' responsibilities relating to the financial affairs of the Company and to recommend to the Board financial policies, strategic investments and overall investment policy, including review of manager selection, benchmarks and investment performance. In February 2005, the finance and investment committee assumed the responsibilities of the capital management committee of the Board of Directors and, therefore, also reviews and makes recommendations to the Board regarding capital management issues, including debt and equity issuances and overall dividend policy. As of April 1, 2005, the finance and investment committee consists of John M. Pasquesi (chairman), Peter A. Appel, John L. Bunce, Jr., Sean D. Carney, Constantine Iordanou, Kewsong Lee and James J. Meenaghan. The finance and investment committee held four meetings during 2004, and the former capital management committee held two meetings during 2004.

Nominating Committee

The nominating committee of the Board of Directors is responsible for identifying individuals qualified to become directors and recommending to the Board the director nominees for consideration at each annual meeting of shareholders. As of April 1, 2005, the nominating committee consists of Wolfe "Bill" H. Bragin, John L. Bunce, Jr., Sean D. Carney, Kewsong Lee, James J. Meenaghan, David R. Tunnell and Robert F. Works. All of such nominating committee members are considered independent under the listing standards of the NASD governing the qualifications of the members of nominating committees. During 2004 and until March 2005, Mr. Clements, who served as chairman of the nominating committee since its inception, continued to serve as a member of the nominating committee pursuant to an exception under the rules of the NASD. The nominating committee held one meeting during 2004.

When the Board determines to seek a new member, whether to fill a vacancy or otherwise, the nominating committee will consider recommendations from Board members, management and others, including shareholders. In general, the committee will look for new members, including candidates recommended by shareholders, possessing superior business judgment and integrity who have distinguished themselves in their chosen fields of endeavor and who have knowledge and experience in the areas of insurance, reinsurance or other aspects of our business, operations or activities. A shareholder who wishes to recommend a director candidate for consideration by the nominating committee should send such recommendation in writing to Corporate Secretary, Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda and should comply with the advanced notice requirements set forth in our bye-laws, as described on page 48 under the caption "Shareholder Proposals for the 2006 Annual General Meeting." As described in more detail on page 48, every submission must include a statement of the qualifications of the nominee, a consent signed by the candidate evidencing a willingness to serve as a director if elected, and a commitment by the candidate to meet personally, if requested, with the nominating committee. It is the policy of the committee to review and evaluate each candidate for nomination submitted by shareholders in accordance with the above procedures on the same basis as candidates that are suggested by our Board.

The nominating committee has not paid a fee to third parties in connection with the identification and evaluation of nominees, nor has it rejected a candidate recommended by a 5% shareholder, but, in each case, reserves the right to do so.

Underwriting Oversight Committee

The underwriting oversight committee of the Board of Directors assists the Board by reviewing the underwriting activities of our insurance and reinsurance subsidiaries. The underwriting oversight committee currently consists of Paul B. Ingrey (chairman), John M. Pasquesi, Sean D. Carney and David R. Tunnell. The underwriting oversight committee held three meetings in 2004.

Transaction Committee

The transaction committee of the Board of Directors was formed under the Subscription Agreement. Until the date of the final determination of the purchase price adjustment at the fourth anniversary of closing of the capital infusion (*i.e.,* November 20, 2005), approval of the following actions by the transaction committee is deemed to be approval by the entire Board:

- an amendment, modification or waiver of rights by ACGL under the agreements relating to the capital infusion, including the Subscription Agreement, the certificate of designations for the preference shares or the Shareholders Agreement;
- the enforcement of obligations of the investors under the above agreements; or
- approval of actions relating to the disposition of non-core assets.

The transaction committee consists of persons who either (1) were members of our Board of Directors on October 22, 2001 and/or (2) were designated as members of the transaction committee by a person who was a member of our Board on October 22, 2001. As of April 1, 2005, the transaction committee consists of Peter A. Appel, Constantine Iordanou, James J. Meenaghan and Robert F. Works. The transaction committee did not meet during 2004.

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors or any of the directors by sending written communications addressed to the Board or any of the directors, c/o Corporate Secretary, Arch Capital Group Ltd., Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda. All shareholder communications will be compiled by the Corporate Secretary for review by the Board of Directors.

Report of the Audit Committee of the Board of Directors

The audit committee assists the Board of Directors in monitoring (1) the integrity of our financial statements, (2) the qualifications and independence of the independent registered public accounting firm, (3) the performance of our internal audit function and independent registered public accounting firm and (4) the compliance by the Company with legal and regulatory requirements. The audit committee operates under a written charter, which is included as *Appendix A* to this proxy statement.

It is not the responsibility of the audit committee to plan or conduct audits or to determine that ACGL's financial statements are in all material respects complete and accurate and in accordance with generally accepted accounting principles ("GAAP"). This is the responsibility of management and the independent public registered accounting firm. It is also not the responsibility of the audit committee to assure compliance with laws and regulations or with any codes or standards of conduct or related policies adopted by ACGL from time to time which seek to ensure that the business of ACGL is conducted in an ethical and legal manner.

The audit committee has reviewed and discussed the consolidated financial statements of ACGL and its subsidiaries set forth in Item 8 of our 2004 Annual Report, management's annual assessment of the effectiveness of ACGL's internal control over financial reporting and PricewaterhouseCoopers LLP's opinion on the effectiveness of internal control over financial reporting and on management's annual assessment of ACGL's internal control over financial reporting, with management of ACGL and PricewaterhouseCoopers LLP, independent registered public accounting firm for ACGL.

The audit committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended, which includes, among other items, matters relating to the conduct of an audit of ACGL's financial statements.

The audit committee has received the written confirmation from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 and has discussed with PricewaterhouseCoopers LLP their independence from ACGL.

Based on the review and discussions with management of ACGL and PricewaterhouseCoopers LLP referred to above and other matters the audit committee deemed relevant and appropriate, the audit committee has recommended to the Board of Directors that ACGL publish the consolidated financial statements of ACGL and subsidiaries for the year ended December 31, 2004 in our 2004 Annual Report.

AUDIT COMMITTEE
James J. Meenaghan (chairman)
Wolfe "Bill" H. Bragin
Robert F. Works

Summary Compensation Table

The following table sets forth information regarding compensation paid to our executive officers for services rendered during fiscal years 2004, 2003 and 2002.

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation ($)(3)	Restricted Share Award(s) ($)(4)	Securities Underlying Options (#)	All Other Compensation ($)(5)
Constantine Iordanou	2004	1,000,000	2,500,000	221,798	740,810	120,000	145,093
President and Chief	2003	1,000,000	937,504(1)	18,443	562,496(1)		141,116
Executive Officer	2002	1,000,000	875,000(2)		11,483,112(2)	425,000	105,247
of ACGL and Class II							
Director of ACGL							
John D. Vollaro	2004	480,000	744,000	151,228	233,940	40,000	76,565
Executive Vice President,	2003	450,000	675,000	101,208			63,804
Chief Financial Officer and	2002	380,513	364,000(2)	52,322	1,421,000(2)	85,000	46,906
Treasurer of ACGL							
Dwight R. Evans	2004	618,750	738,400(6)	207,241	233,940	40,000	97,720
Chairman and Chief	2003	600,000	549,230(1)(6)	196,026	126,755(1)		86,796
Executive Officer of Arch	2002	500,000	438,750(2)(6)	191,843	101,250(2)	25,000	59,880
Worldwide Reinsurance Group							
Ralph E. Jones III	2004	625,000	850,000	100,126	233,940	40,000	87,130
President and Chief	2003	300,000	187,514(1)	38,760	1,847,987(1)	100,000	32,790
Executive Officer of Arch							
Insurance Group Inc.(7)							
Marc Grandisson	2004	451,750	603,909(6)	156,837	194,950	32,000	32,339
President and Chief Executive	2003	427,000	423,529(1)(6)	145,762	90,216(1)		23,614
Officer of Arch							
Re (Bermuda)(8)							

(1) A portion of the 2003 performance bonus for each of Messrs. Iordanou, Evans, Jones and Grandisson was paid in the form of common shares or common share units vesting in four equal installments on February 26, 2004, 2005, 2006 and 2007 aggregating as follows: (a) Mr. Iordanou $750,000 in cash and $750,000 in common shares; (b) Mr. Evans $506,979 in cash and $169,008 in common shares; (c) Mr. Jones $150,018 in cash and $149,982 in common share units; and (d) Mr. Grandisson $402,457 in cash and $120,288 in common shares. The restricted share units granted to Mr. Jones will be settled in common shares of ACGL after the termination of Mr. Jones' employment. The portion of such award vested on the date of grant is reflected in the "Bonus" column, and the portion of the award not vested on the date of grant is reflected in the "Restricted Share Award" column.

(2) A portion of the 2002 performance bonus for each of Messrs. Iordanou, Vollaro and Evans was paid in the form of common shares or common share units vesting in four equal annual installments on February 20, 2003, 2004, 2005 and 2006 aggregating as follows: (a) Mr. Iordanou $750,000 in cash and $500,000 in common share units; (b) Mr. Vollaro $312,000 in cash and $208,000 in common shares; and (c) Mr. Evans $405,000 in cash and $135,000 in common shares. The restricted share units granted to Mr. Iordanou will be settled in common shares of ACGL after the termination of Mr. Iordanou's employment. The portion of such award vested on the date of grant is reflected in the "Bonus" column, and the portion of the award not vested on the date of grant is reflected in the "Restricted Share Award" column. Subsequent to grant, the vesting schedule for Mr. Vollaro's award has been modified, as described below under "Proposal 1 Election of Directors Employment Arrangements."

(3) The following amounts relate to reimbursement of housing expenses for employees located in Bermuda: (a) $162,111 and $5,685 to Mr. Iordanou for 2004 and 2003, respectively; (b) $127,923, $63,499 and $52,322 to Mr. Vollaro for 2004, 2003 and 2002, respectively; (c) $173,988, $168,000 and $156,346 to Mr. Evans for 2004, 2003 and 2002, respectively; and (d) $134,031 and $126,000 to Mr. Grandisson for 2004 and 2003, respectively. With respect to Mr. Jones, the amount indicated for 2004 reflects reimbursement of $61,000 for housing expenses and $39,000 for related tax costs.

(4) The value of each restricted share award is based upon the closing price of the common shares as reported on the NASDAQ National Market as of the grant date of such award. As of December 31, 2004, an aggregate of 424,879 unvested restricted common shares and units, with an aggregate value of $16,442,817, were held by the named executive officers as follows: (a) Mr. Iordanou 359,892 shares and units, with an aggregate value of $13,927,820, which includes 325,000 shares (vesting on December 31, 2006), 13,392 shares (vesting based on the schedule described in footnote 1 above), 12,666 shares (vesting in two equal installments on September 22, 2005 and 2006) and 8,834 units (vesting based on the schedule described in footnote 2 above); (b) Mr. Vollaro 4,000 shares, with a value of $154,800 (which shares vest in two equal installments on September 22, 2005 and 2006); (c) Mr. Evans 9,402 shares, with a value of $363,857, which includes 2,384 shares (vesting based on the schedule described in footnote 2 above), 3,018 shares (vesting based on the schedule described in footnote 1 above) and 4,000 shares (vesting in two equal installments on September 22, 2005 and 2006); (d) Mr. Jones 31,678 units, with a value of $1,225,938, which includes 25,000 units (vesting on July 1, 2005), 2,678 units (vesting based on the schedule described in footnote 1 above) and 4,000 units (vesting in two equal installments on September 22, 2005 and 2006); and (e) Mr. Grandisson 19,907 shares, with a value of $770,401, which includes 12,500 shares (vesting on October 23, 2006) and 1,926 shares (vesting based on the schedule described in footnote 2 above), 2,148 shares (vesting based on the schedule described in footnote 1 above) and 3,335 shares (vesting in two equal installments on September 22, 2005 and 2006). With respect to the restricted share awards granted on September 22, 2004, one-third of such awards vested on the date of grant and, as indicated above, the remainder of such awards will vest in two equal installments on September 22, 2005 and 2006. The restricted share units granted to Messrs. Iordanou and Jones will be settled in common shares of ACGL after the termination of their employment. During the vesting period, cash dividends (if any) would be paid on outstanding shares of restricted stock and credited with respect to restricted share units. Stock dividends issued with respect to such shares (if any) would be subject to the same restrictions and other terms and conditions that apply to restricted shares with respect to which such dividends are issued.

(5) Includes: (1) matching contributions under an employee 401(k) plan in the amounts of (A) $9,225, $9,000 and $8,500 to Mr. Iordanou for 2004, 2003 and 2002, respectively; (B) $9,225, $9,000 and $8,500 to Mr. Vollaro for 2004, 2003 and 2002, respectively; (C) $9,225, $9,000 and $8,500 to Mr. Evans for 2004, 2003 and 2002, respectively; and (D) $9,225 to Mr. Jones for 2004; (2) pension contributions in the amounts of (A) $16,105, $15,650 and $15,755 to Mr. Iordanou for 2004, 2003 and 2002, respectively; (B) $16,105, $15,650 and $15,755 to Mr. Vollaro for 2004, 2003 and 2002, respectively; (C) $16,105, $15,650 and $15,755 to Mr. Evans for 2004, 2003 and 2002, respectively; (D) $16,105 and $10,650 to Mr. Jones for 2004 and 2003, respectively; and (E) $20,000 and $20,000 to Mr. Grandisson for 2004 and 2003, respectively; (3) contributions under an executive supplemental non-qualified savings and retirement plan in the amounts of (A) $115,275, $116,000 and $79,750 to Mr. Iordanou for 2004, 2003 and 2002, respectively; (B) $39,875, $36,250 and $22,651 to Mr. Vollaro for 2004, 2003 and 2002, respectively; (C) $59,994, $58,000 and $35,625 to Mr. Evans for 2004, 2003 and 2002, respectively; and (D) $60,900 and $21,750 to Mr. Jones for 2004 and 2003, respectively; and (4) term life insurance premiums in the amounts of (A) $4,488, $466 and $1,242 to Mr. Iordanou for 2004, 2003 and 2002, respectively; (B) $11,360 and $2,904 to Mr. Vollaro for 2004 and 2003, respectively; (C) $12,396 and $4,146 to Mr. Evans for 2004 and 2003, respectively; (D) $900 and $390 to Mr. Jones for 2004 and 2003, respectively; and (E) $12,339 and $3,614 to Mr. Grandisson for 2004 and 2003, respectively.

(6) Under our incentive compensation plan, a bonus pool for performance has been established for Mr. Evans and Mr. Grandisson and other officers who are part of our reinsurance operations and insurance operations (other than Mr. Jones). Under the plan, bonus pools will be recalculated annually, and any resultant payments will be made to plan participants over a 10-year development period.

(7) Mr. Jones joined Arch Insurance Group as president and chief executive officer on July 1, 2003.

(8) Mr. Grandisson has served as president and chief executive officer of Arch Re (Bermuda) since February 2005. He served as president and chief operating officer of Arch Re (Bermuda) from April 2004 to February 2005 and as senior vice president, chief underwriting officer and chief actuary of Arch Re (Bermuda) from October 2001.

The following table provides information regarding grants of stock options made during fiscal year 2004 to each of the named executive officers.

Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(3)	
Name	**Number of Securities Underlying Options Granted (#)(1)**	**% of Total Options Granted to Employees in Fiscal Year(2)**	**Exercise or Base Price ($/Sh)**	**Expiration Date**	**5%**	**10%**
Constantine Iordanou	120,000	12.9%	$ 39.00	9/22/2014	$ 2,941,272	$ 7,455,602
John D. Vollaro	40,000	4.3%	$ 39.00	9/22/2014	$ 980,424	$ 2,485,201
Dwight R. Evans	40,000	4.3%	$ 39.00	9/22/2014	$ 980,424	$ 2,485,201
Ralph E. Jones III	40,000	4.3%	$ 39.00	9/22/2014	$ 980,424	$ 2,485,201
Marc Grandisson	32,000	3.4%	$ 39.00	9/22/2014	$ 784,339	$ 1,988,161

(1) The options vest in three equal annual installments on September 22, 2004, 2005 and 2006.

(2) Pursuant to applicable SEC rules, percentages listed are based on options to purchase a total of 929,000 common shares granted to employees during fiscal year 2004.

(3) Potential realizable value is calculated based on an assumption that the fair market value of our common shares appreciates at the annual rates shown (5% and 10%), compounded annually, from the date of grant until the end of the option term. The 5% and 10% assumed rates are mandated by the SEC for purposes of calculating realizable value and do not represent our estimates or projections of future share prices.

The following table provides information regarding the number and value of options held by each of our named executive officers as of December 31, 2004. No options were exercised by any of the named executive officers during 2004.

Aggregated 2004 Fiscal Year-End Option Values

	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-the-Money Options at December 31, 2004(1)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Constantine Iordanou	465,000	80,000	$ 6,460,000	0
John D. Vollaro	98,334	26,666	$ 1,139,000	0
Dwight R. Evans	138,334	26,666	$ 2,160,000	0
Ralph E. Jones III	80,001	59,999	$ 266,001	$ 132,999
Marc Grandisson	48,167	21,333	$ 701,250	0

(1) For purposes of the above table, options are "in-the-money" if the market price of the common shares on December 31, 2004 (*i.e.,* $38.70) exceeded the exercise price of such options. The value of such options is calculated by determining the difference between the

aggregate market price of the common shares subject to the options on December 31, 2004 and the aggregate exercise price of such options.

Employment Arrangements

Set forth below is a summary of the material terms of the employment arrangements with each of the named executive officers. See also "Proposal 1 Election of Directors Summary Compensation Table," " Option Grants in Last Fiscal Year" and " Report of Compensation Committee of the Board of Directors" for additional compensation information.

Constantine Iordanou

In January 2002, Mr. Iordanou was appointed to our Board of Directors and as chief executive officer of Arch Capital Group (U.S.) Inc., responsible for the general management and oversight of the U.S. insurance operations of Arch Capital Group (U.S.) Inc. and its affiliates. Effective August 1, 2003, Constantine Iordanou became president and chief executive officer of ACGL. His employment agreement currently provides for an annual base salary of $1,000,000, which is subject to review annually for increase at the discretion of the Board. Mr. Iordanou is eligible to participate in an annual bonus plan on terms established from time to time. The target rate for the annual cash bonus is 100% of his annual base salary. Mr. Iordanou is also entitled to participate in employee benefits programs such as major medical, life insurance and disability insurance; the cost of preparation of annual tax returns and associated tax planning (up to the maximum $7,500 annually); and other fringe benefits customarily provided to similarly situated senior executives residing in Bermuda, which includes housing expenses, payroll tax reimbursements and automobile allowance. Since Mr. Iordanou relocated to Bermuda, his employment agreement also provides for the use of any private aircraft owned or leased by the Company or such other reasonably comparable air transportation for travel between Bermuda and the New York Metropolitan area. The initial term of Mr. Iordanou's employment agreement ends on January 1, 2007, but we or Mr. Iordanou may terminate his employment at any time. The agreement provides that it will be automatically extended for successive one-year periods after the initial five-year term unless either we or Mr. Iordanou gives at least 12 months notice of the intention not to renew.

The agreement provides that if Mr. Iordanou's employment is terminated by his death, he will receive a prorated portion of his bonus that would have been paid for the year of his death and an amount equal to two times the sum of his base salary and target annual bonus payable in a lump sum. His agreement also provides that if his employment is terminated due to his permanent disability, he will receive a prorated portion of his bonus that would have been paid for the year in which he becomes disabled, as determined by the Board, and an amount equal to 40% of his base salary payable in monthly installments during the period of his disability extending through the time period provided for in our disability plan. The agreement further provides that if we terminate Mr. Iordanou's employment without cause or he resigns for good reason, he will receive a prorated portion of his bonus that would have been paid for the year of his termination and an amount equal to two times the sum of his base salary and target annual bonus payable over an 18-month period in equal monthly installments. Mr. Iordanou's major medical insurance coverage benefits pursuant to his employment agreement shall continue for 18 months after the date of termination in the event that (1) his employment ends due to death or permanent disability, (2) he is terminated other than for cause or (3) he resigns for good reason (or until such time as he has major medical insurance coverage under the plan of another employer). The agreement also provides that if Mr. Iordanou's employment is ter