AMERICAN TOWER CORP /MA/
Form 10-Q
July 27, 2017

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

FORM 10-Q

(Mark One):

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended June 30, 2017.

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number: 001-14195

AMERICAN TOWER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	65-0723837
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

116 Huntington Avenue
Boston, Massachusetts 02116
(Address of principal executive offices)
Telephone Number (617) 375-7500
(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of July 20, 2017, there were 429,177,436 shares of common stock outstanding.

AMERICAN TOWER CORPORATION
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FOR THE QUARTER ENDED JUNE 30, 2017

PART I. FINANCIAL INFORMATION
ITEM 1. UNAUDITED CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AMERICAN TOWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$770,024	$787,161
Restricted cash	143,277	149,281
Short-term investments	1,012	4,026
Accounts receivable, net	322,060	308,369
Prepaid and other current assets	566,386	441,033
Total current assets	1,802,759	1,689,870
PROPERTY AND EQUIPMENT, net	10,725,707	10,517,258
GOODWILL	5,371,165	5,070,680
OTHER INTANGIBLE ASSETS, net	11,728,666	11,274,611
DEFERRED TAX ASSET	213,582	195,678
DEFERRED RENT ASSET	1,407,478	1,289,530
NOTES RECEIVABLE AND OTHER NON-CURRENT ASSETS	888,853	841,523
TOTAL	$32,138,210	$30,879,150
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$102,726	$118,666
Accrued expenses	727,966	620,563
Distributions payable	277,772	250,550
Accrued interest	154,926	157,297
Current portion of long-term obligations	1,732,035	238,806
Unearned revenue	283,486	245,387
Total current liabilities	3,278,911	1,631,269
LONG-TERM OBLIGATIONS	17,509,937	18,294,659
ASSET RETIREMENT OBLIGATIONS	1,026,535	965,507
DEFERRED TAX LIABILITY	950,299	777,572
OTHER NON-CURRENT LIABILITIES	1,171,546	1,142,723
Total liabilities	23,937,228	22,811,730
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTERESTS	1,155,867	1,091,220
EQUITY:		
Preferred stock: $.01 par value; 20,000,000 shares authorized;		
5.25%, Series A, 0 and 6,000,000 shares issued, 0 and 6,000,000 shares outstanding; aggregate liquidation value of $0 and $600,000, respectively	—	60
5.50%, Series B, 1,375,000 shares issued, 1,374,986 and 1,375,000 shares outstanding; aggregate liquidation value of $1,374,986 and $1,375,000, respectively	14	14
Common stock: $.01 par value; 1,000,000,000 shares authorized; 437,184,947 and 429,912,536 shares issued; and 429,174,983 and 427,102,510 shares outstanding, respectively	4,372	4,299
Additional paid-in capital	10,165,343	10,043,559
Distributions in excess of earnings	(989,153)	(1,076,965)

Accumulated other comprehensive loss	(1,848,803)	(1,999,332)
Treasury stock (8,009,964 and 2,810,026 shares at cost, respectively)	(849,064)	(207,740)
Total American Tower Corporation equity	6,482,709	6,763,895
Noncontrolling interests	562,406	212,305
Total equity	7,045,115	6,976,200
TOTAL	$32,138,210	$30,879,150

See accompanying notes to unaudited consolidated and condensed consolidated financial statements.

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES:				
Property	$1,638,175	$1,426,192	$3,232,239	$2,693,843
Services	24,259	16,035	46,433	37,431
Total operating revenues	1,662,434	1,442,227	3,278,672	2,731,274
OPERATING EXPENSES:				
Costs of operations (exclusive of items shown separately below):				
Property (including stock-based compensation expense of $645, $392, $1,300 and $899, respectively)	507,234	452,571	993,401	794,861
Services (including stock-based compensation expense of $201, $255, $424 and $406, respectively)	9,949	7,140	16,490	16,295
Depreciation, amortization and accretion	396,355	397,765	817,495	739,399
Selling, general, administrative and development expense (including stock-based compensation expense of $24,892, $21,260, $60,236 and $48,681, respectively)	153,148	138,234	317,944	273,549
Other operating expenses	18,839	13,711	25,054	22,511
Total operating expenses	1,085,525	1,009,421	2,170,384	1,846,615
OPERATING INCOME	576,909	432,806	1,108,288	884,659
OTHER INCOME (EXPENSE):				
Interest income, TV Azteca, net of interest expense of $291, $284, $582 and $567, respectively	2,770	2,748	5,470	5,464
Interest income	8,311	6,468	18,238	10,002
Interest expense	(187,028)	(181,036)	(370,723)	(340,916)
(Loss) gain on retirement of long-term obligations	(274)	830	(55,714)	830
Other income (expense) (including unrealized foreign currency gains (losses) of $7,785, ($24,585), $35,736 and $4,777, respectively)	11,782	(25,842)	41,084	(13,634)
Total other expense	(164,439)	(196,832)	(361,645)	(338,254)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	412,470	235,974	746,643	546,405
Income tax provision	(23,980)	(43,510)	(50,743)	(72,634)
NET INCOME	388,490	192,464	695,900	473,771
Net income attributable to noncontrolling interests	(21,439)	(4,914)	(12,769)	(11,062)
NET INCOME ATTRIBUTABLE TO AMERICAN TOWER CORPORATION STOCKHOLDERS	367,051	187,550	683,131	462,709
Dividends on preferred stock	(22,843)	(26,782)	(49,624)	(53,563)
NET INCOME ATTRIBUTABLE TO AMERICAN TOWER CORPORATION COMMON STOCKHOLDERS	$344,208	$160,768	$633,507	$409,146
NET INCOME PER COMMON SHARE AMOUNTS:				
Basic net income attributable to American Tower Corporation common stockholders	$0.81	$0.38	$1.48	$0.96
Diluted net income attributable to American Tower Corporation common stockholders	$0.80	$0.37	$1.47	$0.95

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	427,298	424,909	427,288	424,484
DILUTED	430,487	429,004	430,444	428,529
DISTRIBUTIONS DECLARED PER COMMON SHARE	$0.64	$0.53	$1.26	$1.04

See accompanying notes to unaudited consolidated and condensed consolidated financial statements.

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$388,490	$192,464	$695,900	$473,771
Other comprehensive (loss) income:				
Changes in fair value of cash flow hedges, net of tax of $0	(166)	(9)	(300)	65
Reclassification of unrealized gains on cash flow hedges to net income, net of tax of $0	(32)	(57)	(118)	(65)
Foreign currency translation adjustments, net of tax (benefit) expense of ($1,083), $2,695, $2,422 and $6,883, respectively	(54,461)	(177,966)	239,435	48,326
Other comprehensive (loss) income	(54,659)	(178,032)	239,017	48,326
Comprehensive income	333,831	14,432	934,917	522,097
Comprehensive (income) loss attributable to noncontrolling interests	(56,094)	12,712	(101,257)	6,610
Comprehensive income attributable to American Tower Corporation stockholders	$277,737	$27,144	$833,660	$528,707

See accompanying notes to unaudited consolidated and condensed consolidated financial statements.

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$695,900	$473,771
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation, amortization and accretion	817,495	739,399
Stock-based compensation expense	61,960	49,986
Loss (gain) on early retirement of long-term obligations	55,714	(830)
Other non-cash items reflected in statements of operations	(50,222)	53,464
Decrease in restricted cash	5,659	12,170
Increase in net deferred rent balances	(71,470)	(34,931)
Increase in assets	(101,982)	(32,984)
Increase in liabilities	65,404	51,271
Cash provided by operating activities	1,478,458	1,311,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of property and equipment and construction activities	(371,512)	(319,427)
Payments for acquisitions, net of cash acquired	(857,220)	(1,216,467)
Payment for Verizon transaction	—	(4,748)
Proceeds from sale of short-term investments and other non-current assets	7,196	2,601
Deposits, restricted cash, investments and other	7,025	(5,360)
Cash used for investing activities	(1,214,511)	(1,543,401)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings, net	—	(2,843)
Borrowings under credit facilities	2,508,607	1,397,672
Proceeds from issuance of senior notes, net	1,279,435	2,237,503
Repayments of notes payable, credit facilities, senior notes and capital leases	(3,126,661)	(2,858,415)
Contributions from (distributions to) noncontrolling interest holders, net	265,255	(503)
Purchases of common stock	(641,324)	—
Proceeds from stock options and ESPP	82,641	60,361
Distributions paid on common stock	(514,905)	(426,564)
Distributions paid on preferred stock	(53,562)	(53,563)
Payment for early retirement of long-term obligations	(61,764)	(125)
Deferred financing costs and other financing activities	(28,311)	(23,264)
Cash (used for) provided by financing activities	(290,589)	330,259
Net effect of changes in foreign currency exchange rates on cash and cash equivalents	9,505	(8,322)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,137)	89,852
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	787,161	320,686
CASH AND CASH EQUIVALENTS, END OF PERIOD	$770,024	$410,538
CASH PAID FOR INCOME TAXES (NET OF REFUNDS OF $17,264 AND $14,011, RESPECTIVELY)	$60,384	$50,413
CASH PAID FOR INTEREST	$351,991	$288,880
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Increase (decrease) in accounts payable and accrued expenses for purchases of property and equipment and construction activities	$8,696	$(36,083)
Purchases of property and equipment under capital leases	$21,980	$21,651

See accompanying notes to unaudited consolidated and condensed consolidated financial statements.

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AMERICAN TOWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands, except share data)

	Preferred Stock - Series A		Preferred Stock - Series B		Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulate Other Comprehen Loss
	Issued Shares	Amount	Issued Shares	Amount	Issued Shares	Amount	Shares	Amount		
BALANCE, JANUARY 1, 2016	6,000,000	$60	1,375,000	$14	426,695,279	$4,267	(2,810,026)	$(207,740)	$9,690,609	$(1,836,996
Stock-based compensation related activity	—	—	—	—	1,331,272	13	—	—	86,767	—
Issuance of common stock—stock purchase plan	—	—	—	—	44,733	—	—	—	3,847	—
Changes in fair value of cash flow hedges, net of tax	—	—	—	—	—	—	—	—	—	65
Reclassification of unrealized gains on cash flow hedges to net income	—	—	—	—	—	—	—	—	—	(65
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	—	—	65,998
Contributions from noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Common stock distributions declared	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends declared	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	—	—
BALANCE, JUNE 30, 2016	6,000,000	$60	1,375,000	$14	428,071,284	$4,280	(2,810,026)	$(207,740)	$9,781,223	$(1,770,998
	6,000,000	$60	1,375,000	$14	429,912,536	$4,299	(2,810,026)	$(207,740)	$10,043,559	$(1,999,332

BALANCE, JANUARY 1, 2017										
Stock-based compensation related activity	—	—	—	—	1,617,075	16	—	—	117,232	—
Issuance of common stock—stock purchase plan	—	—	—	—	53,062	1	—	—	4,554	—
Conversion of preferred stock	(6,000,000)	(60)	(14)	0	5,602,274	56	—	—	(2)	—
Treasury stock activity	—	—	—	—	—	—	(5,199,938)	(641,324)	—	—
Changes in fair value of cash flow hedges, net of tax	—	—	—	—	—	—	—	—	—	(300
Reclassification of unrealized gains on cash flow hedges to net income	—	—	—	—	—	—	—	—	—	(118
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	—	—	150,947
Contributions from noncontrolling interest holders	—	—	—	—	—	—	—	—	—	—
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	—	—
Common stock distributions declared	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends declared	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	—	—
BALANCE, JUNE 30, 2017	—	$—	1,374,986	$14	437,184,947	$4,372	(8,009,964)	$(849,064)	$10,165,343	$(1,848,803

See accompanying notes to unaudited consolidated and condensed consolidated financial statements.

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
American Tower Corporation (together with its subsidiaries, "ATC" or the "Company") is one of the largest global real estate investment trusts and a leading independent owner, operator and developer of multitenant communications real estate. The Company's primary business is the leasing of space on communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities and tenants in a number of other industries. The Company refers to this business as its property operations. Additionally, the Company offers tower-related services in the United States, which the Company refers to as its services operations. These services include site acquisition, zoning and permitting and structural analysis, which primarily support the Company's site leasing business, including the addition of new tenants and equipment on its sites.
The Company's portfolio primarily consists of towers it owns and towers it operates pursuant to long-term lease arrangements, as well as distributed antenna system ("DAS") networks, which provide seamless coverage solutions in certain in-building and certain outdoor wireless environments. In addition to the communications sites in its portfolio, the Company manages rooftop and tower sites for property owners under various contractual arrangements. The Company also holds other telecommunications infrastructure and property interests that it leases to communications service providers and third-party tower operators.

American Tower Corporation is a holding company that conducts its operations through its directly and indirectly owned subsidiaries and its joint ventures. ATC's principal domestic operating subsidiaries are American Towers LLC and SpectraSite Communications, LLC. ATC conducts its international operations primarily through its subsidiary, American Tower International, Inc., which in turn conducts operations through its various international holding and operating subsidiaries and joint ventures.

The Company operates as a real estate investment trust for U.S. federal income tax purposes ("REIT"). Accordingly, the Company generally is not subject to U.S. federal income taxes on income generated by its REIT operations, including the income derived from leasing space on its towers, as it receives a dividends paid deduction for distributions to stockholders that generally offsets its REIT income and gains. However, the Company remains obligated to pay U.S. federal income taxes on earnings from its domestic taxable REIT subsidiaries ("TRSs"). In addition, the Company's international assets and operations, regardless of their designation for U.S. tax purposes, continue to be subject to taxation in the foreign jurisdictions where those assets are held or those operations are conducted.

The use of TRSs enables the Company to continue to engage in certain businesses while complying with REIT qualification requirements. The Company may, from time to time, change the election of previously designated TRSs to be included as part of the REIT. As of June 30, 2017, the Company's REIT-qualified businesses included its U.S. tower leasing business, most of its operations in Costa Rica, Germany and Mexico and a majority of its indoor DAS networks business and services segment.

The accompanying consolidated and condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The financial information included herein is unaudited. However, the Company believes that all adjustments considered necessary for a fair presentation of its financial position and results of operations for such periods have been included herein. The consolidated and condensed consolidated financial statements and related notes should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"). The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire year.

Principles of Consolidation and Basis of Presentation—The accompanying consolidated and condensed consolidated financial statements include the accounts of the Company and those entities in which it has a controlling interest. Investments in entities that the Company does not control are accounted for using the equity or cost method, depending upon the Company’s ability to exercise significant influence over operating and financial policies. All intercompany accounts and transactions have been eliminated. As of June 30, 2017, the Company holds a 51% controlling interest, and MTN Group Limited holds a 49% interest, in each of two joint ventures, one in Ghana and one in Uganda. The Company

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

holds a 51% controlling interest, and PGGM holds a 49% noncontrolling interest, in a joint venture ("ATC Europe") in Europe. In addition, the Company holds an approximate 75% controlling interest, and the South African investors hold an approximate 25% noncontrolling interest, in a subsidiary of the Company in South Africa. In India, the Company holds a 51% controlling interest in ATC Telecom Infrastructure Private Limited ("ATC TIPL"), formerly Viom Networks Limited ("Viom").

Significant Accounting Policies—The Company's significant accounting policies are described in note 1 to the Company's consolidated financial statements included in the 2016 Form 10-K. There have been no material changes to the Company's significant accounting policies during the six months ended June 30, 2017.
Accounting Standards Updates—In May 2014, the Financial Accounting Standards Board (the "FASB") issued new guidance on revenue recognition, which requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance and will become effective for the Company on January 1, 2018. Early adoption is permitted for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. Leases are not included in the scope of this standard. The revenue to which the Company must apply this standard is generally limited to services revenue, certain power and fuel charges and other fees charged to customers. As of June 30, 2017, this revenue was approximately 13% of total revenue. Although the Company is still assessing the impact of this standard on its financial statements, it does not expect changes in the timing of revenue recognition to be material to its financial statements.

In January 2016, the FASB issued new guidance on the recognition and measurement of financial assets and financial liabilities. The guidance amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

In February 2016, the FASB issued new guidance on the accounting for leases. The guidance amends the existing accounting standards for lease accounting, including the requirement that lessees recognize right of use assets and lease liabilities for leases with terms greater than twelve months in the statement of financial position. Under the new guidance, lessor accounting is largely unchanged. This guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. The standard is required to be applied using a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest comparative period presented. The Company (i) has established a multidisciplinary team to assess and implement the new guidance, (ii) expects the guidance to have a material impact on its consolidated balance sheets due to the recording of right of use assets and lease liabilities for leases in which it is a lessee and which it currently treats as operating leases and (iii) continues to evaluate the impact of the new guidance.

In November 2016, the FASB issued new guidance on amounts described as restricted cash or restricted cash equivalents within the statement of cash flows. The guidance requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period balances on the statement of cash flows. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The standard is required to be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

In January 2017, the FASB issued new guidance that clarifies the definition of a business that an entity uses to determine whether a transaction should be accounted for as an asset acquisition (or disposal) or a business combination. The Company early adopted this guidance during the first quarter of 2017. As a result, the Company expects that more transactions will be accounted for as asset acquisitions instead of business combinations.

In January 2017, the FASB issued new guidance on accounting for goodwill impairments. The guidance eliminates Step 2 from the goodwill impairment test and requires, among other things, recognition of an impairment loss when the carrying value of a reporting unit exceeds its fair value. The loss recognized is limited to the total amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a material effect on its financial statements.

In May 2017, the FASB issued new guidance on accounting for stock-based compensation. The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, and the Company early adopted this guidance during the second quarter of 2017. The adoption of this guidance did not have a material effect on the Company’s financial statements.

2. PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consisted of the following (in thousands):

	As of	
	June 30, 2017	December 31, 2016
Prepaid operating ground leases	$148,744	$ 134,167
Prepaid income tax	130,341	127,142
Unbilled receivables	131,831	57,661
Prepaid assets	51,190	36,300
Value added tax and other consumption tax receivables	23,500	31,570
Other miscellaneous current assets	80,780	54,193
Prepaids and other current assets	$566,386	$ 441,033

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying value of goodwill for each of the Company’s business segments were as follows (in thousands):

	Property					
	U.S.	Asia	EMEA	Latin America	Services	Total
Balance as of January 1, 2017	$3,379,163	$1,029,313	$150,511	$509,705	$ 1,988	$5,070,680
Additions and adjustments (1)	—	400	224,270	49	—	224,719
Effect of foreign currency translation	—	53,285	21,358	1,123	—	75,766
Balance as of June 30, 2017	$3,379,163	$1,082,998	$396,139	$510,877	$ 1,988	$5,371,165

(1) Balances have been revised to reflect purchase accounting measurement period adjustments.

AMERICAN TOWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company’s other intangible assets subject to amortization consisted of the following:

		As of June 30, 2017			As of December 31, 2016		
	Estimated Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(years)	(in thousands)					
Acquired network location intangibles (1)	Up to 20	$4,854,128	$(1,404,464)	$3,449,664	$4,622,316	$(1,280,284)	$3,342,032
Acquired tenant-related intangibles	15-20	10,737,949	(2,491,418)	8,246,531	10,130,466	(2,224,119)	7,906,347
Acquired licenses and other intangibles	3-20	36,576	(7,411)	29,165	28,140	(4,827)	23,313
Economic Rights, TV Azteca	70	15,925	(12,619)	3,306	13,893	(10,974)	2,919
Total other intangible assets		$15,644,578	$(3,915,912)	$11,728,666	$14,794,815	$(3,520,204)	$11,274,611

(1) Acquired network location intangibles are amortized over the shorter of the term of the corresponding ground lease taking into consideration lease renewal options and residual value or up to 20 years, as the Company considers these intangibles to be directly related to the tower assets.

The acquired network location intangibles represent the value to the Company of the incremental revenue growth that could potentially be obtained from leasing the excess capacity on acquired communications sites. The acquired tenant-related intangibles typically represent the value to the Company of tenant contracts and relationships in place at the time of an acquisition or similar transaction, including assumptions regarding estimated renewals.

The Company amortizes its acquired network location intangibles and tenant-related intangibles on a straight-line basis over their estimated useful lives. As of June 30, 2017, the remaining weighted average amortization period of the Company’s intangible assets, excluding the TV Azteca Economic Rights detailed in note 5 to the Company’s consolidated financial statements included in the 2016 Form 10-K, was 16 years. Amortization of intangible assets for the three and six months ended June 30, 2017 was $192.2 million and $375.4 million, respectively, and amortization of intangible assets for the three and six months ended June 30, 2016 was $185.3 million and $337.1 million, respectively. Based on current exchange rates, the Company expects to record amortization expense as follows over the remaining current year and the five subsequent years (in millions):

Fiscal Year	
Remainder of 2017	$376.1
2018	750.4
2019	747.3
2020	728.5
2021	719.1
2022	714.1

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4. ACCRUED EXPENSES

Accrued expenses consisted of the following (in thousands):

	As of June 30, 2017	December 31, 2016
Accrued property and real estate taxes	$161,404	$ 138,361
Payroll and related withholdings	57,921	76,141
Accrued rent	50,855	50,951
Amounts payable to tenants	39,508	32,326
Accrued construction costs	29,119	28,587
Accrued income tax payable	20,898	11,551
Other accrued expenses	368,261	282,646
Total accrued expenses	$727,966	$ 620,563

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5. LONG-TERM OBLIGATIONS

Outstanding amounts under the Company's long-term obligations, reflecting discounts, premiums, debt issuance costs and fair value adjustments due to interest rate swaps consisted of the following (in thousands):

	As of		
	June 30, 2017	December 31, 2016	Maturity Date
2013 Credit Facility (1)	$853,419	$539,975	June 28, 2020
Term Loan (1)	994,760	993,936	January 31, 2022
2014 Credit Facility (1)	1,180,000	1,385,000	January 31, 2022
4.500% senior notes (2)	999,301	998,676	January 15, 2018
3.40% senior notes	999,781	999,716	February 15, 2019
7.25% senior notes	—	297,032	N/A
2.800% senior notes	745,628	744,917	June 1, 2020
5.050% senior notes	697,684	697,352	September 1, 2020
3.300% senior notes	745,358	744,762	February 15, 2021
3.450% senior notes	644,454	643,848	September 15, 2021
5.900% senior notes	497,584	497,343	November 1, 2021
2.250% senior notes	576,621	572,764	January 15, 2022
4.70% senior notes	696,355	696,013	March 15, 2022
3.50% senior notes	990,066	989,269	January 31, 2023
5.00% senior notes	1,002,582	1,002,742	February 15, 2024
1.375% senior notes	559,995	—	April 4, 2025
4.000% senior notes	740,491	739,985	June 1, 2025
4.400% senior notes	495,428	495,212	February 15, 2026
3.375% senior notes	984,093	983,369	October 15, 2026
3.125% senior notes	396,853	396,713	January 15, 2027
3.55% senior notes	742,503	—	July 15, 2027
Total American Tower Corporation debt	15,542,956	14,418,624	
Series 2013-1A securities (3)	499,233	498,642	March 15, 2018
Series 2013-2A securities (4)	1,291,056	1,290,267	March 15, 2023
Series 2015-1 notes (5)	347,532	347,108	June 15, 2020
Series 2015-2 notes (6)	519,767	519,437	June 16, 2025
2012 GTP notes (7)	—	179,459	N/A
Unison notes (7)	—	132,960	N/A
India indebtedness (8)	505,664	549,528	Various
India preference shares (9)	25,808	24,537	March 2, 2020
Shareholder loans (10)	102,752	151,045	Various
Other subsidiary debt (1) (11)	265,546	286,009	Various
Total American Tower subsidiary debt	3,557,358	3,978,992	
Other debt, including capital lease obligations	141,658	135,849	
Total	19,241,972	18,533,465	
Less current portion of long-term obligations	(1,732,035)	(238,806)	
Long-term obligations	$17,509,937	$18,294,659	

(1) Accrues interest at a variable rate.

(2) On June 30, 2017, the Company delivered notice of its election to call for redemption all of its outstanding 4.500% senior unsecured notes due 2018 (the “4.500% Notes”). The 4.500% Notes will be redeemed at a price equal to the principal amount of the 4.500% Notes plus a make-whole premium calculated pursuant to the terms of the 4.500% Notes indenture, together with accrued and unpaid interest, if any, up to, but excluding, the redemption date, which has been set for July 31, 2017.

(3) Maturity date reflects the anticipated repayment date; final legal maturity is March 15, 2043.

(4) Maturity date reflects the anticipated repayment date; final legal maturity is March 15, 2048.

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(5) Maturity date reflects the anticipated repayment date; final legal maturity is June 15, 2045.
(6) Maturity date reflects the anticipated repayment date; final legal maturity is June 15, 2050.
(7) Repaid in full on February 15, 2017.
(8) Denominated in Indian Rupees ("INR"). Debt includes India working capital facility, remaining debt assumed by the Company in connection with the Viom Acquisition (as defined in note 9) and debt that has been entered into by ATC TIPL.
(9) Mandatorily redeemable preference shares (the "Preference Shares") classified as debt. On March 2, 2017, ATC TIPL issued the Preference Shares and used the proceeds to redeem the preference shares previously issued by Viom (the "Viom Preference Shares"). The Preference Shares are to be redeemed on March 2, 2020 and have a dividend rate of 10.25% per annum.
(10) Reflects balances owed to the Company's joint venture partners in Ghana and Uganda. The Ghana loan is denominated in Ghanaian Cedi and the Uganda loan is denominated in Ugandan Shillings ("UGX"). Effective January 1, 2017, the Uganda loan, which had an outstanding balance of $80.0 million and accrued interest at a variable rate, was converted by the holder to a new shareholder note for 114.5 billion UGX ($31.8 million at the time of conversion), bearing interest at a fixed rate of 16.8% per annum. The remaining balance of the Uganda loan was converted into equity.
(11) Includes the BR Towers debentures, which are denominated in Brazilian Reais ("BRL") and amortize through October 15, 2023, the South African credit facility, which is denominated in South African Rand and amortizes through December 17, 2020, the Colombian credit facility, which is denominated in Colombian Pesos and amortizes through April 24, 2021 and the Brazil credit facility, which is denominated in BRL and matures on January 15, 2022.

Current portion of long-term obligations—The Company's current portion of long-term obligations primarily includes (i) $999.3 million under the 4.500% Notes, (ii) $499.2 million under the Secured Tower Revenue Securities, Series 2013-1A and (iii) 10.6 billion INR ($164.2 million) of India indebtedness.

Securitized Debt—Cash flows generated by the sites that secure the securitized debt of the Company are only available for payment of such debt and are not available to pay the Company's other obligations or the claims of its creditors. However, subject to certain restrictions, the Company holds the right to receive the excess cash flows not needed to pay the securitized debt and other obligations arising out of the securitizations. The securitized debt is the obligation of the issuers thereof or borrowers thereunder, as applicable, and their subsidiaries, and not of the Company or its other subsidiaries.

Senior Notes

1.375% Senior Notes Offering—On April 6, 2017, the Company completed a registered public offering of 500.0 million Euros ($532.2 million at the date of issuance) aggregate principal amount of 1.375% senior unsecured notes due 2025 (the "1.375% Notes"). The net proceeds from this offering were approximately 489.8 million Euros (approximately $521.4 million at the date of issuance), after deducting commissions and estimated expenses. The Company used the net proceeds to repay existing indebtedness under its multicurrency senior unsecured revolving credit facility entered into in June 2013, as amended (the "2013 Credit Facility"), and for general corporate purposes.

The 1.375% Notes will mature on April 4, 2025 and bear interest at a rate of 1.375% per annum. Accrued and unpaid interest on the 1.375% Notes will be payable in Euros in arrears on April 4 of each year, beginning on April 4, 2018. Interest on the 1.375% Notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on the 1.375% Notes and commenced accruing on April 6, 2017.

3.55% Senior Notes Offering—On June 30, 2017, the Company completed a registered public offering of $750.0 million aggregate principal amount of 3.55% senior unsecured notes due 2027 (the “3.55% Notes”). The net proceeds from this offering were approximately $741.8 million, after deducting commissions and estimated expenses. The Company used the net proceeds to repay existing indebtedness under the 2013 Credit Facility.

The 3.55% Notes will mature on July 15, 2027 and bear interest at a rate of 3.55% per annum. Accrued and unpaid interest on the 3.55% Notes will be payable in U.S. Dollars semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2018. Interest on the 3.55% Notes is computed on the basis of a 360-day year comprised of twelve 30-day months and commenced accruing on June 30, 2017.

The Company may redeem each series of senior notes at any time, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes plus a make-whole premium, together with accrued interest to the redemption date. If the Company redeems the 1.375% Notes on or after January 4, 2025 or the 3.55% Notes on or after April 15, 2027, it will not be required to pay a make-whole premium. In addition, if the Company undergoes a change of control and corresponding ratings decline, each as defined in the applicable supplemental indenture, it may be required to

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repurchase all of the applicable notes at a purchase price equal to 101% of the principal amount of such notes, plus accrued and unpaid interest (including additional interest, if any), up to but not including the repurchase date. The notes rank equally with all of the Company’s other senior unsecured debt and are structurally subordinated to all existing and future indebtedness and other obligations of its subsidiaries.

The supplemental indentures contain certain covenants that restrict the Company’s ability to merge, consolidate or sell assets and its (together with its subsidiaries’) ability to incur liens. These covenants are subject to a number of exceptions, including that the Company and its subsidiaries may incur certain liens on assets, mortgages or other liens securing indebtedness if the aggregate amount of such liens does not exceed 3.5x Adjusted EBITDA, as defined in the applicable supplemental indenture.

Bank Facilities
2013 Credit Facility—During the six months ended June 30, 2017, the Company borrowed an aggregate of $2.3 billion and repaid an aggregate of $2.0 billion of revolving indebtedness under the 2013 Credit Facility. The Company used the borrowings to fund acquisitions, repay existing indebtedness and for general corporate purposes.

2014 Credit Facility—During the six months ended June 30, 2017, the Company borrowed an aggregate of $200.0 million and repaid an aggregate of $405.0 million of revolving indebtedness under its senior unsecured revolving credit facility entered into in January 2012 and amended and restated in September 2014, as further amended (the “2014 Credit Facility”).

As of June 30, 2017, the key terms under the 2013 Credit Facility, the 2014 Credit Facility and the Company’s unsecured term loan entered into in October 2013, as amended (the “Term Loan”), were as follows:

	Outstanding Principal Balance (in millions)	Undrawn letters of credit (in millions)	Maturity Date	Current margin over LIBOR (1)	Current commitment fee (2)
2013 Credit Facility	$ 853.4	$ 4.6	June 28, 2020 (3)	1.250 %	0.150 %
2014 Credit Facility	$ 1,180.0	$ 6.4	January 31, 2022 (3)	1.250 %	0.150 %
Term Loan	$ 1,000.0	$ —	January 31, 2022	1.250 %	N/A

(1) LIBOR means the London Interbank Offered Rate.
(2) Fee on undrawn portion of each credit facility.
(3) Subject to two optional renewal periods.

Repayment of 2012 GTP Notes and Unison Notes and Redemption of Senior Notes—On February 15, 2017, the Company repaid the $173.5 million remaining principal amount outstanding under the Secured Cellular Site Revenue Notes, Series 2012-2 Class A, Series 2012-2 Class B and Series 2012-2 Class C issued by GTP Cellular Sites, LLC, plus prepayment consideration and accrued and unpaid interest. The Company recorded a loss on retirement of long-term obligations of $1.8 million, which includes prepayment consideration of $7.2 million offset by the remaining portion of the unamortized premium.

On February 15, 2017, the Company repaid the $129.0 million principal amount outstanding under the Secured Cellular Site Revenue Notes, Series 2010-2, Class C and Series 2010-2, Class F issued by Unison Ground Lease

Funding, LLC, plus prepayment consideration and accrued and unpaid interest. The Company recorded a loss on retirement of long-term obligations of $14.5 million, which includes prepayment consideration of $18.3 million offset by the remaining portion of the unamortized premium.

On February 10, 2017, the Company redeemed all of the outstanding 7.25% senior unsecured notes due 2019 (the “7.25% Notes”) at a price equal to 112.0854% of the principal amount, plus accrued and unpaid interest up to, but excluding, February 10, 2017, for an aggregate redemption price of $341.4 million, including $5.1 million in accrued and unpaid interest. The Company recorded a loss on retirement of long-term obligations of $39.2 million, which includes prepayment consideration of $36.3 million and the remaining portion of the unamortized discount and deferred financing costs. Upon completion of the redemption, none of the 7.25% Notes remained outstanding.

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The repayments and the redemption were funded with borrowings under the 2013 Credit Facility and cash on hand.

6. FAIR VALUE MEASUREMENTS

The Company determines the fair value of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Below are the three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Items Measured at Fair Value on a Recurring Basis—The fair values of the Company’s financial assets and liabilities that are required to be measured on a recurring basis at fair value were as follows (in thousands):

	June 30, 2017 Fair Value Measurements Using			December 31, 2016 Fair Value Measurements Using		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Short-term investments (1)	$1,012	—	—	$4,026	—	—
Interest rate swap agreements	—	—	—	—	$3	—
Embedded derivative in lease agreement	—	—	$12,846	—	—	$13,290
Liabilities:						
Interest rate swap agreements	—	$23,025	—	—	$24,682	—
Acquisition-related contingent consideration	—	—	$16,126	—	—	$15,444

(1) Consists of highly liquid investments with original maturities in excess of three months.

During the six months ended June 30, 2017, the Company has made no changes to the methods described in note 11 to the Company’s consolidated financial statements included in the 2016 Form 10-K that it used to measure the fair value of its interest rate swap agreements, the embedded derivative in one of its lease agreements and acquisition-related contingent consideration. The changes in fair value during the six months ended June 30, 2017 and 2016 were not material to the consolidated financial statements. As of June 30, 2017, the Company estimated the value of all potential acquisition-related contingent consideration payments to be between zero and $47.6 million.

Items Measured at Fair Value on a Nonrecurring Basis

Assets Held and Used—The Company's long-lived assets are recorded at amortized cost and, if impaired, are adjusted to fair value using Level 3 inputs. During the three and six months ended June 30, 2017 and 2016, the Company did not record any material asset impairment charges. There were no other items measured at fair value on a nonrecurring basis during the six months ended June 30, 2017 or 2016.

Fair Value of Financial Instruments—The Company's financial instruments for which the carrying value reasonably approximates fair value at June 30, 2017 and December 31, 2016 include cash and cash equivalents, restricted cash, accounts receivable and accounts payable. The Company's estimates of fair value of its long-term obligations, including the current portion, are based primarily upon reported market values. For long-term debt not actively traded, fair value is estimated using either indicative price quotes or a discounted cash flow analysis using rates for debt with similar terms and maturities. As of June 30, 2017 and December 31, 2016, the carrying value of long-term obligations, including the current portion, was $19.2 billion and $18.5 billion, respectively. As of June 30, 2017, the fair value of long-term obligations, including the current portion, was $19.8 billion, of which $13.0 billion was measured using Level 1 inputs and $6.8 billion was measured using Level 2 inputs. As of December 31, 2016, the fair value of long-term obligations, including the current portion, was $18.8 billion, of which $11.8 billion was measured using Level 1 inputs and $7.0 billion was measured using Level 2 inputs.

7. INCOME TAXES

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate ("ETR") for the full fiscal year. Cumulative adjustments to the Company's estimate are recorded in the interim period in which a change in the estimated annual ETR is determined. Under the provisions of the Internal Revenue Code of 1986, as amended, the Company may deduct amounts distributed to stockholders against the income generated by its REIT operations. The Company continues to be subject to income taxes on the income of its TRSs and income taxes in foreign jurisdictions where it conducts operations. In addition, the Company is able to offset certain income by utilizing its net operating losses, subject to specified limitations.

The Company provides valuation allowances if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets.

As of June 30, 2017 and December 31, 2016, the total unrecognized tax benefits that would impact the ETR, if recognized, were approximately $106.2 million and $102.9 million, respectively. The amount of unrecognized tax benefits during the three and six months ended June 30, 2017 includes additions to the Company's existing tax positions of $1.9 million and $3.8 million, respectively, and foreign currency fluctuations of ($0.9 million) and $2.7 million, respectively. Unrecognized tax benefits are expected to change over the next 12 months if certain tax matters ultimately settle with the applicable taxing jurisdiction during this time frame, as described in note 12 to the Company's consolidated financial statements included in the 2016 Form 10-K. The impact of the amount of these changes to previously recorded uncertain tax positions could range from zero to $11.5 million.

The Company recorded penalties and income tax-related interest expense during the three and six months ended June 30, 2017 of $1.0 million and $2.3 million, respectively, and during the three and six months ended June 30, 2016 of $2.2 million and $5.2 million, respectively. As of June 30, 2017 and December 31, 2016, the total amount of accrued income tax related interest and penalties included in the consolidated balance sheets was $28.1 million and $24.3 million, respectively.

During the three months ended June 30, 2017, the Ghana Revenue Authority issued a clarification to its income tax law, which resulted in a benefit to income tax expense of $11.6 million.

8. STOCK-BASED COMPENSATION

Summary of Stock-Based Compensation Plans—The Company maintains equity incentive plans that provide for the grant of stock-based awards to its directors, officers and employees. The 2007 Equity Incentive Plan, as amended (the "2007 Plan"), provides for the grant of non-qualified and incentive stock options, as well as restricted stock units, restricted stock and other stock-based awards. Exercise prices for non-qualified and incentive stock options are not less than the fair value of the underlying common stock on the date of grant. Equity awards typically vest ratably, generally over four years for time-based restricted stock units ("RSUs") and stock options and three years for performance-based restricted stock units ("PSUs"). Stock options generally expire ten years from the date of grant. As of June 30, 2017, the Company had the ability to grant stock-based awards with respect to an aggregate of 8.4 million shares of common stock under the 2007 Plan. In addition, the Company maintains an employee stock purchase plan

(“ESPP”) pursuant to which eligible employees may purchase shares of the Company’s common stock on the last day of each bi-annual offering period at a 15% discount from the lower of the closing market value on the first or last day of such offering period. The offering periods run from June 1 through November 30 and from December 1 through May 31 of each year.

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During the three and six months ended June 30, 2017 and 2016, the Company recorded and capitalized the following stock-based compensation expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock-based compensation expense	$25,738	$21,907	$61,960	$49,986
Stock-based compensation expense capitalized as property and equipment	$444	$104	$970	$762

Stock Options—As of June 30, 2017, total unrecognized compensation expense related to unvested stock options was $18.3 million, which is expected to be recognized over a weighted average period of approximately two years.
The Company's option activity for the six months ended June 30, 2017 was as follows:

	Number of Options
Outstanding as of January 1, 2017	7,269,376
Granted	6,534
Exercised	(1,182,551)
Forfeited	(21,611)
Expired	—
Outstanding as of June 30, 2017	6,071,748

Restricted Stock Units—As of June 30, 2017, total unrecognized compensation expense related to unvested RSUs granted under the 2007 Plan was $131.6 million and is expected to be recognized over a weighted average period of approximately three years.
Performance-Based Restricted Stock Units—During the six months ended June 30, 2017 and 2016, the Company's Compensation Committee granted an aggregate of 154,520 PSUs (the "2017 PSUs") and 169,340 PSUs (the "2016 PSUs"), respectively, to its executive officers and established the performance metrics for these awards. Threshold, target and maximum parameters were established for the metrics for a three-year performance period with respect to the 2017 PSUs and the 2016 PSUs, and for each year in the three-year performance period with respect to PSUs granted to executive officers in 2015 (the "2015 PSUs"), and will be used to calculate the number of shares that will be issuable when each award vests, which may range from zero to 200% of the target amounts. At the end of each three-year performance period, the number of shares that vest will depend on the degree of achievement against the pre-established performance goals. PSUs will be paid out in common stock at the end of each performance period, subject generally to the executive's continued employment. In the event of the executive's death, disability or qualifying retirement, PSUs will be paid out pro rata in accordance with the terms of the applicable award agreement. PSUs will accrue dividend equivalents prior to vesting, which will be paid out only in respect of shares that actually vest.

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Restricted Stock Units and Performance-Based Restricted Stock Units—The Company's RSU and PSU activity for the six months ended June 30, 2017 was as follows:

	RSUs	PSUs
Outstanding as of January 1, 2017 (1)	1,663,743	242,757
Granted (2)	818,539	177,897
Vested	(644,004)	—
Forfeited	(42,668)	—
Outstanding as of June 30, 2017	1,795,610	420,654

(1) PSUs consist of the shares issuable for the 2015 PSUs at the end of the three-year performance cycle based on achievement against the performance metric for the first and second year's performance periods and the target number of shares issuable at the end of the three-year performance period for the 2016 PSUs.

(2) PSUs consist of the target number of shares issuable at the end of the three-year performance cycle attributable to the third year's performance period for the 2015 PSUs, or 23,377 shares, and the target number of shares issuable at the end of the three-year performance cycle for the 2017 PSUs, or 154,520 shares.

During the three and six months ended June 30, 2017, the Company recorded $6.0 million and $11.6 million, respectively, in stock-based compensation expense for equity awards in which the performance goals had been established and were probable of being achieved. The remaining unrecognized compensation expense related to these awards at June 30, 2017 was $32.5 million based on the Company's current assessment of the probability of achieving the performance goals. The weighted average period over which the cost will be recognized is approximately two years.

9. REDEEMABLE NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interests—On April 21, 2016, the Company, through its wholly owned subsidiary, ATC Asia Pacific Pte. Ltd., acquired a 51% controlling ownership interest in Viom, a telecommunications infrastructure company that owns and operates wireless communications towers and indoor DAS networks in India (the "Viom Acquisition").

In connection with the Viom Acquisition, the Company, through one of its subsidiaries, entered into a shareholders agreement (the "Shareholders Agreement") with Viom and the following remaining Viom shareholders: Tata Sons Limited, Tata Teleservices Limited, IDFC Private Equity Fund III, Macquarie SBI Investments Pte Limited and SBI Macquarie Infrastructure Trust (collectively, the "Remaining Shareholders"). The Shareholders Agreement provides for, among other things, put options held by certain of the Remaining Shareholders, which allow the Remaining Shareholders to sell outstanding shares of ATC TIPL, and call options held by the Company, which allow the Company to buy the noncontrolling shares of ATC TIPL. The put options, which are not under the Company's control, cannot be separated from the noncontrolling interests. As a result, the combination of the noncontrolling interests and the redemption feature require classification as redeemable noncontrolling interests in the consolidated balance sheet, separate from equity.

Given the provisions governing the put rights, the redeemable noncontrolling interests are recorded outside of permanent equity at their redemption value. The noncontrolling interests become redeemable after the passage of time, and therefore, the Company records the carrying amount of the noncontrolling interests at the greater of (i) the initial carrying amount, increased or decreased for the noncontrolling interests' share of net income or loss and foreign currency translation adjustments, and (ii) the redemption value. If required, the Company will adjust the redeemable noncontrolling interests to redemption value on each balance sheet date with changes in redemption value recognized as an adjustment to Distributions in excess of earnings.

The put options may be exercised, requiring the Company to purchase the Remaining Shareholders' equity interests, on specified dates beginning April 1, 2018 through March 31, 2021. The price of the put options will be based on the fair market value of the exercising Remaining Shareholder's interest in the Company's India operations at the time the option is exercised. Put options held by certain of the Remaining Shareholders are subject to a floor price of 216 INR per share.

The changes in Redeemable noncontrolling interests for the six months ended June 30, 2017 were as follows (in thousands):

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Balance as of January 1, 2017	$1,091,220
Net income attributable to noncontrolling interests	8,869
Foreign currency translation adjustment attributable to noncontrolling interests	55,778
Balance as of June 30, 2017	$1,155,867

10. EQUITY

Series A Preferred Stock—In May 2014, the Company issued 6,000,000 shares of its 5.25% Mandatory Convertible Preferred Stock, Series A, par value $0.01 per share (the “Series A Preferred Stock”). During the three months ended June 30, 2017, all outstanding shares of the Series A Preferred Stock converted at a rate of 0.9337 per share into an aggregate of 5,602,153 shares of the Company’s common stock pursuant to the provisions of the Certificate of Designations governing the Series A Preferred Stock. The Company paid cash in lieu of fractional shares of the Company’s common stock. These payments were recorded as a reduction to Additional paid-in capital.

On May 15, 2017, the Company paid the final dividend of $7.9 million to holders of record of the Series A Preferred Stock at the close of business on May 1, 2017.

Series B Preferred Stock—The Company has 13,749,860 depositary shares, each representing a 1/10th interest in a share of its 5.50% Mandatory Convertible Preferred Stock, Series B, par value $0.01 per share (the “Series B Preferred Stock”) outstanding, after giving effect to the early conversion of 140 depositary shares at the option of the holder at a conversion rate of 0.8687 per depositary share in May 2017. The Company paid cash in lieu of fractional shares of the Company’s common stock. This payment was recorded as a reduction to Additional paid-in capital. The Series B Preferred Stock was issued in March 2015.

Unless converted or redeemed earlier, each share of the Series B Preferred Stock will automatically convert on February 15, 2018, into between 8.6870 and 10.4244 shares of the Company’s common stock, depending on the applicable market value of the Company’s common stock and subject to anti-dilution adjustments. Subject to certain restrictions, at any time prior to February 15, 2018, holders of the Series B Preferred Stock may elect to convert all or a portion of their shares into common stock at the minimum conversion rate then in effect.

Dividends on shares of the Series B Preferred Stock are payable on a cumulative basis when, as and if declared by the Company’s Board of Directors at an annual rate of 5.50% on the liquidation preference of $1,000.00 per share (and, correspondingly, $100.00 per share with respect to the depositary shares) on February 15, May 15, August 15 and November 15 of each year, commencing on May 15, 2015 to, and including, February 15, 2018.

The Company may pay dividends in cash or, subject to certain limitations, in shares of common stock or any combination of cash and shares of common stock. The terms of the Series B Preferred Stock provide that, unless full cumulative dividends have been paid or set aside for payment on all outstanding Series B Preferred Stock for all prior dividend periods, no dividends may be declared or paid on common stock.

Sales of Equity Securities—The Company receives proceeds from the sale of its equity securities pursuant to the ESPP and upon exercise of stock options granted under its equity incentive plan. During the six months ended June 30, 2017, the Company received an aggregate of $82.6 million in proceeds upon exercises of stock options and sales pursuant to the ESPP.

Stock Repurchase Program—In March 2011, the Board of Directors approved a stock repurchase program, pursuant to which the Company is authorized to repurchase up to $1.5 billion of its common stock (the “2011 Buyback”).

During the six months ended June 30, 2017, the Company resumed the 2011 Buyback and repurchased 5,199,938 shares of its common stock thereunder for an aggregate of $641.3 million, including commissions and fees. As of June 30, 2017, the Company had repurchased a total of 11,456,842 shares of its common stock under the 2011 Buyback for an aggregate of $1.0 billion, including commissions and fees.

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Under the 2011 Buyback, the Company is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices in accordance with securities laws and other legal requirements, and subject to market conditions and other factors. To facilitate repurchases, the Company makes purchases pursuant to trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, which allows the Company to repurchase shares during periods when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods.

The Company expects to fund any further repurchases of its common stock through a combination of cash on hand, cash generated by operations and borrowings under its credit facilities. Purchases under the 2011 Buyback are subject to the Company having available cash to fund repurchases.

Distributions—During the six months ended June 30, 2017, the Company declared or paid the following cash distributions:

Declaration Date	Payment Date	Record Date	Distribution per share	Aggregate Payment Amount (in millions)
Common Stock				
December 14, 2016	January 13, 2017	December 28, 2016	$ 0.58	$ 247.7
March 9, 2017	April 28, 2017	April 12, 2017	$ 0.62	$ 264.3
June 1, 2017	July 14, 2017	June 19, 2017	$ 0.64	$ 274.7
Series A Preferred Stock				
January 13, 2017	February 15, 2017	February 1, 2017	$ 1.3125	$ 7.9
April 13, 2017	May 15, 2017	May 1, 2017	$ 1.3125	$ 7.9
Series B Preferred Stock				
January 13, 2017	February 15, 2017	February 1, 2017	$ 13.75	$ 18.9
April 13, 2017	May 15, 2017	May 1, 2017	$ 13.75	$ 18.9

The Company accrues distributions on unvested restricted stock units, which are payable upon vesting. As of June 30, 2017, the amount accrued for distributions payable related to unvested restricted stock units was $6.6 million. During the six months ended June 30, 2017, the Company paid $2.9 million of distributions upon the vesting of restricted stock units. To maintain its qualification for taxation as a REIT, the Company expects to continue paying distributions, the amount, timing and frequency of which will be determined, and subject to adjustment, by the Company’s Board of Directors.

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11. EARNINGS PER COMMON SHARE

The following table sets forth basic and diluted net income per common share computational data (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income attributable to American Tower Corporation stockholders	$367,051	$187,550	$683,131	$462,709
Dividends on preferred stock	(22,843)	(26,782)	(49,624)	(53,563)
Net income attributable to American Tower Corporation common stockholders	344,208	160,768	633,507	409,146
Basic weighted average common shares outstanding	427,298	424,909	427,288	424,484
Dilutive securities	3,189	4,095	3,156	4,045
Diluted weighted average common shares outstanding	430,487	429,004	430,444	428,529
Basic net income attributable to American Tower Corporation common stockholders per common share	$0.81	$0.38	$1.48	$0.96
Diluted net income attributable to American Tower Corporation common stockholders per common share	$0.80	$0.37	$1.47	$0.95

Shares Excluded From Dilutive Effect—The following shares were not included in the computation of diluted earnings per share because the effect would be anti-dilutive (in thousands, on a weighted average basis):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Restricted stock	—	—	—	1
Stock options	5	1,120	33	1,974
Preferred stock	14,528	17,444	16,041	17,444

12. COMMITMENTS AND CONTINGENCIES

Litigation—The Company periodically becomes involved in various claims, lawsuits and proceedings that are incidental to its business. In the opinion of Company management, after consultation with counsel, there are no matters currently pending that would, in the event of an adverse outcome, materially impact the Company's consolidated financial position, results of operations or liquidity.

Verizon Transaction—In March 2015, the Company entered into an agreement with various operating entities of Verizon Communications Inc. ("Verizon") that provides for the lease, sublease or management of 11,286 wireless communications sites commencing March 27, 2015. The average term of the lease or sublease for all sites at the inception of the agreement was approximately 28 years, assuming renewals or extensions of the underlying ground leases for the sites. The Company has the option to purchase the leased sites in tranches, subject to the applicable lease, sublease or management rights upon its scheduled expiration. Each tower is assigned to an annual tranche, ranging from 2034 to 2047, which represents the outside expiration date for the sublease rights to the towers in that tranche. The purchase price for each tranche is a fixed amount stated in the lease for such tranche plus the fair market value of certain alterations made to the related towers. The aggregate purchase option price for the towers leased and subleased is approximately $5.0 billion. Verizon will occupy the sites as a tenant for an initial term of ten years with eight optional successive five-year terms; each such term shall be governed by standard master lease agreement terms established as a part of the transaction.

AT&T Transaction—The Company has an agreement with SBC Communications Inc., a predecessor entity to AT&T Inc. (“AT&T”), that currently provides for the lease or sublease of approximately 2,350 towers commencing between

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December 2000 and August 2004. Substantially all of the towers are part of the Company's 2013 securitization transaction. The average term of the lease or sublease for all sites at the inception of the agreement was approximately 27 years, assuming renewals or extensions of the underlying ground leases for the sites. The Company has the option to purchase the sites subject to the applicable lease or sublease upon its expiration. Each tower is assigned to an annual tranche, ranging from 2013 to 2032, which represents the outside expiration date for the sublease rights to that tower. The purchase price for each site is a fixed amount stated in the lease for that site plus the fair market value of certain alterations made to the related tower by AT&T. As of June 30, 2017, the Company has purchased an aggregate of 77 of the subleased towers upon expiration of the applicable agreement. The aggregate purchase option price for the remaining towers leased and subleased is $796.9 million and will accrete at a rate of 10% per annum through the applicable expiration of the lease or sublease of a site. For all such sites purchased by the Company prior to June 30, 2020, AT&T will continue to lease the reserved space at the then-current monthly fee, which shall escalate in accordance with the standard master lease agreement for the remainder of AT&T's tenancy. Thereafter, AT&T shall have the right to renew such lease for up to four successive five-year terms. For all such sites purchased by the Company subsequent to June 30, 2020, AT&T has the right to continue to lease the reserved space for successive one-year terms at a rent equal to the lesser of the agreed upon market rate or the then-current monthly fee, which is subject to an annual increase based on changes in the U.S. Consumer Price Index.

ALLTEL Transaction—In December 2000, the Company entered into an agreement with ALLTEL Communications, LLC, a predecessor entity to Verizon Wireless, to acquire towers through a 15-year sublease agreement. Pursuant to the agreement, as amended, with Verizon Wireless, the Company acquired rights to approximately 1,800 towers in tranches between April 2001 and March 2002. The Company has the option to purchase each tower at the expiration of the applicable sublease. The Company exercised the purchase options for approximately 1,523 towers in a single closing, which occurred on December 8, 2016. The Company has provided notice to the tower owner, Verizon's assignee, of its intent to exercise the purchase options related to the 243 remaining towers. As of June 30, 2017, the purchase price per tower was $42,844 payable in cash or, at the tower owner's option, with 769 shares of the Company's common stock per tower. The aggregate cash purchase option price for the subleased towers was $10.4 million as of June 30, 2017.

Other Contingencies—The Company is subject to income tax and other taxes in the geographic areas where it operates, and periodically receives notifications of audits, assessments or other actions by taxing authorities. In certain jurisdictions, taxing authorities may issue preliminary notices or assessments while audits are being conducted. These preliminary notices or assessments do not represent amounts that the Company is obligated to pay and are often not reflective of the actual tax liability for which the Company will ultimately be liable. The Company evaluates the circumstances of each notification or assessment based on the information available and records a liability for any potential outcome that is probable or more likely than not unfavorable if the liability is also reasonably estimable.

On December 5, 2016, the Company received an income tax assessment of Essar Telecom Infrastructure Private Limited ("ETIPL") for the fiscal year ending 2008 in the amount of 4.75 billion INR ($69.8 million on the date of assessment) related to capital contributions. The Company is challenging the assessment before India's tax authorities and estimates that there is a more likely than not probability that the Company's position will be sustained. Accordingly, no such liability has been recorded. Additionally, the assessment was made with respect to transactions that took place in the tax year commencing in 2007, prior to the Company's acquisition of ETIPL. Under the Company's definitive acquisition agreement of ETIPL, the seller is obligated to indemnify and defend the Company with respect to any tax-related liability that may arise from activities prior to March 31, 2010.

Tenant Leases—The Company's lease agreements with its tenants vary depending upon the region and the industry of the tenant, and generally have initial terms of ten years with multiple renewal terms at the option of the tenant.

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Future minimum rental receipts expected from tenants under non-cancellable operating lease agreements in effect at June 30, 2017 were as follows (in millions):

Remainder of 2017	$2,540
2018	4,897
2019	4,662
2020	4,367
2021	3,898
Thereafter	13,196
Total	$33,560

Lease Obligations—The Company leases certain land, office and tower space under operating leases that expire over various terms. Many of the leases contain renewal options with specified increases in lease payments upon exercise of the renewal option. Escalation clauses present in operating leases, excluding those tied to a consumer price index or other inflation-based indices, are recognized on a straight-line basis over the non-cancellable term of the leases. Future minimum rental payments under non-cancellable operating leases include payments for certain renewal periods at the Company's option because failure to renew could result in a loss of the applicable communications sites and related revenues from tenant leases, thereby making it reasonably assured that the Company will renew the leases. Such payments at June 30, 2017 are as follows (in millions):

Remainder of 2017	$464
2018	882
2019	847
2020	802
2021	758
Thereafter	6,516
Total	$10,269

13. ACQUISITIONS

Impact of current year acquisitions—The Company typically acquires communications sites from wireless carriers or other tower operators and subsequently integrates those sites into its existing portfolio of communications sites. The financial results of the Company's acquisitions have been included in the Company's consolidated statements of operations for the three and six months ended June 30, 2017 from the date of the respective acquisition. The date of acquisition, and by extension the point at which the Company begins to recognize the results of an acquisition, may depend on, among other things, the receipt of contractual consents, the commencement and extent of leasing arrangements and the timing of the transfer of title or rights to the assets, which may be accomplished in phases. Sites acquired from communications service providers may never have been operated as a business and may instead have been utilized solely by the seller as a component of its network infrastructure. An acquisition may or may not involve the transfer of business operations or employees.

The Company evaluates each of its acquisitions under the accounting guidance framework to determine whether an acquisition is treated as an asset acquisition or a business combination. For those transactions treated as asset acquisitions, the purchase price is allocated to the assets acquired, with no recognition of goodwill.

For those acquisitions accounted for as business combinations, the Company recognizes acquisition and merger related expenses in the period in which they are incurred and services are received; for transactions accounted for as asset acquisitions, these costs are capitalized as part of the purchase price. Acquisition and merger related costs may include finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees, fair value adjustments to contingent consideration and general administrative costs directly related to the transaction. Integration costs include incremental and non-recurring costs necessary to convert data, retain employees and otherwise enable the Company to operate new businesses or assets efficiently. The Company records acquisition and merger related expenses for business

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combinations, as well as integration costs for all acquisitions, in Other operating expenses in the consolidated statements of operations.

During the three and six months ended June 30, 2017 and 2016, the Company recorded acquisition and merger related expenses for business combinations and integration costs as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Acquisition and merger related expenses	$2,397	$5,735	$8,082	$6,720
Integration costs	$3,808	$3,234	$8,378	$6,505

The Company also recorded a purchase price refund of $21.5 million during the six months ended June 30, 2017. This refund related to an acquisition in Brazil in 2014 for which the measurement period has closed.

2017 Transactions

The estimated aggregate impact of the 2017 acquisitions on the Company’s revenues and gross margin for the three months ended June 30, 2017 was approximately $18.0 million and $15.2 million, respectively, and for the six months ended June 30, 2017 was approximately $26.3 million and $22.0 million, respectively. The revenues and gross margin amounts also reflect incremental revenues from the addition of new tenants to such sites subsequent to the transaction date.

FPS Towers France—On February 15, 2017, ATC Europe acquired 100% of the outstanding shares of FPS Towers (“FPS”) from Antin Infrastructure Partners and the individuals party to the purchase agreement (the “FPS Acquisition”), for total consideration of 727.2 million Euros ($771.2 million at the date of acquisition). FPS owns and operates nearly 2,500 wireless tower sites in France. The Company made a loan to fund 225.0 million Euros ($238.6 million at the date of acquisition) of the total consideration. The remainder of the purchase price of 502.2 million Euros ($532.6 million at the date of acquisition) was funded by the Company and PGGM in proportion to their respective interests in ATC Europe. The Company funded its portion of the purchase price with borrowings under the 2013 Credit Facility and cash on hand. The acquisition is consistent with the Company’s strategy to expand in selected geographic areas. The acquisition was accounted for as a business combination and is subject to post-closing adjustments.

Other Acquisitions—During the six months ended June 30, 2017, the Company acquired a total of 174 communications sites in the United States, Brazil, Chile, Germany, Mexico and Nigeria for an aggregate purchase price of $101.1 million. Of the aggregate purchase price, $1.0 million is reflected in Accounts payable in the consolidated balance sheet as of June 30, 2017. These acquisitions were accounted for as asset acquisitions.

The following table summarizes the allocation of the purchase prices for fiscal year 2017 acquisitions based upon their estimated fair value at the date of acquisition (in thousands):

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	EMEA FPS Towers France (1)	Other
Current assets	$31,048	$4,511
Non-current assets	9,142	2,022
Property and equipment	113,981	30,804
Intangible assets (2):		
Tenant-related intangible assets	400,901	53,635
Network location intangible assets	164,441	12,670
Other intangible assets	7,954	—
Current liabilities	(29,326)	(1,539)
Deferred tax liability	(134,488)	—
Other non-current liabilities	(16,703)	(999)
Net assets acquired	546,950	101,104
Goodwill (3)	224,270	—
Fair value of net assets acquired	771,220	101,104
Debt assumed	—	—
Purchase Price	$771,220	$101,104

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(1) Accounted for as a business combination. Amounts represent preliminary purchase price allocation.
(2) Tenant-related intangible assets and network location intangible assets are amortized on a straight-line basis over periods of up to 20 years.
(3) Primarily results from purchase accounting adjustments, which are not deductible for tax purposes.

2016 Transactions

During the six months ended June 30, 2017, post-closing adjustments impacted the following 2016 acquisitions:

Viom Acquisition—On April 21, 2016, the Company acquired a 51% controlling ownership interest in Viom. Consideration for the acquisition included 76.4 billion INR in cash ($1.1 billion at the date of acquisition), as well as the assumption of approximately 52.3 billion INR ($0.8 billion at the date of the acquisition) of existing debt, which included 1.7 billion INR ($25.1 million at the date of the acquisition) of the Viom Preference Shares.
Other Acquisitions—During the year ended December 31, 2016, the Company acquired a total of 891 communications sites in the United States, Brazil, Chile, Germany, Mexico, Nigeria and South Africa, and a company holding urban telecommunications assets and fiber in Argentina, for an aggregate purchase price of $304.4 million (including contingent consideration of $8.8 million).

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The following table summarizes the preliminary and updated allocations of the purchase prices paid and the amounts of assets acquired and liabilities assumed for the fiscal year 2016 acquisitions based upon their estimated fair value at the date of acquisition (in thousands). Balances are reflected in the accompanying consolidated balance sheet as of June 30, 2017.

	Preliminary Allocation (1)		Updated Allocation	
	Asia Viom	Other (2)	Asia Viom (3)	Other
Current assets	$276,560	$25,477	$281,930	$25,477
Non-current assets	57,645	2,336	52,275	2,336
Property and equipment	701,988	81,521	705,849	81,472
Intangible assets (4):				
Tenant-related intangible assets	1,369,580	105,557	1,369,580	105,557
Network location intangible assets	666,364	83,645	666,364	83,645
Current liabilities	(195,900)	(14,782)	(201,142)	(14,782)
Deferred tax liability	(619,070)	(43,756)	(619,074)	(43,756)
Other non-current liabilities	(102,751)	(29,472)	(101,766)	(29,472)
Net assets acquired	2,154,416	210,526	2,154,016	210,477
Goodwill (5)	881,783	93,856	882,183	93,905
Fair value of net assets acquired	3,036,199	304,382	3,036,199	304,382
Debt assumed	(786,889)	—	(786,889)	—
Redeemable noncontrolling interests	(1,100,804)	—	(1,100,804)	—
Purchase Price	$1,148,506	$304,382	$1,148,506	$304,382

(1) As reported for the year ended December 31, 2016.
(2) Of the total purchase price, $12.1 million was reflected in Accounts payable in the consolidated balance sheet as of December 31, 2016.
(3) The allocation of the purchase price for the Viom Acquisition was finalized during the six months ended June 30, 2017.
(4) Tenant-related intangible assets and network location intangible assets are amortized on a straight-line basis over periods of up to 20 years.
(5) Primarily results from purchase accounting adjustments, which are at least partially deductible for tax purposes.

Pro Forma Consolidated Results (Unaudited)

The following table presents the unaudited pro forma financial results as if the FPS Acquisition had occurred on January 1, 2016 and the acquisitions completed in 2016 had occurred on January 1, 2015. The pro forma results do not include any anticipated cost synergies, costs or other integration impacts. Accordingly, such pro forma amounts are not necessarily indicative of the results that actually would have occurred had the transactions been completed on the date indicated, nor are they indicative of the future operating results of the Company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Pro forma revenues	$1,663,200	$1,515,150	$3,288,907	$3,027,457
	$344,344	$162,170	$634,274	$402,288

Pro forma net income attributable to American Tower Corporation common stockholders				
Pro forma net income per common share amounts:				
Basic net income attributable to American Tower Corporation common stockholders	$0.81	$0.38	$1.48	$0.95
Diluted net income attributable to American Tower Corporation common stockholders	$0.80	$0.38	$1.47	$0.94

Other Signed Acquisitions

Paraguay—On April 25, 2017, the Company entered into a definitive agreement to acquire up to approximately 1,400 sites in Paraguay from Millicom International Cellular's subsidiary, Tigo Paraguay, for a total consideration of approximately 700.0 billion Paraguayan Guaraní (approximately $125.0 million at the date of signing). The transaction is expected to close during the second half of 2017, subject to customary closing conditions.

Airtel Tanzania—On March 17, 2016, the Company entered into a definitive agreement with Bharti Airtel Limited, through its subsidiary company Airtel Tanzania Limited ("Airtel Tanzania"), pursuant to which the Company could, subject to a number of conditions, acquire certain of Airtel Tanzania's communications sites in Tanzania. In light of recent legislation in Tanzania, the Company did not extend the agreement beyond the expiration date therein. Accordingly, on March 17, 2017, the agreement expired pursuant to its terms and is no longer in effect.

14. BUSINESS SEGMENTS

The Company's primary business is leasing space on multitenant communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities and tenants in a number of other industries. This business is referred to as the Company's property operations, which as of June 30, 2017, consisted of the following:

- U.S.: property operations in the United States;
- Asia: property operations in India;
- Europe, Middle East and Africa ("EMEA"): property operations in France, Germany, Ghana, Nigeria, South Africa and Uganda; and
- Latin America: property operations in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

The Company has applied the aggregation criteria to operations within the EMEA and Latin America property operating segments on a basis that is consistent with management's review of information and performance evaluations of these regions.

The Company's services segment offers tower-related services in the United States, including site acquisition, zoning and permitting and structural analysis, which primarily support its site leasing business, including the addition of new tenants and equipment on its sites. The services segment is a strategic business unit that offers different services from, and requires different resources, skill sets and marketing strategies than, the property operating segments.

The accounting policies applied in compiling segment information below are similar to those described in note 1 to the Company's consolidated financial statements included in the 2016 Form 10-K. Among other factors, in evaluating financial performance in each business segment, management uses segment gross margin and segment operating profit. The Company defines segment gross margin as segment revenue less segment operating expenses excluding stock-based compensation expense recorded in costs of operations; Depreciation, amortization and accretion; Selling, general, administrative and development expense; and Other operating expenses. The Company defines segment operating profit as segment gross margin less Selling, general, administrative and development expense attributable to the segment, excluding stock-based compensation expense and corporate expenses. For reporting purposes, the Latin America property segment gross margin and segment operating profit also include Interest income, TV Azteca, net. These measures of segment gross margin and segment operating profit are also before Interest income, Interest expense, Gain (loss) on retirement of long-term obligations, Other income (expense), Net income (loss) attributable to noncontrolling interests and Income tax benefit (provision). The categories of expenses indicated above, such as depreciation, have been excluded from segment operating performance as they are not considered in the review of information or the evaluation of results by management. There are no significant revenues resulting from transactions between the Company's operating segments. All intercompany transactions are eliminated to reconcile segment results and assets to the consolidated statements of operations and consolidated balance sheets.

Summarized financial information concerning the Company's reportable segments for the three and six months ended June 30, 2017 and 2016 is shown in the following tables. The "Other" column (i) represents amounts excluded from specific segments, such as business development operations, stock-based compensation expense and corporate expenses included in Selling, general, administrative and development expense; Other operating expenses; Interest income; Interest expense; Gain (loss) on retirement of long-term obligations; and Other income (expense), and (ii) reconciles segment operating profit to Income from continuing operations before income taxes.

	Property							
Three Months Ended June 30, 2017	U.S.	Asia	EMEA	Latin America	Total Property	Services	Other	Total
	(in thousands)							
Segment revenues	$897,296	$294,556	$159,628	$286,695	$1,638,175	$24,259		$1,662,434
Segment operating expenses (1)	183,625	167,993	59,069	95,902	506,589	9,748		516,337
Interest income, TV Azteca, net	—	—	—	2,770	2,770	—		2,770
Segment gross margin	713,671	126,563	100,559	193,563	1,134,356	14,511		1,148,867
Segment selling, general, administrative and development expense (1)	36,223	16,571	17,949	19,482	90,225	3,422		93,647
Segment operating profit	$677,448	$109,992	$82,610	$174,081	$1,044,131	$11,089		$1,055,220
Stock-based compensation expense							$25,738	25,738
Other selling, general, administrative and development expense							34,609	34,609
Depreciation, amortization and accretion							396,355	396,355
Other expense (2)							186,048	186,048
Income from continuing operations before income taxes								$412,470
Total assets	$18,717,076	$4,808,551	$3,189,403	$5,100,443	$31,815,473	$43,366	$279,371	$32,138,210

(1) Segment operating expenses and segment selling, general, administrative and development expenses exclude stock-based compensation expense of $0.8 million and $24.9 million, respectively.

(2) Primarily includes interest expense.

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Three Months Ended June 30, 2016	Property U.S.	Asia	EMEA	Latin America	Total Property	Services	Other	Total
	(in thousands)							
Segment revenues	$829,680	$224,611	$134,762	$237,139	$1,426,192	$16,035		$1,442,227
Segment operating expenses (1)	182,376	127,855	58,462	83,486	452,179	6,885		459,064
Interest income, TV Azteca, net	—	—	—	2,748	2,748	—		2,748
Segment gross margin	647,304	96,756	76,300	156,401	976,761	9,150		985,911
Segment selling, general, administrative and development expense (1)	34,721	14,770	16,685	15,031	81,207	3,346		84,553
Segment operating profit	$612,583	$81,986	$59,615	$141,370	$895,554	$5,804		$901,358
Stock-based compensation expense							$21,907	21,907
Other selling, general, administrative and development expense							32,421	32,421
Depreciation, amortization and accretion							397,765	397,765
Other expense (2)							213,291	213,291
Income from continuing operations before income taxes								$235,974
Total assets	$18,949,936	$4,557,692	$2,025,767	$4,929,052	$30,462,447	$62,766	$214,985	$30,740,198

(1) Segment operating expenses and segment selling, general, administrative and development expenses exclude stock-based compensation expense of $0.6 million and $21.3 million, respectively.
(2) Primarily includes interest expense.

Six Months Ended June 30, 2017	Property U.S.	Asia	EMEA	Latin America	Total Property	Services	Other	Total
	(in thousands)							
Segment revenues	$1,789,180	$570,087	$310,035	$562,937	$3,232,239	$46,433		$3,278,672

Segment operating expenses (1)	364,960	317,394	120,564	189,183	992,101	16,066		1,008,167
Interest income, TV Azteca, net	—	—	—	5,470	5,470	—		5,470
Segment gross margin	1,424,220	252,693	189,471	379,224	2,245,608	30,367		2,275,975
Segment selling, general, administrative and development expense (1)	70,871	37,066	34,402	38,043	180,382	6,593		186,975
Segment operating profit	$1,353,349	$215,627	$155,069	$341,181	$2,065,226	$23,774		$2,089,000
Stock-based compensation expense							$61,960	61,960
Other selling, general, administrative and development expense							70,733	70,733
Depreciation, amortization and accretion							817,495	817,495
Other expense (2)							392,169	392,169
Income from continuing operations before income taxes								$746,643

(1) Segment operating expenses and segment selling, general, administrative and development expenses exclude stock-based compensation expense of $1.7 million and $60.2 million, respectively.

(2) Primarily includes interest expense.

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AMERICAN TOWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2016	Property U.S.	Asia	EMEA	Latin America	Total Property	Services	Other	Total
	(in thousands)							
Segment revenues	$1,681,424	$287,827	$264,402	$460,190	$2,693,843	$37,431		$2,731,274
Segment operating expenses (1)	360,098	160,935	114,121	158,808	793,962	15,889		809,851
Interest income, TV Azteca, net	—	—	—	5,464	5,464	—		5,464
Segment gross margin	1,321,326	126,892	150,281	306,846	1,905,345	21,542		1,926,887
Segment selling, general, administrative and development expense (1)	72,007	21,346	32,837	29,615	155,805	6,262		162,067
Segment operating profit	$1,249,319	$105,546	$117,444	$277,231	$1,749,540	$15,280		$1,764,820
Stock-based compensation expense							$49,986	49,986
Other selling, general, administrative and development expense							62,801	62,801
Depreciation, amortization and accretion							739,399	739,399
Other expense (2)							366,229	366,229
Income from continuing operations before income taxes								$546,405

(1) Segment operating expenses and segment selling, general, administrative and development expenses exclude stock-based compensation expense of $1.3 million and $48.7 million, respectively.
(2) Primarily includes interest expense.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements relating to our goals, beliefs, plans or current expectations and other statements that are not of historical facts. For example, when we use words such as “project,” “believe,” “anticipate,” “expect,” “forecast,” “estimate,” “intend,” “should,” “would,” “could,” “may” or other words uncertainty of future events or outcomes, we are making forward-looking statements. Certain important factors may cause actual results to differ materially from those indicated by our forward-looking statements, including those set forth under the caption “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”). Forward-looking statements represent management’s current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements made by us.

The discussion and analysis of our financial condition and results of operations that follow are based upon our consolidated and condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates and such differences could be material to the financial statements. This discussion should be read in conjunction with our consolidated and condensed consolidated financial statements herein and the accompanying notes thereto, information set forth under the caption “Critical Accounting Policies and Estimates” in the 2016 Form 10-K, and in particular, the information set forth therein under Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Overview

We are one of the largest global real estate investment trusts and a leading independent owner, operator and developer of multitenant communications real estate. Our primary business is the leasing of space on communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities and tenants in a number of other industries. In addition to the communications sites in our portfolio, we manage rooftop and tower sites for property owners under various contractual arrangements. We also hold other telecommunications infrastructure and property interests that we lease to communications service providers and third-party tower operators. We refer to this business as our property operations, which accounted for 99% of our total revenues for the six months ended June 30, 2017 and includes our U.S. property segment, Asia property segment, Europe, Middle East and Africa (“EMEA”) property segment and Latin America property segment. On February 15, 2017, we expanded into a new market by acquiring FPS Towers in France through our European joint venture (the “FPS Acquisition”).

We also offer tower-related services in the United States, including site acquisition, zoning and permitting and structural analysis, which primarily support our site leasing business, including the addition of new tenants and equipment on our sites.

The following table details the number of communications sites, excluding managed sites, that we owned or operated as of June 30, 2017:

	Number of Owned Towers	Number of Operated Towers (1)	Number of Owned DAS Sites
U.S.	23,122	16,677	349
Asia:			
India	57,772	—	318
EMEA:			
France	2,472	—	—
Germany	2,208	—	—
Ghana	2,165	—	21
Nigeria	4,748	—	—
South Africa	2,438	—	—
Uganda	1,425		
EMEA total	15,456	—	21
Latin America (2):			
Brazil	16,411	2,269	69
Chile	1,281	—	8
Colombia	2,995	777	1
Costa Rica	488	—	2
Mexico	8,720	199	69
Peru	661	—	—
Latin America total	30,556	3,245	149

(1) Approximately 97% of the operated towers are held pursuant to long-term capital leases, including those subject to purchase options.

(2) In Argentina, we own or operate urban telecommunications assets, fiber and the rights to utilize certain existing utility infrastructure for future telecommunications equipment installation.

We operate in five reportable segments: U.S. property, Asia property, EMEA property, Latin America property and services. In evaluating operating performance in each business segment, management uses, among other factors, segment gross margin and segment operating profit (see note 14 to our consolidated and condensed consolidated financial statements included in this Quarterly Report on Form 10-Q).

In the section that follows, we provide information regarding management's expectations of long-term drivers of demand for our communications sites, as well as our current results of operations, financial position and sources and uses of liquidity. In addition, we highlight key trends, which management believes provide valuable insight into our operating and financial resource allocation decisions.

Revenue Growth. The primary factors affecting the revenue growth in our property segments are:

- Growth in tenant billings, including:
- New revenue attributable to leases in place on day one on sites acquired or constructed since the beginning of the prior-year period;
- New revenue attributable to leasing additional space on our sites ("colocations") and lease amendments; and
- Contractual rent escalations on existing tenant leases, net of churn (as defined below).
- Revenue growth from other items, including additional tenant payments to cover costs, such as ground rent or power and fuel costs ("pass-through") included in certain tenant leases, straight-line revenue and decommissioning.

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Due to our diversified communications site portfolio, our tenant lease rates vary considerably depending upon numerous factors, including, but not limited to, tower location, amount, type and position of tenant equipment on the tower, ground space required by the tenant and remaining tower capacity. We measure the remaining tower capacity by assessing several factors, including tower height, tower type, environmental conditions, existing equipment on the tower and zoning and permitting regulations in effect in the jurisdiction where the tower is located. In many instances, tower capacity can be increased with relatively modest tower augmentation capital expenditures.

In general, our tenant leases with wireless carriers have an initial non-cancellable term of at least ten years, with multiple renewal terms. Accordingly, nearly all of the revenue generated by our property operations during the three and six months ended June 30, 2017 was recurring revenue that we should continue to receive in future periods. Based upon foreign currency exchange rates and the tenant leases in place as of June 30, 2017, we expect to generate nearly $34 billion of non-cancellable tenant lease revenue over future periods, before the impact of straight-line lease accounting. Most of our tenant leases have provisions that periodically increase the rent due under the lease, typically based on an annual fixed escalation (averaging approximately 3% in the United States) or an inflationary index in our international markets, or a combination of both. In addition, certain of our tenant leases provide for pass-through revenue.

The revenues generated by our property operations may be affected by cancellations of existing tenant leases. As discussed above, most of our tenant leases with wireless carriers and broadcasters are multiyear contracts, which typically are non-cancellable; however, in some instances, a lease may be cancelled upon the payment of a termination fee.

Revenue lost from either cancellations or the non-renewal of leases or rent renegotiations historically has not had a material adverse effect on the revenues generated by our property operations. We define churn as tenant billings lost when a tenant cancels or does not renew its lease or, in limited circumstances, when the lease rates on existing leases are reduced. During the six months ended June 30, 2017, churn represented approximately 2% of our tenant billings.

Demand Drivers. We continue to believe that our site leasing revenue is likely to increase due to the growing use of wireless services globally and our ability to meet the corresponding incremental demand for our communications real estate. By adding new tenants and new equipment for existing tenants on our sites, we are able to increase these sites' utilization and profitability. We believe the majority of our site leasing activity will continue to come from wireless service providers, with tenants in a number of other industries contributing incremental leasing demand. Our site portfolio and our established tenant base provide us with new business opportunities, which have historically resulted in consistent and predictable organic revenue growth as wireless carriers seek to increase the coverage and capacity of their existing networks, while also deploying next generation wireless technologies. In addition, we intend to continue to supplement our organic growth by selectively developing or acquiring new sites in our existing and new markets where we can achieve our risk-adjusted return on investment objectives.

Consistent with our strategy to increase the utilization and return on investment of our sites, our objective is to add new tenants and new equipment for existing tenants through colocation and lease amendments. Our ability to lease additional space on our sites is primarily a function of the rate at which wireless carriers and other tenants deploy capital to improve and expand their wireless networks. This rate, in turn, is influenced by the growth of wireless services, the penetration of advanced wireless devices, the level of emphasis on network quality and capacity in carrier competition, the financial performance of our tenants and their access to capital and general economic conditions.

Based on industry research and projections, we expect that a number of key industry trends will result in incremental revenue opportunities for us:

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In less advanced wireless markets where initial voice and data networks are still being deployed, we expect these deployments to drive demand for our tower space as carriers seek to expand their footprints and increase the scope and density of their networks. We have established operations in many of these markets at the early stages of wireless development, which we believe will enable us to meaningfully participate in these deployments over the long term.

- Subscribers' use of wireless data continues to grow rapidly given increasing smartphone and other advanced device penetration, the proliferation of bandwidth-intensive applications on these devices and the continuing evolution of the mobile ecosystem. We believe carriers will be compelled to deploy additional equipment on existing networks while also rolling out more advanced wireless networks to address coverage and capacity needs resulting from this increasing wireless data usage.

- The deployment of advanced wireless technology across existing wireless networks will provide higher speed data services and further enable fixed broadband substitution. As a result, we expect that our tenants will continue deploying additional equipment across their existing networks.
- Wireless service providers compete based on the quality of their existing wireless networks, which is driven by capacity and coverage. To maintain or improve their network performance as overall network usage increases, our tenants continue deploying additional equipment across their existing sites while also adding new cell sites. We anticipate increasing network densification over the next several years, as existing network infrastructure is anticipated to be insufficient to account for rapidly increasing levels of wireless data usage.
- Wireless service providers continue to acquire additional spectrum, and as a result are expected to add additional sites and equipment to their networks as they seek to optimize their network configuration and utilize additional spectrum.
- Next generation technologies centered on wireless connections have the potential to provide incremental revenue opportunities for us. These technologies may include autonomous vehicle networks and a number of other internet-of-things, or IoT, applications.

As part of our international expansion initiatives, we have targeted markets in various stages of network development to diversify our international exposure and position us to benefit from a number of different wireless technology deployments over the long term. In addition, we have focused on building relationships with large multinational carriers such as Bharti Airtel Limited, Telefónica S.A. and Vodafone Group PLC. We believe that consistent carrier investments in their networks across our international markets position us to generate meaningful organic revenue growth going forward.

In emerging markets, such as Ghana, India, Nigeria and Uganda, wireless networks tend to be significantly less advanced than those in the United States, and initial voice networks continue to be deployed in underdeveloped areas. A majority of consumers in these markets still utilize basic wireless services, predominantly on feature phones, while advanced device penetration remains low.

In more developed urban locations within these markets, early-stage data network deployments are underway. Carriers are focused on completing voice network build-outs while also investing in initial data networks as wireless data usage and smartphone penetration within their customer bases begin to accelerate.

In markets with rapidly evolving network technology, such as South Africa and most of the countries in Latin America where we do business, initial voice networks, for the most part, have already been built out, and carriers are focused on third generation (3G) and fourth generation (4G) network build outs. Consumers in these regions are increasingly adopting smartphones and other advanced devices and, as a result, the usage of bandwidth-intensive mobile applications is growing materially. Recent spectrum auctions in these rapidly evolving markets have allowed incumbent carriers to accelerate their data network deployments and have also enabled new entrants to begin initial investments in data networks. Smartphone penetration and wireless data usage in these markets are growing rapidly, which typically requires that carriers continue to invest in their networks in order to maintain and augment their quality of service.

Finally, in markets with more mature network technology, such as Germany and France, carriers are focused on deploying 4G data networks to account for rapidly increasing wireless data usage among their customer base. With higher smartphone and advanced device penetration and significantly higher per capita data usage, carrier investment in networks is focused on 4G coverage and capacity.

We believe that the network technology migration we have seen in the United States, which has led to significantly denser networks and meaningful new business commencements for us over a number of years, will ultimately be replicated in our less advanced international markets. As a result, we expect to be able to leverage our extensive international portfolio of approximately 107,515 communications sites and the relationships we have built with our carrier tenants to drive sustainable, long-term growth.

We have master lease agreements with certain of our tenants that provide for consistent, long-term revenue and reduce the likelihood of churn. Certain of those master lease agreements are holistic in nature and further build and augment strong strategic partnerships with our tenants and have significantly reduced colocation cycle times, thereby providing our tenants with the ability to rapidly and efficiently deploy equipment on our sites.

Property Operations Expenses. Direct operating expenses incurred by our property segments include direct site level expenses and consist primarily of ground rent and power and fuel costs, some or all of which may be passed through to our tenants, as well as property taxes, repairs and maintenance. These segment direct operating expenses exclude all segment and corporate selling, general, administrative and development expenses, which are aggregated into one line item entitled Selling, general, administrative and development expense in our consolidated statements of operations. In general, our property segments' selling, general, administrative and development expenses do not significantly increase as a result of adding incremental tenants to our sites and typically increase only modestly year-over-year. As a result, leasing additional space to new tenants on our sites provides significant incremental cash flow. We may, however, incur additional segment selling, general, administrative and development expenses as we increase our presence in our existing markets or expand into new markets. Our profit margin growth is therefore positively impacted by the addition of new tenants to our sites but can be temporarily diluted by our development activities.

Services Segment Revenue Growth. As we continue to focus on growing our property operations, we anticipate that our services revenue will continue to represent a small percentage of our total revenues.

Non-GAAP Financial Measures

Included in our analysis of our results of operations are discussions regarding earnings before interest, taxes, depreciation, amortization and accretion, as adjusted ("Adjusted EBITDA"), Funds From Operations, as defined by the National Association of Real Estate Investment Trusts ("NAREIT FFO") attributable to American Tower Corporation common stockholders, Consolidated Adjusted Funds From Operations ("Consolidated AFFO") and AFFO attributable to American Tower Corporation common stockholders.

We define Adjusted EBITDA as Net income before Income (loss) from equity method investments; Income tax benefit (provision); Other income (expense); Gain (loss) on retirement of long-term obligations; Interest expense; Interest income; Other operating income (expense); Depreciation, amortization and accretion; and stock-based compensation expense.

NAREIT FFO attributable to American Tower Corporation common stockholders is defined as net income before gains or losses from the sale or disposal of real estate, real estate related impairment charges, real estate related depreciation, amortization and accretion and dividends on preferred stock, and including adjustments for (i) unconsolidated affiliates and (ii) noncontrolling interests. In this section, we refer to NAREIT FFO attributable to American Tower Corporation common stockholders as "NAREIT FFO (common stockholders)."

We define Consolidated AFFO as NAREIT FFO (common stockholders) before (i) straight-line revenue and expense; (ii) stock-based compensation expense; (iii) the deferred portion of income tax; (iv) non-real estate related depreciation, amortization and accretion; (v) amortization of deferred financing costs, capitalized interest, debt discounts and premiums and long-term deferred interest charges; (vi) other income (expense); (vii) gain (loss) on retirement of long-term obligations; (viii) other operating income (expense); and adjustments for (ix) unconsolidated affiliates and (x) noncontrolling interests, less cash payments related to capital improvements and cash payments related to corporate capital expenditures.

We define AFFO attributable to American Tower Corporation common stockholders as Consolidated AFFO, excluding the impact of noncontrolling interests on both NAREIT FFO (common stockholders) and the other adjustments included in the calculation of Consolidated AFFO. In this section, we refer to AFFO attributable to American Tower Corporation common stockholders as “AFFO (common stockholders).”

Adjusted EBITDA, NAREIT FFO (common stockholders), Consolidated AFFO and AFFO (common stockholders) are not intended to replace net income or any other performance measures determined in accordance with GAAP. None

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of Adjusted EBITDA, NAREIT FFO (common stockholders), Consolidated AFFO or AFFO (common stockholders) represents cash flows from operating activities in accordance with GAAP and, therefore, these measures should not be considered indicative of cash flows from operating activities, as a measure of liquidity or a measure of funds available to fund our cash needs, including our ability to make cash distributions. Rather, Adjusted EBITDA, NAREIT FFO (common stockholders), Consolidated AFFO and AFFO (common stockholders) are presented as we believe each is a useful indicator of our current operating performance. We believe that these metrics are useful to an investor in evaluating our operating performance because (1) each is a key measure used by our management team for decision making purposes and for evaluating our operating segments' performance; (2) Adjusted EBITDA is a component underlying our credit ratings; (3) Adjusted EBITDA is widely used in the telecommunications real estate sector to measure operating performance as depreciation, amortization and accretion may vary significantly among companies depending upon accounting methods and useful lives, particularly where acquisitions and non-operating factors are involved; (4) Consolidated AFFO is widely used in the telecommunications real estate sector to adjust NAREIT FFO (common stockholders) for items that may otherwise cause material fluctuations in NAREIT FFO (common stockholders) growth from period to period that would not be representative of the underlying performance of property assets in those periods; (5) each provides investors with a meaningful measure for evaluating our period-to-period operating performance by eliminating items that are not operational in nature; and (6) each provides investors with a measure for comparing our results of operations to those of other companies, particularly those in our industry.

Our measurement of Adjusted EBITDA, NAREIT FFO (common stockholders), Consolidated AFFO and AFFO (common stockholders) may not, however, be fully comparable to similarly titled measures used by other companies. Reconciliations of Adjusted EBITDA, NAREIT FFO (common stockholders), Consolidated AFFO and AFFO (common stockholders) to net income, the most directly comparable GAAP measure, have been included below.

Results of Operations
Three and Six Months Ended June 30, 2017 and 2016
(in thousands, except percentages)

Revenue

	Three Months Ended June 30,		Percent Increase		Six Months Ended June 30,		Percent Increase	
	2017	2016	(Decrease)		2017	2016	(Decrease)	
Property								
U.S.	$897,296	$829,680	8	%	$1,789,180	$1,681,424	6	%
Asia	294,556	224,611	31		570,087	287,827	98	
EMEA	159,628	134,762	18		310,035	264,402	17	
Latin America	286,695	237,139	21		562,937	460,190	22	
Total property	1,638,175	1,426,192	15		3,232,239	2,693,843	20	
Services	24,259	16,035	51		46,433	37,431	24	
Total revenues	$1,662,434	$1,442,227	15	%	$3,278,672	$2,731,274	20	%

Three Months Ended June 30, 2017

U.S. property segment revenue growth of $67.6 million was attributable to:
- Tenant billings growth of $50.2 million, which was driven by:
- $38.4 million due to colocations and amendments;
- $10.5 million from contractual escalations, net of churn;
- $1.6 million generated from newly acquired or constructed sites; and
- A decrease of $0.3 million from other tenant billings; and
- $17.4 million of other revenue growth, primarily due to a $15.6 million impact of straight-line accounting.

Asia property segment revenue growth of $69.9 million was attributable to:
- Tenant billings growth of $41.8 million, which was driven by:
- $28.6 million generated from newly acquired or constructed sites, primarily due to the acquisition of Viom Networks Limited (“Viom”) in India (the “Viom Acquisition”);
- $15.3 million due to colocations and amendments; and
- A decrease of $2.1 million resulting from churn in excess of contractual escalations;
- Pass-through revenue growth of $24.6 million, primarily due to the Viom Acquisition; and
- A decrease of $6.8 million in other revenue partially due to an increase of $3.2 million in revenue reserves, partially offset by a $0.7 million impact of straight-line accounting.

Segment revenue also increased by $10.3 million attributable to the impact of foreign currency translation related to fluctuations in Indian Rupees (“INR”).

EMEA property segment revenue growth of $24.9 million was attributable to:
- Tenant billings growth of $25.4 million, which was driven by:
- $16.6 million generated from newly acquired or constructed sites;
- $4.8 million due to colocations and amendments;
- $4.5 million from contractual escalations, net of churn; and
- A decrease of $0.5 million from other tenant billings; and
- Pass-through revenue growth of $14.0 million.

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Segment revenue growth was partially offset by a decrease of $14.5 million attributable to the impact of foreign currency translation, which included, among others, $12.8 million related to fluctuations in Nigerian Naira (“NGN”) and $3.7 million related to fluctuations in Ghanaian Cedi (“GHS”), and was partially offset by an increase of $3.3 million related to fluctuations in South African Rand (“ZAR”).

Latin America property segment revenue growth of $49.6 million was attributable to:
- Tenant billings growth of $22.9 million, which was driven by:
- $9.4 million from contractual escalations, net of churn;
- $8.9 million due to colocations and amendments;
- $4.1 million generated from newly acquired or constructed sites; and
- $0.5 million from other tenant billings;
- Pass-through revenue growth of $5.7 million; and
- $8.5 million of other revenue growth, primarily due to the impact of a $7.0 million reduction in revenue in the prior-year period resulting from a judicial reorganization of a tenant in Brazil.

Segment revenue also increased by $12.5 million attributable to the impact of foreign currency translation, which included, among others, $14.0 million related to fluctuations in Brazilian Real (“BRL”), which was partially offset by a decrease of $2.3 million related to fluctuations in Mexican Peso (“MXN”).

The increase in services segment revenue of $8.2 million was primarily attributable to an increase in site acquisition projects.

Six Months Ended June 30, 2017
U.S. property segment revenue growth of $107.8 million was attributable to:
- Tenant billings growth of $101.3 million, which was driven by:
- $78.2 million due to colocations and amendments;
- $18.7 million from contractual escalations, net of churn;
- $2.6 million generated from newly acquired or constructed sites; and
- $1.8 million from other tenant billings; and
- $6.5 million of other revenue growth, primarily due to a $34.7 million impact of straight-line accounting, partially offset by a $28.3 million net decrease in other revenue, primarily due to the absence of $31.2 million in decommissioning revenue recognized in the prior year.

Asia property segment revenue growth of $282.3 million was attributable to:
- Tenant billings growth of $171.8 million, which was driven by:
- $147.7 million generated from newly acquired or constructed sites, primarily due to the Viom Acquisition;
- $27.9 million due to collocations and amendments;
- A decrease of $3.6 million resulting from churn in excess of contractual escalations; and
- A decrease of $0.2 million from other tenant billings;
- Pass-through revenue growth of $108.4 million, primarily due to the Viom Acquisition; and
- A decrease of $9.5 million in other revenue primarily due to an increase of $9.8 million in revenue reserves.

Segment revenue also increased by $11.6 million attributable to the impact of foreign currency translation related to fluctuations in INR.

EMEA property segment revenue growth of $45.6 million was attributable to:
- Tenant billings growth of $48.8 million, which was driven by:
- $29.2 million generated from newly acquired or constructed sites, primarily due to the FPS Acquisition;
- $9.6 million due to collocations and amendments;

- $8.9 million from contractual escalations, net of churn; and
- $1.1 million from other tenant billings;
- Pass-through revenue growth of $30.8 million; and
- A decrease of $2.0 million in other revenue, partially offset by a $1.8 million impact of straight-line accounting.

Segment growth was partially offset by a decrease of $32.0 million attributable to the impact of foreign currency translation, which included, among others, $29.1 million related to fluctuations in NGN and $7.9 million related to fluctuations in GHS, and was partially offset by an increase of $7.4 million related to fluctuations in ZAR.

Latin America property segment revenue growth of $102.7 million was attributable to:

- Tenant billings growth of $49.0 million, which was driven by:
- $18.8 million from contractual escalations, net of churn;
- $17.5 million due to collocations and amendments;
- $11.7 million generated from newly acquired or constructed sites; and
- $1.0 million from other tenant billings;
- Pass-through revenue growth of $10.7 million; and
- $7.4 million of other revenue growth, primarily due to the impact of a $7.0 million reduction in revenue in the prior-year period resulting from a judicial reorganization of a tenant in Brazil.

Segment revenue also increased $35.6 million attributable to the impact of foreign currency translation, which included, among others, $43.9 million related to fluctuations in BRL and $2.8 million related to fluctuations in Colombian Peso, and was partially offset by a decrease of $12.2 million related to fluctuations in MXN.

The increase in services segment revenue of $9.0 million was primarily attributable to an increase in site acquisition projects.

Gross Margin

	Three Months Ended June 30, 2017	2016	Percent Increase (Decrease)	Six Months Ended June 30, 2017	2016	Percent Increase (Decrease)
Property						
U.S.	$713,671	$647,304	10 %	$1,424,220	$1,321,326	8 %
Asia	126,563	96,756	31	252,693	126,892	99
EMEA	100,559	76,300	32	189,471	150,281	26
Latin America	193,563	156,401	24	379,224	306,846	24
Total property	1,134,356	976,761	16	2,245,608	1,905,345	18
Services	14,511	9,150	59 %	30,367	21,542	41 %

Three Months Ended June 30, 2017

- The increase in U.S. property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $1.2 million.

- The increase in Asia property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $34.2 million, primarily due to the Viom Acquisition. Direct expenses increased by an additional $5.9 million attributable to the impact of foreign currency translation.

- The increase in EMEA property segment gross margin was primarily attributable to the increase in revenue described above and a benefit of $12.5 million attributable to the impact of foreign currency translation on direct expenses, partially offset by an increase in direct expenses of $13.1 million.

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- The increase in Latin America property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $7.8 million. Direct expenses increased by an additional $4.6 million due to the impact of foreign currency translation.

- The increase in services segment gross margin was primarily due to higher-margin projects.

Six Months Ended June 30, 2017

- The increase in U.S. property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $4.9 million.

- The increase in Asia property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $149.9 million, primarily due to the Viom Acquisition. Direct expenses increased by an additional $6.6 million attributable to the impact of foreign currency translation.

- The increase in EMEA property segment gross margin was primarily attributable to the increase in revenue described above and a benefit of $28.2 million attributable to the impact of foreign currency translation on direct expenses, partially offset by an increase in direct expenses of $34.6 million.

- The increase in Latin America property segment gross margin was primarily attributable to the increase in revenue described above, partially offset by an increase in direct expenses of $16.5 million. Direct expenses increased by an additional $13.8 million due to the impact of foreign currency translation.

- The increase in services segment gross margin was primarily due to higher-margin projects.

Selling, General, Administrative and Development Expense (“SG&A”)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Increase (Decrease)
Property						
U.S.	$36,223	$34,721	4 %	$70,871	$72,007	(2)%
Asia	16,571	14,770	12	37,066	21,346	74
EMEA	17,949	16,685	8	34,402	32,837	5
Latin America	19,482	15,031	30	38,043	29,615	28
Total property	90,225	81,207	11	180,382	155,805	16
Services	3,422	3,346	2	6,593	6,262	5
Other	59,501	53,681	11	130,969	111,482	17
Total selling, general, administrative and development expense	$153,148	$138,234	11 %	$317,944	$273,549	16 %

Three Months Ended June 30, 2017

- The increases in each of our property segments’ SG&A were primarily driven by increased personnel costs to support our business, including additional costs as a result of the Viom Acquisition in our Asia property segment and the FPS Acquisition in our EMEA property segment.

- The increase in other SG&A was primarily attributable to an increase in stock-based compensation expense of $3.6 million and an increase in corporate SG&A.

Six Months Ended June 30, 2017

- The decrease in our U.S. property segment SG&A was due to a decrease in cancelled-project costs.

- The increases in each of our Asia, EMEA and Latin America property segments' SG&A were primarily driven by increased personnel costs to support our business, including additional costs as a result of the Viom Acquisition in our Asia property segment and the FPS Acquisition in our EMEA property segment. The Asia property segment SG&A increase was also partially driven by an increase in bad debt expense of $6.4 million.

- The increase in our services segment SG&A was primarily attributable to an increase in personnel costs within our tower services group.

- The increase in other SG&A was primarily attributable to an increase in stock-based compensation expense of $11.6 million and an increase in corporate SG&A.

Operating Profit

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Increase (Decrease)
Property						
U.S.	$677,448	$612,583	11 %	$1,353,349	$1,249,319	8 %
Asia	109,992	81,986	34	215,627	105,546	104
EMEA	82,610	59,615	39	155,069	117,444	32
Latin America	174,081	141,370	23	341,181	277,231	23
Total property	1,044,131	895,554	17	2,065,226	1,749,540	18
Services	11,089	5,804	91 %	23,774	15,280	56 %

The growth in operating profit for the three and six months ended June 30, 2017 for each of our property segments was primarily attributable to an increase in our segment gross margin. The growth in operating profit for the three and six months ended June 30, 2017 in our Asia, EMEA and Latin America property segments, as well as our U.S. property segment for the three months ended June 30, 2017, were partially offset by increases in our segment SG&A.

The growth in operating profit for the three and six months ended June 30, 2017 for our services segment was primarily attributable to an increase in our segment gross margin, partially offset by an increase in our segment SG&A.

Depreciation, Amortization and Accretion

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Increase (Decrease)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Increase (Decrease)
Depreciation, amortization and accretion	$396,355	$397,765	0 %	$817,495	$739,399	11 %

The increase in depreciation, amortization and accretion expense for the six months ended June 30, 2017 was primarily attributable to the acquisition, lease or construction of new sites since the beginning of the prior-year period, which resulted in an increase in property and equipment and intangible assets subject to amortization.

Other Operating Expenses

	Three Months Ended June 30,		Percent Increase	Six Months Ended June 30,		Percent Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
Other operating expenses	$18,839	$13,711	37 %	$25,054	$22,511	11 %

The increase in other operating expenses for the three months ended June 30, 2017 was primarily attributable to a net increase of $7.5 million in losses from sale or disposal of assets, partially offset by a decrease of $2.8 million in integration, acquisition and merger related expenses.

The increase in other operating expenses for the six months ended June 30, 2017 was primarily attributable to an increase of $10.2 million in losses on sales or disposals of assets and impairments, an increase in integration, acquisition and merger related expenses of $3.2 million and $10.0 million to fund our charitable foundation. These items were partially offset by the refund of $21.5 million of acquisition costs relating to an acquisition in Brazil completed in 2014.

Total Other Expense

	Three Months Ended June 30,		Percent Increase	Six Months Ended June 30,		Percent Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
Total other expense	$164,439	$196,832	(16)%	$361,645	$338,254	7 %

The decrease in total other expense during the three months ended June 30, 2017 was primarily due to foreign currency gains of $6.9 million in the current period, compared to foreign currency losses of $28.1 million in the prior-year period. The decrease was partially offset by incremental interest expense of $6.0 million due to a $0.6 billion increase in our average debt outstanding and a 17 basis point increase in our annualized weighted-average cost of borrowing.

The increase in total other expense during the six months ended June 30, 2017 was primarily due to a loss on retirement of long-term obligations of $55.7 million attributable to the redemption of the 7.25% senior unsecured notes due 2019 (the “7.25% Notes”), and the repayment of the Secured Cellular Site Revenue Notes, Series 2012-2 Class A, Series 2012-2 Class B and Series 2012-2 Class C issued by GTP Cellular Sites, LLC and Secured Cellular Site Revenue Notes, Series 2010-2, Class C and Series 2010-2, Class F issued by Unison Ground Lease Funding, LLC, compared to the six months ended June 30, 2016, where we recorded a gain on retirement of long-term obligations of $0.8 million attributable to the repayment of the Secured Tower Cellular Site Revenue Notes, Series 2012-1 Class A issued by GTP Cellular Sites, LLC. The increase was also attributable to additional interest expense of $29.8 million due to a $1.0 billion increase in our average debt outstanding and a four basis point increase in our annualized weighted average cost of borrowing. These items were partially offset by foreign currency gains of $35.0 million compared to foreign currency losses of $17.5 million in the prior-year period, as well as an additional $8.2 million in interest income compared to the prior year period.

Income Tax Provision

	Three Months Ended June 30,		Percent Increase	Six Months Ended June 30,		Percent Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
Income tax provision	$23,980	$43,510	(45)%	$50,743	$72,634	(30)%
Effective tax rate	5.8 %	18.4 %		6.8 %	13.3 %	

As a real estate investment trust for U.S. federal income tax purposes ("REIT"), we may deduct earnings distributed to stockholders against the income generated by our REIT operations. In addition, we are able to offset certain income by utilizing our net operating losses ("NOLs"), subject to specified limitations. Consequently, the effective tax rate on income from continuing operations for the three and six months ended June 30, 2017 and 2016 differs from the federal statutory rate.

The decrease in the income tax provision for the three and six months ended June 30, 2017 was primarily attributable to fewer uncertain tax positions taken than in 2016 and a clarification of income tax law in Ghana, which resulted in an income tax benefit of $11.6 million, offset by an increase in foreign earnings.

Net Income/Adjusted EBITDA and Net Income/NAREIT FFO/Consolidated AFFO

	Three Months Ended June 30,		Percent Increase (Decrease)	$ 2,473
Other investments	3,142	(1,451)		
Other	(1,082)	1,544		
Total	$ (35,585)	$ 2,566		

Total return on our portfolio under management, as reported to us by our investment advisors, for the 2006 period was 0.79%, compared to 0.99% for the 2005 period. The lower total return in the 2006 period reflected the higher level of interest rates in the period. For the 2006 period, net realized losses on our fixed maturities of $37.6 million included a provision of $16.5 million for declines in the market value of investments held in our available for sale portfolio which were considered to be other-than-temporary, based on a review performed during the 2006 period. The declines in market value on such securities were primarily due to the current interest rate environment. For the six months ended June 30, 2005, we did not consider any declines in the market value of investments to be other-than-temporary. The balance of $21.1 million in net realized losses on our fixed maturities in the 2006 period resulted from the sale of securities, compared to net realized gains from the sale of fixed maturities of $2.5 million for the 2005 period. For the 2006 and 2005 periods, net realized gains or losses from the sale of fixed maturities resulted from our decisions to reduce credit exposure, changes in duration targets, relative value determinations and sales related to rebalancing the portfolio.

During the 2006 and 2005 periods, we realized gross losses from the sale of fixed maturities of $50.6 million and $8.5 million, respectively. With respect to those securities that were sold at a loss, the following is an analysis of the gross realized losses based on the period of time those securities had been in an unrealized loss position:

(U.S. dollars in thousands)	Six Months Ended June 30, 2006	2005
Less than 6 months	$ 37,337	$ 4,755
At least 6 months but less than 12 months	11,744	2,063
Over 12 months	1,518	1,711
Total	$ 50,599	$ 8,529

Other Expenses

Other expenses, which are included in our other operating expenses and part of our corporate and other segment (non-underwriting), were $14.1 million for the 2006 period, compared to $11.5 million for the 2005 period.

Share-Based Compensation

As required by the provisions of SFAS 123(R), we recorded pre-tax share-based compensation expense related to stock options of $3.4 million in the 2006 period. Under the modified prospective method of transition, no expense related to stock options was recorded in the 2005 period. Therefore, results for the 2006 period are not comparable to the 2005 period. See note 2, Share-Based Compensation, of the notes accompanying our consolidated financial statements and Critical Accounting Policies, Estimates and Recent Accounting Policies Share-Based Compensation for more information about the adoption of SFAS No. 123(R).

Net Foreign Exchange Gains or Losses

Net foreign exchange losses for the six months ended June 30, 2006 of $11.4 million consisted of net unrealized losses of $8.0 million and net realized losses of $3.4 million, compared to net foreign exchange gains of $13.4 million for the 2005 period, which consisted of net unrealized gains of $13.4 million and de minimis net realized gains. For the 2006 and 2005 periods, the net unrealized foreign exchange gains or losses recorded were largely offset by changes in the value of our investments held in foreign currencies.

Income Taxes

The effective tax rate on income before income taxes was 8.6% for the 2006 period, compared to 6.7% for the 2005 period. The higher effective tax rate in the 2006 period resulted from a change in the relative mix of income reported by jurisdiction. Our effective tax rates may fluctuate from period to period based on the relative mix of income reported by jurisdiction primarily due to the varying tax rates in each jurisdiction. Our quarterly tax provision is adjusted to reflect changes in our expected annual effective tax rates, if any.

Liquidity and Capital Resources

ACGL is a holding company whose assets primarily consist of the shares in its subsidiaries. Generally, ACGL depends on its available cash resources, liquid investments and dividends or other distributions from its subsidiaries to make payments, including the payment of debt service obligations and operating expenses it may incur and any dividends or liquidation amounts with respect to the non-cumulative preferred shares and common shares.

On a consolidated basis, our aggregate cash and invested assets totaled $8.16 billion at June 30, 2006, compared to $7.12 billion at December 31, 2005. At June 30, 2006 and December 31, 2005, our fixed income portfolio, which includes fixed maturity securities and short-term investments, had an average Standard & Poor s quality rating of AA+ and an average effective duration of 2.9 years and 3.3 years, respectively. ACGL s readily available cash, short-term investments and marketable securities, excluding amounts held by our regulated insurance and reinsurance subsidiaries, totaled $19.2 million at June 30, 2006, compared to $21.0 million at December 31, 2005.

The ability of our regulated insurance and reinsurance subsidiaries to pay dividends or make distributions or other payments to us is dependent on their ability to meet applicable regulatory standards. Under Bermuda law, Arch Re Bermuda is required to maintain a minimum solvency margin (*i.e.*, the amount by which the value of its general business assets must exceed its general business liabilities) equal to the greatest of (1) $100 million, (2) 50% of net premiums written (being gross premiums written by us less any premiums ceded by us, but we may not deduct more than 25% of gross premiums when computing net premiums written) and (3) 15% of loss and other insurance reserves. Arch Re Bermuda is prohibited from declaring or paying any dividends during any financial year if it is not in compliance with its minimum solvency margin. In addition, Arch Re Bermuda is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year s statutory balance sheet) unless it files, at least seven days before payment of such dividends, with the Bermuda Monetary Authority an affidavit stating that it will continue to meet the required margins. In addition, Arch Re Bermuda is prohibited, without prior approval of the Bermuda Monetary Authority, from reducing by 15% or more its total statutory capital, as set out in its previous year s statutory financial statements. At December 31, 2005, as determined under Bermuda law, Arch Re Bermuda had statutory capital of $1.66 billion and statutory capital and surplus of $2.19 billion. Such amounts include ownership interests in U.S. insurance and reinsurance subsidiaries. Accordingly, Arch Re Bermuda can pay approximately $249 million in dividends or distributions to ACGL during 2006 without prior approval under Bermuda law, as discussed above. Our U.S. insurance and reinsurance subsidiaries can pay $72.3 million in dividends or distributions to Arch Capital Group (U.S.) Inc. (Arch-U.S.), our U.S. holding company, which is owned by Arch Re Bermuda, during 2006 without prior regulatory approval. Such dividends or distributions may be subject to applicable withholding or other taxes. Arch Insurance Company (Europe) Limited can pay a de minimis amount of dividends to ACGL during 2006 without prior notice and approval by the FSA. In addition, the ability of our insurance and reinsurance subsidiaries to pay dividends is also constrained by our dependence on the financial strength ratings of our insurance and reinsurance subsidiaries from independent rating agencies. The ratings from these agencies depend to a large extent on the capitalization levels of our insurance and reinsurance subsidiaries. We believe that ACGL has sufficient cash resources and available dividend capacity to service its indebtedness and other current outstanding obligations.

Our insurance and reinsurance subsidiaries are required to maintain assets on deposit, which primarily consist of fixed maturities, with various regulatory authorities to support their operations. The assets on deposit are available to settle insurance and reinsurance liabilities to third parties. Our insurance and reinsurance subsidiaries also have investments in segregated portfolios primarily to provide collateral or guarantees for letters of credit to third parties. At June 30, 2006 and December 31, 2005, such amounts approximated $980.0 million and $1.0 billion, respectively. In addition, Arch Re Bermuda maintains assets in trust accounts as collateral for insurance and reinsurance transactions with affiliated companies. At June 30, 2006 and December 31, 2005, such amounts approximated $3.05 billion and $2.77 billion, respectively.

ACGL, through its subsidiaries, provides financial support to certain of its insurance subsidiaries and affiliates, through certain reinsurance arrangements essential to the ratings of such subsidiaries. Except as described in the preceding sentence, or where express reinsurance, guarantee or other financial support contractual arrangements are in place, each of ACGL s subsidiaries or affiliates is solely responsible for its own liabilities and commitments (and no other ACGL subsidiary or affiliate is so responsible). Any reinsurance arrangements, guarantees or other financial support contractual arrangements that are in place are solely for the benefit of the ACGL subsidiary or affiliate involved and third parties (creditors or insureds of such entity) are not express beneficiaries of such arrangements.

Arch Specialty Insurance Company (Arch Specialty) entered into a Stipulation and Order (Stipulation) with the Wisconsin Office of the Commissioner of Insurance (OCI) in connection with ACGL s acquisition of Arch Specialty in 2002. While the ratio of Arch Specialty s total adjusted capital to authorized control level risk-based capital exceeded 200% at December 31, 2005, and thus was above the risk-based capital threshold that would require company action (the lowest level of corrective action), it was below the 275% ratio that the Stipulation requires Arch Specialty to maintain. Arch Specialty was in compliance with the ratio required under the Stipulation at December 31, 2005 following its receipt during the 2006 first quarter of a capital contribution in the amount of $57.0 million provided by subsidiaries of ACGL, and remains in compliance with such ratio at June 30, 2006. Western Diversified Casualty Insurance Company, which, like Arch Specialty, is domiciled in Wisconsin, also entered into a Stipulation with the OCI in 2003 whereby it must maintain a ratio of total adjusted capital to authorized control level risk-based capital of not less than 275%, and was in compliance with this ratio at June 30, 2006.

Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially in advance, of the time losses are paid. The period of time from the occurrence of a claim through the settlement of the liability may extend many years into the future. Sources of liquidity include cash flows from operations, financing arrangements or routine sales of investments.

We monitor the financial condition of our reinsurers and attempt to place coverages only with substantial, financially sound carriers. At June 30, 2006 and December 31, 2005, approximately 94.0% and 92.6%, respectively, of our reinsurance recoverables on paid and unpaid losses (not including prepaid reinsurance premiums) of $1.68 billion and $1.47 billion, respectively, were due from carriers which had an A.M. Best rating of A- or better. At June 30, 2006 and December 31, 2005, the largest reinsurance recoverables from any one carrier were less than 5.9% and 5.6%, respectively, of our total shareholders equity.

As part of our investment strategy, we seek to establish a level of cash and highly liquid short-term and intermediate-term securities which, combined with expected cash flow, is believed by us to be adequate to meet our foreseeable payment obligations. However, due to the nature of our operations, cash flows are affected by claim payments that may comprise large payments on a limited number of claims and which can fluctuate from year to year. We believe that our liquid investments and cash flow will provide us with sufficient liquidity in order to meet our claim payment obligations. However, the timing and amounts of actual claim payments related to recorded loss reserves vary based on many factors, including large individual losses, changes in the legal environment, as well as general market conditions. The ultimate amount of the claim payments could differ materially from our estimated amounts. Certain lines of business written by us, such as excess casualty, have loss experience characterized as low frequency and high severity. The foregoing may result in significant variability in loss payment patterns. The impact of this variability can be exacerbated by the fact that the timing of the receipt of reinsurance recoverables owed to us may be slower than anticipated by us. Therefore, the irregular timing of claim payments can create significant variations in cash flows from operations between periods and may require us to utilize other sources of liquidity to make these payments, which may include the sale of investments or utilization of existing or new credit facilities or capital market transactions. If the source of liquidity is the sale of investments, we may be forced to sell such investments at a loss, which may be material.

Consolidated cash flow provided by operating activities was $823.2 million for the six months ended June 30, 2006, compared to $685.6 million for the 2005 period. The increase in operating cash flows in the 2006 period was due, in part, to growth in premiums written and net investment income, partially offset by a higher level of paid losses as our loss reserves have continued to mature and due to payments related to the 2004 and 2005 catastrophic events that contributed $104.4 million to paid losses for the six months ended June 30, 2006. Cash flow from operating activities are provided by premiums collected, fee income, investment income and collected reinsurance recoverables, offset by losses and loss adjustment expense payments, reinsurance premiums paid, operating costs and current taxes paid.

We expect that our operational needs, including our anticipated insurance obligations and operating and capital expenditure needs, for the next twelve months, at a minimum, will be met by our balance of cash, short-term investments and our credit facilities, as well as by funds generated from underwriting activities and investment income and proceeds on the sale or maturity of our investments.

We monitor our capital adequacy on a regular basis and will seek to adjust our capital base (up or down) according to the needs of our business. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by several ratings agencies, at a level considered necessary by management to enable our key underwriting subsidiaries to compete; (2) sufficient capital to enable our underwriting subsidiaries to meet the capital adequacy tests performed by statutory agencies in the U.S. and other key markets; and (3) letters of credit and other forms of collateral that are necessary for our non-U.S. underwriting companies because they are non-admitted under U.S. state insurance regulations.

As part of our capital management program, we may seek to raise additional capital or may seek to return capital to our shareholders through share repurchases, cash dividends or other methods (or a combination of such methods). Any such determination will be at the discretion of our board of directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions, rating agency requirements and such other factors as our board of directors deems relevant.

To the extent that our existing capital is insufficient to fund our future operating requirements or maintain such ratings, we may need to raise additional funds through financings or limit our growth. If we are not able to obtain adequate capital, our business, results of operations and financial condition could be adversely affected, which could include, among other things, the following possible outcomes: (1) potential downgrades in the financial strength ratings assigned by ratings agencies to our operating subsidiaries, which could place those operating subsidiaries at a competitive disadvantage compared to higher-rated competitors; (2) reductions in the amount of business that our operating subsidiaries are able to write in order to meet capital adequacy-based tests enforced by statutory agencies; and (3) any resultant ratings downgrades could, among other things, affect our ability to write business and increase the cost of bank credit and letters of credit.

In addition to common share capital, we depend on external sources of finance to support our underwriting activities, which can be in the form (or any combination) of debt securities, preference shares, common equity and bank credit facilities providing loans and/or letters of credit. Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result, and, in any case, such securities may have rights, preferences and privileges that are senior to those of our outstanding securities.

In June 2006, ACGL and Arch-U.S. filed a universal shelf registration statement with the SEC. This registration statement allows for the possible future offer and sale by us of various types of securities, including unsecured debt securities, preference shares, common shares, warrants, share purchase contracts and units and depositary shares. The shelf registration statement enables us to efficiently access the public debt and/or equity capital markets in order to meet our future capital needs. The shelf registration statement also allows selling shareholders to resell common shares that they own in one or more offerings from time to time. We will not receive any proceeds from any shares offered by the selling shareholders. This report is not an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

In November 2005, we entered into a five-year agreement for a $300 million unsecured revolving loan and letter of credit facility and a $500 million secured letter of credit facility, which was amended in April 2006 to provide Arch Insurance Company (Europe) Limited access to the secured portion of the credit facility. The $300 million unsecured loan and letter of credit facility is also available for the issuance of unsecured letters of credit up to $100 million for our U.S.-based reinsurance operation. In light of the expansion of our reinsurance business in property lines, we are considering increasing the capacity of our secured letter of credit facility.

During 2006, ACGL completed two public offerings of non-cumulative preferred shares (Preferred Shares). On February 1, 2006, $200.0 million principal amount of 8.0% series A non-cumulative preferred shares (Series A Preferred Shares) were issued with net proceeds of $193.5 million and, on May 24, 2006, $125.0 million principal amount of 7.875% series B non-cumulative preferred shares (Series B Preferred Shares) were issued with net proceeds of $120.9 million. The net proceeds of the offerings were used to support the underwriting activities of ACGL s insurance and reinsurance subsidiaries. ACGL has the right to redeem all or a portion of each series of Preferred Shares at a redemption price of $25.00 per share on or after (1) February 1, 2011 for the Series A Preferred Shares and (2) May 15, 2011 for the Series B Preferred Shares. Dividends on the Preferred Shares are non-cumulative. Consequently, in the event dividends are not declared on the Preferred Shares for any dividend period, holders of Preferred Shares will not be entitled to receive a dividend for such period, and such undeclared dividend will not accrue and will not be payable. Holders of Preferred Shares will be entitled to receive dividend payments only when, as and if declared by ACGL s board of directors or a duly authorized committee of the board of directors. Any such dividends will be payable from the date of original issue on a non-cumulative basis, quarterly in arrears. To the extent declared, these dividends will accumulate, with respect to each dividend period, in an amount per share equal to 8.0% of the $25.00 liquidation preference per annum for the Series A Preferred Shares and 7.875% of the $25.00 liquidation preference per annum for the Series B Preferred Shares. At June 30, 2006, we had declared an aggregate of $3.1 million of dividends to be paid to holders of the Preferred Shares.

At June 30, 2006, ACGL s capital of $3.32 billion consisted of $300.0 million of senior notes, representing 9.0% of the total, $325.0 million of preferred shares, representing 9.8% of the total, and common shareholders equity of $2.69 billion, representing the balance. At December 31, 2005, ACGL s capital of $2.78 billion consisted of senior notes of $300 million, representing 10.8% of the total, and common shareholders equity of $2.48 billion, representing the balance. The increase in capital during 2006 of $535.3 million was primarily attributable to the issuance of preferred shares and net income for the six months ended June 30, 2006, partially offset by an after-tax decline in the market value of our investment portfolio of $64.3 million which was primarily due to an increase in the level of interest rates.

Off-Balance Sheet Arrangements

We are not party to any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party that management believes is reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. We concluded that, under FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, which was issued and became effective for us during the 2004 first quarter, we are required to consolidate the assets, liabilities and results of operations (if any) of a certain managing general agency in which one of our subsidiaries has an investment. Such agency ceased producing business in 1999 and is currently running-off its operations. Based on current information, there are no assets or liabilities of such agency required to be reflected on the face of our consolidated financial statements that are not, or have not been previously, otherwise reflected therein.

On December 29, 2005, Arch Re Bermuda entered into a quota share reinsurance treaty with Flatiron Re Ltd., a newly-formed Bermuda reinsurance company, pursuant to which Flatiron Re Ltd. is assuming a 45% quota share (the Treaty) of certain lines of property and marine business underwritten by Arch Re Bermuda for unaffiliated third parties for the 2006 and 2007 underwriting years (January 1, 2006 to December 31, 2007). The quota share is subject to decrease by Arch Re Bermuda under certain circumstances. In addition, in certain circumstances, Flatiron Re Ltd. may extend at its option the coverage provided by the Treaty to Arch Re Bermuda s 2008 underwriting yearEffective June 28, 2006, the parties amended the Treaty to increase the percentage ceded to Flatiron Re Ltd. from 45% to 70% of all covered business bound by Arch Re Bermuda from (and including) June 28, 2006 until (and including) August 15, 2006 provided such business does not incept beyond September 30, 2006. The ceding percentage for all business bound outside of this period will continue to be 45%, subject to adjustment as provided under the Treaty. As a result of the terms of the Treaty, we determined that Flatiron Re Ltd. is a variable interest entity. However, Arch Re Bermuda is not the primary beneficiary of Flatiron Re Ltd. and, as such, we are not required to consolidate the assets, liabilities and results of operations of Flatiron Re Ltd. per FIN 46R. See note 13, Commitments and Contingencies, of the notes accompanying our consolidated financial statements for further details on the Treaty with Flatiron Re Ltd.

Investments

The finance and investment committee of our board of directors establishes our investment policies and creates guidelines for our investment managers. The finance and investment committee reviews the implementation of the investment strategy on a regular basis. Our current approach stresses preservation of capital, market liquidity and diversification of risk.

Our cash and invested assets were as follows at June 30, 2006 and December 31, 2005:

(U.S. dollars in thousands)	**June 30, 2006**	**December 31, 2005**
Fixed maturities available for sale, at fair value	$ 5,948,595	$ 5,280,987
Fixed maturities pledged under securities lending agreements, at fair value **(1)**	740,966	862,766
Total fixed maturities	6,689,561	6,143,753
Short-term investments available for sale, at fair value	973,671	681,887
Short-term investments pledged under securities lending agreements, at fair value **(1)**	935	1,100
Other investments, at fair value	132,046	70,233
Cash	366,373	222,477
Total cash and invested assets **(1)**	$ 8,162,586	$ 7,119,450

(1) In securities lending transactions, we receive collateral in excess of the market value of the fixed maturities and short-term investments pledged under securities lending agreements. For purposes of this table, we have excluded $762.2 million and $893.4 million, respectively, of collateral received which is reflected as short-term investment of funds received under securities lending agreements, at fair value and included $741.9 million and $863.9 million, respectively, of fixed maturities and short-term investments pledged under securities lending agreements, at fair value at June 30, 2006 and December 31, 2005.

Our investment strategy allows for the use of derivative instruments. We utilize various derivative instruments such as futures contracts as part of the management of our stock index fund investments and to replicate equity investment positions. Derivative instruments may be used to enhance investment performance, to replicate investment positions or to manage market exposures and duration risk that would be allowed under our investment guidelines if implemented in other ways. See note 7, Investment Information Investment-Related Derivatives, of the notes accompanying our consolidated financial Statements and Critical Accounting Policies, Estimates and Recent Accounting Policies Investment-Related Derivatives for additional disclosures concerning derivatives.

At June 30, 2006 and December 31, 2005, our fixed income portfolio, which includes fixed maturity securities and short-term investments, had an average effective duration of 2.9 years and 3.3 years, respectively, an average Standard & Poor s quality rating of AA+ and an imbedded book yield, before investment expenses, of 4.8% and 4.2%, respectively.

Reserves for Losses and Loss Adjustment Expenses

We establish reserves for losses and loss adjustment expenses (Loss Reserves) which represent estimates involving actuarial and statistical projections, at a given point in time, of our expectations of the ultimate settlement and administration costs of losses incurred. Estimating Loss Reserves is inherently difficult, which is exacerbated by the fact that we are a relatively new company with relatively limited historical experience upon which to base such estimates. We utilize actuarial models as well as available historical insurance industry loss ratio experience and loss development patterns to assist in the establishment of Loss Reserves. Actual losses and loss adjustment expenses paid will deviate, perhaps substantially, from the reserve estimates reflected in our financial statements.

At June 30, 2006 and December 31, 2005, our Loss Reserves, net of unpaid losses and loss adjustment expenses recoverable, by type and by operating segment were as follows:

(U.S. dollars in thousands)	**June 30, 2006**	**December 31, 2005**
Insurance:		
Case reserves	$ 531,221	$ 421,131
IBNR reserves	1,624,407	1,413,243
Total net reserves	$ 2,155,628	$ 1,834,374
Reinsurance:		
Case reserves	$ 596,910	$ 488,593
Additional case reserves	75,264	116,788
IBNR reserves	1,709,252	1,623,303
Total net reserves	$ 2,381,426	$ 2,228,684
Total:		
Case reserves	$ 1,128,131	$ 909,724
Additional case reserves	75,264	116,788
IBNR reserves	3,333,659	3,036,546
Total net reserves	$ 4,537,054	$ 4,063,058

At June 30, 2006 and December 31, 2005, the insurance segment s Loss Reserves by major line of business, net of unpaid losses and loss adjustment expenses recoverable, were as follows:

(U.S. dollars in thousands)	**June 30, 2006**	**December 31, 2005**
Casualty	$ 504,524	$ 420,113
Programs	332,323	323,527
Construction and surety	327,620	267,569
Executive assurance	296,885	222,949
Property, marine and aviation	291,786	259,686
Professional liability	284,314	226,815
Healthcare	108,634	104,464
Other	9,542	9,251
Total net reserves	$ 2,155,628	$ 1,834,374

At June 30, 2006 and December 31, 2005, the reinsurance segment s Loss Reserves by major line of business, net of unpaid losses and loss adjustment expenses recoverable, were as follows:

(U.S. dollars in thousands)	June 30, 2006	December 31, 2005
Casualty	$ 1,410,685	$ 1,304,859
Property excluding property catastrophe	301,918	265,355
Other specialty	257,120	267,850
Marine and aviation	178,457	175,364
Property catastrophe	128,588	107,307
Other	104,658	107,949
Total net reserves	$ 2,381,426	$ 2,228,684

Calculation of Book Value Per Common Share

The following presents the calculation of book value per common share for June 30, 2006 and December 31, 2005. The shares and per share numbers set forth below exclude the effects of 5,976,146 and 5,637,108 stock options and 95,419 and 93,545 restricted stock units outstanding at June 30, 2006 and December 31, 2005, respectively.

(U.S. dollars in thousands, except share data)	(Unaudited) June 30, 2006	December 31, 2005
Total shareholders equity	$ 3,015,780	$ 2,480,527
Less preferred shareholders equity	(325,000)	
Common shareholders equity	$ 2,690,780	$ 2,480,527
Common shares outstanding	73,937,973	73,334,870
Book value per common share	$ 36.39	$ 33.82

Market Sensitive Instruments and Risk Management

In accordance with the SEC s Financial Reporting Release No. 48, we performed a sensitivity analysis to determine the effects that market risk exposures could have on the future earnings, fair values or cash flows of our financial instruments as of June 30, 2006. (See section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations Market Sensitive Instruments and Risk Management included in our 2005 Annual Report on Form 10-K/A.) Market risk represents the risk of changes in the fair value of a financial instrument and is comprised of several components, including liquidity, basis and price risks. At June 30, 2006, material changes in market risk exposures that affect the quantitative and qualitative disclosures presented as of December 31, 2005 are as follows:

Interest Rate and General Portfolio Risk

Fixed Maturities and Short-Term Investments. We invest in interest rate sensitive securities, primarily debt securities. We consider the effect of interest rate movements on the market value of our fixed maturities, fixed maturities pledged under securities lending agreements and short-term investments and the corresponding change in unrealized appreciation. As interest rates rise, the market value of our interest rate sensitive securities falls, and the converse is also true. The following table summarizes the effect that an immediate, parallel shift in the interest rate yield curve would have had on the portfolio at June 30, 2006 and December 31, 2005. Based on historical observations, there is a low probability that all interest rate yield curves would shift in the same direction at the same time and, accordingly, the actual effect of interest rate movements may differ materially from the amounts set forth below. For further discussion on investment activity, please refer to Results of Operations.

(U.S. dollars in millions)	Interest Rate Shift in Basis Points -100	-50	0	50	100
June 30, 2006:	$ 7,891.4	$ 7,775.9	$ 7,664.2	$ 7,554.2	$ 7,448.2
Total market value	2.96 %	1.46 %		(1.44)%	(2.82)%
Market value change from base	$ 227.2	$ 111.7		$ (110.0)	$ (216.0)
Change in unrealized value					
December 31, 2005:					
Total market value	$ 7,060.9	$ 6,942.1	$ 6,826.7	$ 6,715.0	$ 6,606.9
Market value change from base	3.43 %	1.69 %		(1.64)%	(3.22)%
Change in unrealized value	$ 234.2	$ 115.4		$ (111.7)	$ (219.8)

Another method that attempts to measure portfolio risk is Value-at-Risk (VaR). VaR attempts to take into account a broad cross-section of risks facing a portfolio by utilizing relevant securities volatility data skewed towards the most recent months and quarters. VaR measures the amount of a portfolio at risk for outcomes 1.65 standard deviations from the mean based on normal market conditions over a one year time horizon and is expressed as a percentage of the portfolio s initial value. In other words, 95% of the time, should the risks taken into account in the VaR model perform per their historical tendencies, the portfolio s loss in any one year period is expected to be less than or equal to the calculated VaR, stated as a percentage of the measured portfolio s initial value. As of June 30, 2006, our portfolio s VaR was estimated to be 3.08%, compared to an estimated 3.29% at December 31, 2005.

Foreign Currency Exchange Risk

Foreign currency rate risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. A 10% depreciation of the U.S. Dollar against other currencies under our outstanding contracts at June 30, 2006 and December 31, 2005, net of unrealized appreciation on our securities denominated in currencies other than the U.S. Dollar, would have resulted in unrealized losses of approximately $22.5 million and $7.7 million, respectively, and would have decreased book value per common share by approximately $0.30 and $0.11, respectively. Based on historical observations, there is a low probability that all foreign currency exchange rates would shift against the U.S. Dollar in the same direction and at the same time and, accordingly, the actual effect of foreign currency rate movements may differ materially from the amounts set forth above. For further discussion on foreign exchange activity, please refer to Results of Operations.

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This report or any other written or oral statements made by or on behalf of us may include forward-looking statements, which reflect our current views with respect to future events and financial performance. All statements other than statements of historical fact included in or incorporated by reference in this report are forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or their negative or variations or similar terminology.

Forward-looking statements involve our current assessment of risks and uncertainties. Actual events and results may differ materially from those expressed or implied in these statements. Important factors that could cause actual events or results to differ materially from those indicated in such statements are discussed below, elsewhere in this report and in our periodic reports filed with the SEC, and include:

- our ability to successfully implement our business strategy during soft as well as hard markets;

- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and our insureds and reinsureds;

- our ability to maintain or improve our ratings, which may be affected by our ability to raise additional equity or debt financings, by ratings agencies existing or new policies and practices, as well as other factors described herein;

- general economic and market conditions (including inflation, interest rates and foreign currency exchange rates) and conditions specific to the reinsurance and insurance markets in which we operate;

- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;

- our ability to successfully integrate, establish and maintain operating procedures (including the implementation of improved computerized systems and programs to replace and support manual systems) to effectively support our underwriting initiatives and to develop accurate actuarial data, especially in light of the rapid growth of our business;

- the loss of key personnel;

- the integration of businesses we have acquired or may acquire into our existing operations;

- accuracy of those estimates and judgments utilized in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, income taxes, contingencies and litigation, and any determination to use the deposit method of accounting, which for a relatively new insurance and reinsurance company, like our company, are even more difficult to make than those made in a mature company since limited historical information has been reported to us through June 30, 2006;

- greater than expected loss ratios on business written by us and adverse development on claim and/or claim expense liabilities related to business written by our insurance and reinsurance subsidiaries;

- severity and/or frequency of losses;

- claims for natural or man-made catastrophic events in our insurance or reinsurance business could cause large losses and substantial volatility in our results of operations;

- acts of terrorism, political unrest and other hostilities or other unforecasted and unpredictable events;

- losses relating to aviation business and business produced by a certain managing underwriting agency for which we may be liable to the purchaser of our prior reinsurance business or to others in connection with the May 5, 2000 asset sale described in our periodic reports filed with the SEC;

- availability to us of reinsurance to manage our gross and net exposures and the cost of such reinsurance;

- the failure of reinsurers, managing general agents, third party administrators or others to meet their obligations to us;

- the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

- material differences between actual and expected assessments for guaranty funds and mandatory pooling arrangements;

- changes in accounting principles or policies or in our application of such accounting principles or policies; and

- statutory or regulatory developments, including as to tax policy and matters and insurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers and/or changes in regulations or tax laws applicable to us, our subsidiaries, brokers or customers.

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In addition, other general factors could affect our results, including developments in the world s financial and capital markets and our access to such markets.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Other Financial Information

The interim financial information included in this Quarterly Report on Form 10-Q as of and for the three and six months ended June 30, 2006 has not been audited by PricewaterhouseCoopers LLP. In reviewing such information, PricewaterhouseCoopers LLP has applied limited procedures in accordance with professional standards for reviews of interim financial information. However, their separate report included in this Quarterly Report on Form 10-Q for the 2006 second quarter states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, you should restrict your reliance on their reports on such information. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information because such reports do not constitute reports or parts of the registration statements prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the information appearing above under the subheading Market Sensitive Instruments and Risk Management under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, which information is hereby incorporated by reference.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the filing of this Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to applicable Exchange Act Rules as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective.

We continue to enhance our operating procedures and internal controls (including the timely and successful implementation of our information technology initiatives, which include the implementation of improved computerized systems and programs to replace and support manual systems, and including controls over financial reporting) to effectively support our business and our regulatory and reporting requirements. Our management does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. As a result of the inherent limitations in a cost-effective control system, misstatement due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

Changes in Internal Controls Over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, in common with the insurance industry in general, are subject to litigation and arbitration in the normal course of our business. As of June 30, 2006, we were not a party to any material litigation or arbitration other than as a part of the ordinary course of business, none of which is expected by management to have a significant adverse effect on our results of operations and financial condition and liquidity.

In 2003, the former owners of American Independent Insurance Holding Company (American Independent) commenced an action against ACGL, American Independent and certain of American Independent s directors and officers and others seeking unspecified damages relating to the reorganization agreement pursuant to which we acquired American Independent in 2001. The reorganization agreement provided that, as part of the consideration for the stock of American Independent, the former owners would have the right to receive a limited, contingent payment from the proceeds, if any, from certain pre-existing lawsuits that American Independent had brought as plaintiff prior to its acquisition by us. The former owners alleged, among other things, that the defendants entered into the agreement without intending to honor their commitments under the agreement and are liable for securities and common law fraud and breach of contract. In December 2004, we sold American Independent, PSIC and affiliated entities, which conducted our nonstandard automobile insurance operations, to a third party. Under the terms of the sale agreement, ACGL and certain of its affiliates retained the liabilities (if any) relating to the foregoing matters. ACGL and the other defendants filed a motion to dismiss all claims. That motion was granted on March 23, 2005, and the plaintiffs were allowed until April 15, 2005 to amend their complaint. Although they did attempt to amend the complaint, they did not timely and properly do so, and, on April 26, 2005, judgment was entered dismissing the action with prejudice. The plaintiffs thereafter moved to vacate the judgment and to allow retroactively the filing of their second amended complaint; that motion was granted. The plaintiffs filed a new pleading in October 2005. ACGL and the other defendants again moved to dismiss all claims, and those motions are now pending before the court. At the request of the judge, oral arguments were made on June 26, 2006. Although no assurances can be made as to the resolution of such motions or of the plaintiffs claims, management does not believe that any of the claims are meritorious.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes ACGL s purchases of its common shares for the 2006 second quarter:

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased (1)**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs**
4/1/2006-4/30/2006				
5/1/2006-5/31/2006	186	$ 58.19		
6/1/2006-6/30/2006				
Total	186	$ 58.19		

(1) ACGL repurchases shares, from time to time, from employees in order to facilitate the payment of withholding taxes on restricted shares granted. We purchased these shares at their fair market value, as determined by reference to the closing price of our common shares on the day the restricted shares vested.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of shareholders (the Annual Meeting) of ACGL was held on May 3, 2006.

(b) Proxies for the Annual Meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to management s nominees as listed in ACGL s proxy statement, dated March 31, 2006 (the Proxy Statement).

(c) The shareholders of ACGL (1) elected Class II Directors to hold office until the 2009 annual meeting of shareholders or until their successors are elected or qualified, (2) elected certain individuals as Designated Company Directors of certain of ACGL s non-U.S. subsidiaries and (3) ratified the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for the fiscal year ending December 31, 2006. Set forth below are the voting results for these proposals:

Election of Class I Directors of ACGL

	FOR	**WITHHOLD**
Constantine Iordanou		
Total:	70,347,572	193,386
James J. Meenaghan		
Total:	70,450,672	90,286
John M. Pasquesi		
Total:	68,873,955	1,667,003

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Election of Designated Directors of Non-U.S. Subsidiaries

	FOR	WITHHOLD
James J. Ansaldi		
Total:	70,423,292	117,666
Graham B. Collis		
Total:	69,262,700	1,278,258
Marc Grandisson		
Total:	70,423,292	117,666
W. Preston Hutchings		
Total:	70,423,292	117,666
Constantine Iordanou		
Total:	70,520,927	20,031
Ralph E. Jones III		
Total:	70,422,542	118,416
Thomas G. Kaiser		
Total:	70,423,292	117,666
Mark D. Lyons		
Total:	70,423,292	117,666
Nicolas J. Metcalf		
Total:	70,423,292	117,666
Martin J. Nilsen		
Total:	70,423,292	117,666
Nicolas Papadopoulo		
Total:	70,423,292	117,666
Michael Quinn		
Total:	70,423,292	117,666
Maamoun Rajeh		
Total:	70,423,292	117,666
Paul S. Robotham		
Total:	69,169,755	1,371,203
Robert Van Gieson		
Total:	70,423,292	117,666
John D. Vollaro		
Total:	69,169,455	1,371,503

Ratification of Selection of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm

	FOR	AGAINST	ABSTAIN
Total:	70,496,828	41,084	3,046

Item 5. Other Information

In accordance with Section 10a(i)(2) of the Securities Exchange Act of 1934, as amended, we are responsible for disclosing non-audit services to be provided by our independent auditor, PricewaterhouseCoopers LLP, which are approved by the Audit Committee of our board of directors.

During the 2006 second quarter, the Audit Committee approved engagements of PricewaterhouseCoopers LLP for the following permitted non-audit services: tax services, tax consulting and tax compliance.

Item 6. Exhibits

Exhibit No.	**Description**
15	Accountants Awareness Letter (regarding unaudited interim financial information)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ARCH CAPITAL GROUP LTD. **(REGISTRANT)**
Date: August 4, 2006	/s/ Constantine Iordanou Constantine Iordanou President and Chief Executive Officer (Principal Executive Officer) and Director
Date: August 4, 2006	/s/ John D. Vollaro John D. Vollaro Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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