NVIDIA CORP
Form 10-K
March 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 29, 2012

OR

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

Commission file number: 0-23985

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

Delaware	94-3177549
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000
(Address, including zip code, and telephone number, including area code, of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 31, 2011 was approximately $7.98 billion (based on the closing sales price of the registrant's common stock as reported by the NASDAQ Global Select Market, on July 29, 2011). This calculation excludes approximately 26,462,277 shares held by directors and executive officers of the registrant. This calculation does not exclude shares held by such organizations whose ownership exceeds 5% of the registrant's outstanding common stock that have represented to the registrant that they are registered investment advisers or investment companies registered under section 8 of the Investment Company Act of 1940.

The number of shares of common stock outstanding as of March 9, 2012 was 616,028,107

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission by April 5, 2012 are incorporated by reference.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “goal,” “would,” “expect,” “plan,” “anticipate,” “estimate,” “project,” “predict,” “potential” and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Annual Report on Form 10-K in greater detail under the heading “Risk Factors.” Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

All references to “NVIDIA,” “we,” “us,” “our” or the “Company” mean NVIDIA Corporation and its subsidiaries, except wher it is made clear that the term means only the parent company.

Our Company

NVIDIA is known to millions around the world for creating the graphics chips used in personal computers, or PCs, that bring games and home movies to life. With the invention of the graphics processing unit, or GPU, we introduced the world to the power of computer graphics. Today, we reach well beyond PC graphics. Our energy-efficient processors power a broad range of products, from smart phones to supercomputers. Our mobile processors are used in cell phones, tablets and auto infotainment systems. PC gamers rely on our GPUs to enjoy visually immersive worlds. Designers use GPUs to create visual effects in movies and create everything from golf clubs to jumbo jets. Researchers utilize GPUs to push the frontiers of science with high-performance computing. NVIDIA has nearly 5,000 patents granted and pending worldwide.

NVIDIA solutions are based on two important technologies: the GPU and the mobile processor. Both are highly complex chips, designed by NVIDIA engineers, and manufactured for us by a third party chip foundry. GPUs are the engines of visual computing, the science and art of using computers to understand, create and enhance images. One of the most complex processors ever created, the most advanced GPUs contain billions of transistors. We have three GPU product brands: GeForce, which creates realistic visual experiences for gamers; Quadro, the standard in visual computing for designers and digital artists; and Tesla, which accelerates applications for scientists and researchers.

Mobile processors incorporate central processing unit, or CPU, and GPU technologies to deliver an entire computer system on a single chip, or system-on-chip. Modern mobile processors possess significant computing capabilities yet consume one hundred times less energy than a typical PC. Tegra is our mobile processor and is built for applications ranging from smartphones, tablets and notebook PCs to televisions and cars. We believe energy-efficient mobile computing will transform how computers are used in our lives. Tegra is a major new growth business for us.
We were incorporated in California in April 1993 and reincorporated in Delaware in April 1998. Our headquarter facilities are in Santa Clara, California.

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Reporting Segments

We have three primary financial reporting segments - GPU Business; Professional Solutions Business, or PSB; and Consumer Products Business, or CPB.

Reporting Segments	Primary Revenue Sources
GPU	GeForce discrete graphics and chipset products and notebook PCs Licensing fees from Intel Corporation Memory products
PSB	Quadro professional workstation products Tesla high-performance computing products
CPB	Tegra mobile products Icera baseband processors and RF transceivers for mobile connectivity Royalty license fees and other revenue related to video game consoles GPU and Tegra products in embedded products and automobiles

GPU Business

Our GPU business revenue includes primarily sales of our GeForce discrete and chipset products that support desktop and notebook PCs plus license fees from Intel and sales of memory products. GeForce GPUs enhance the gaming experience on consumer notebook and desktop PCs by improving the quality of game graphics and the physical realism of the game environment. They also accelerate video editing and high definition, or HD, content creation by consumers and improve the viewing experience. GeForce GPUs power PCs made by or distributed by most PC original equipment manufacturers, or OEMs, in the world.

We ceased development of future chipset products based on the technology of the media and communications processor, or MCP, in the first quarter of fiscal 2011 and expect MCP chipset revenue in fiscal 2013 to be immaterial. Our MCP chipsets primarily comprised of our ION motherboard GPUs, a product reaching the end of its life cycle.

Professional Solutions Business

Our PSB consists of our Quadro professional workstation products and our Tesla high-performance computing products. Our Quadro products are designed to deliver the highest possible level of graphics performance and application compatibility for professionals. Tesla applies the significant processing power of our GPUs to general-purpose computing problems, greatly increasing performance and power efficiency over CPU-only solutions.

Quadro products improve performance and add functionality, such as photorealistic rendering, to computer-aided design workstations, and are used in professional video editing applications and for generating special effects in movies. They are recognized by many as the standard for professional graphics solutions needed to solve many of the world's most complex visual computing challenges in the manufacturing, entertainment, medical, science and aerospace industries. Quadro products are fully certified by several software developers for professional workstation applications.

Our growth strategy for Quadro is twofold: increase our focus on emerging economies; and continue to make Quadro more valuable through innovations such as our Maximus technology, which allows professionals to process compute-intensive tasks and visually intensive graphics simultaneously.

We believe industrial design is increasing in emerging economies, as manufacturers in, for example, Brazil, Russia, India and China, attempt to move up the value chain from contract manufacture to full product design. Movie-making in these regions is becoming more sophisticated and is expected to make more use of Quadro, just as Hollywood does today. All five nominated films for the special effects Oscar in 2011 used Quadro, while Bollywood's first action blockbuster, RaOne, also depended on Quadro for computer-generated special effects.

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In fiscal year 2012, we launched Project Maximus, which uses the compute power of Tesla with the visualization power of Quadro to merge the design and simulation stages into one workstation. Traditionally, the design and simulation stages of new product development have been separate, requiring the designer to hand over to a simulation expert and wait for the results before revising their design. Combining the processes greatly reduces the time for each iteration. “Simulation”, in this context, can mean verifying a plastic component is capable of manufacture by modeling the injection of molten plastic into a mold, determining a product is strong enough through a stress simulation, or generating a photorealistic image of a consumer product by simulating the path of light through and across it.

Tesla has had particular success in supercomputing centers and in oil exploration; other applications include accelerating drug discovery, weather simulations and derivative price modeling. Our growth strategy for Tesla is to focus on these and some other key markets, and to continue building an ecosystem of applications, development tools and developers who can develop for a massively parallel architecture like Tesla.

Consumer Products Business

Our CPB includes our Tegra system-on-chip products for smartphones, tablets, automotive infotainment systems, and other similar devices, and Icera baseband processors. The significant majority of Tegra revenues are generated by sales in smart phones and tablets. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

Our mobile strategy is to create a system-on-chip that enables the entertainment and web experiences that end users enjoy on a PC and other mobile devices. NVIDIA Tegra mobile products implement design techniques, both inside the chips and at the system level, which result in high performance and long battery life. These technologies enhance visual display capabilities, improve connectivity and minimize chip and system-level power consumption. We aim to innovate faster than the competition, introducing new features and capabilities to differentiate the user experience.

In support of this strategy, during fiscal year 2012, we launched Tegra 3, the world's first quad-core mobile computing chip, bringing PC levels of performance within the power envelope of a cellular phone chip. Tegra 3 includes several unique innovations, including its variable symmetric multiprocessing architecture with companion core which enables extremely low-power operation during the majority of use cases, and PRISM, which increases battery life during video playback by 40%. Another notable innovation is DirectTouch, which significantly improves the responsiveness of touch-screen user interfaces on devices and simultaneously reduces costs for the device manufacturer. Our software expertise makes both of these inventions completely transparent to the operating system; that is, neither the operating system nor the application developer has to know about them for users to benefit from them.

During the second quarter of fiscal year 2012, we completed the acquisition of Icera, an innovator of baseband processors for 3G and 4G cellular phones and tablets. Icera's technology uses a custom-built, low-power processor and a software-based baseband which assist manufacturers to develop multiple products from a common platform, reduce development costs and accelerate time to market. Icera's high-speed wireless modem products have been approved by more than 50 carriers across the globe. In addition to leveraging on the existing Icera business, the objective of the acquisition is to accelerate and enhance the combination of our application processor with Icera's baseband processor for use in mobile devices such as smartphone and tablets. Please refer to Note 7 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for additional information regarding this business combination.

Our Strategy

Maintain Technology and Product Leadership in Visual Computing. We believe that ongoing investment in research and development in 3D graphics and image processing is critical to the development and enhancement of innovative products and technologies. We are focused on using our advanced engineering capabilities to accelerate the quality and performance of 3D graphics, image processing and computational graphics to raise and change the user experience for both consumer entertainment and professional visualization applications. Our research and development strategy is to focus on concurrently developing multiple generations of GPUs, including GPUs for high-performance computing, and mobile and consumer products using independent design teams. As we have in the past, we intend to use this strategy to achieve new levels of graphics, networking and communications features and performance and ultra-low power designs, enabling our customers to achieve superior performance in their products. One of our primary competitive advantages is the quality of our software, measured by performance, reliability, features and compatibility with other applications.

Advance Mobile Computing with Best-in-Class Ultra-Low Power System-On-Chip Processors. We believe that our expertise in graphics and low-power system architecture positions us to help drive continued market penetration through our applications processor roadmap. By deploying the new NVIDIA Icera baseband processor, we believe we can address a larger segment of the phone market. And further, by integrating the applications processor and baseband processor together in a single product, we believe we will be able to address an even larger segment next year.

Revolutionize High Performance Computing with Tesla and CUDA. Tesla is a family of GPU computing products that delivers processing capabilities for high-performance computing applications. NVIDIA CUDA is a general purpose parallel computing architecture that leverages the parallel compute engine in NVIDIA GPUs to solve many complex computational problems in a fraction of the time required by a CPU. We are working with developers around the world who have adopted and written application programs for the CUDA architecture using various high-level programming languages, which can then be run at significant execution speeds on our GPUs. Developers are able to accelerate algorithms in areas ranging from molecular dynamics to image processing, medical image reconstruction and derivatives modeling for financial risk analysis. We are also working with universities around the world that teach parallel programming with CUDA as well as with many PC , or OEMs that offer high performance computing solutions with Tesla for use by their customers around the world. We also sell directly to supercomputing centers such as Oak Ridge National Laboratory in the U.S. and the National Supercomputing Center in Tianjin, China. Researchers use CUDA to accelerate their time-to-discovery, and many popular off-the-shelf software packages are now CUDA-accelerated.

Use Our Intellectual Property and Resources to Enter into License and Development Contracts. We believe our technology leadership in graphics and mobile computing offers the opportunity to license our technology to customers that desire to build such capabilities directly into their own products. Accordingly, from time to time, we expect to enter into license and development arrangements, some of which may involve significant customization of our intellectual property components, to further enhance the reach of our graphics and mobile technology.

Sales and Marketing

Our worldwide sales and marketing strategy is key to our objective to become the leading supplier of , high-performance and efficient GPUs and mobile system-on-chip products. Our sales and marketing teams work closely with each industry's respective OEMs, original design manufacturers, or ODMs, system builders, motherboard manufacturers, add-in board manufacturers, or AIBs and industry trendsetters, collectively referred to as our Channel, to define product features, performance, price and timing of new products. Members of our sales team have a high level of technical expertise and product and industry knowledge to support the competitive and complex design win process. We also employ a highly skilled team of application engineers to assist our Channel in designing, testing and qualifying system designs that incorporate our products. We believe that the depth and quality of our design support are keys to improving our Channel's time-to-market, maintaining a high level of customer satisfaction within our Channel and fostering relationships that encourage customers to use the next generation of our products.

In the segments we serve that purchase our GPUs, the sales process involves achieving key design wins with leading OEMs and major system builders and supporting the product design into high volume production with key ODMs, motherboard manufacturers and AIBs. These design wins in turn influence the retail and system builder channel that is serviced by AIB and motherboard manufacturers. Our distribution strategy is to work with a number of leading independent contract equipment manufacturers, or CEMs, ODMs, motherboard manufacturers, AIBs and distributors, each of which have relationships with a broad range of major OEMs and/or strong brand name recognition in the retail channel. Currently, we sell a significant portion of our processors directly to distributors, CEMs, ODMs, motherboard manufacturers and add-in board manufacturers, which then sell boards and systems with our products to leading OEMs, retail outlets and a large number of system builders. In the CPB segment that we serve, the sales process primarily involves achieving key design wins directly with the leading mobile OEMs and supporting the product design into high-volume production.

As a result of our Channel strategy, a small number of our customers represent the majority of our revenue. However, their end customers consist of a large number of OEMs and system builders throughout the world. Sales to our largest customer accounted for 11% of our total revenue for fiscal year 2012.

To encourage software title developers and publishers to develop games optimized for platforms utilizing our products, we seek to establish and maintain strong relationships in the software development community. Engineering and marketing personnel interact with and visit key software developers to promote and discuss our products, as well as to ascertain product requirements and solve technical problems. Our developer program makes certain that our products are available to developers prior to volume availability in order to encourage the development of software titles that are optimized for our products.

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Backlog

Our sales are primarily made pursuant to standard purchase orders. The quantity of products purchased by our customers as well as our shipment schedules are subject to revisions that reflect changes in both the customers' requirements and in manufacturing availability. The semiconductor industry is characterized by short lead time orders and quick delivery schedules. In light of industry practice and experience, we believe that only a small portion of our backlog is non-cancelable and that the dollar amount associated with the non-cancelable portion is not significant.

Seasonality

Our industry is largely focused on the consumer products market. Historically, we have seen stronger revenue in the second half of our fiscal year than in the first half of our fiscal year, primarily due to back-to-school and holiday demand. However, there can be no assurance of this trend.

Manufacturing

We do not directly manufacture semiconductor wafers used for our products. Instead, we utilize what is known as a fabless manufacturing strategy for all of our product-line operating segments whereby we employ world-class suppliers for all phases of the manufacturing process, including wafer fabrication, assembly, testing and packaging. This strategy uses the expertise of industry-leading suppliers that are certified by the International Organization for Standardization in such areas as fabrication, assembly, quality control and assurance, reliability and testing. In addition, this strategy allows us to avoid many of the significant costs and risks associated with owning and operating manufacturing operations. Our suppliers are also responsible for procurement of most of the raw materials used in the production of our products. As a result, we can focus our resources on product design, additional quality assurance, marketing and customer support.

We utilize industry-leading suppliers, such as Taiwan Semiconductor Manufacturing Company Limited, to produce our semiconductor wafers. We then utilize independent subcontractors, such as Advanced Semiconductor Engineering, Inc., Amkor Technology, JSI Logistics Ltd., King Yuan Electronics Co., Ltd., Siliconware Precision Industries Company Ltd. and STATS ChipPAC Incorporated to perform assembly, testing and packaging of most of our products. We purchase substrates from Nanya Technology Corporation, IbidenCo., Ltd. and Unimicron Technology Corporation.

We typically receive semiconductor products from our subcontractors, perform incoming quality assurance and then ship the semiconductors to CEMs, distributors, motherboard and AIB customers from our third-party warehouse in Hong Kong. Generally, these manufacturers assemble and test the boards based on our design kit and test specifications, and then ship the products to retailers, system builders or OEMs as motherboard and add-in board solutions.

Inventory and Working Capital

Our management focuses considerable attention on managing our inventories and other working-capital-related items. We manage inventories by communicating with our customers and then using our industry experience to forecast demand on a product-by-product basis. We then place manufacturing orders for our products that are based on forecasted demand. The quantity of products actually purchased by our customers as well as shipment schedules are subject to revisions that reflect changes in both the customers' requirements and in manufacturing availability. We generally maintain substantial inventories of our products because the semiconductor industry is characterized by short lead time orders and quick delivery schedules.

Our existing cash and marketable securities balances increased by 25.7% at the end of fiscal year 2012 compared with the end of fiscal year 2011. We believe that these balances and our anticipated cash flows from operations will be sufficient to meet our operating, acquisition and capital requirements for at least the next twelve months.

Research and Development

We believe that the continued introduction of new and enhanced products designed to deliver leading 3D graphics, HD video, audio, ultra-low power consumption and system-on-chip architectures is essential to our future success. Our research and development strategy is to focus on concurrently developing multiple generations of GPUs, including GPUs for high-performance computing, and mobile and consumer products using independent design teams. Our research and development efforts are performed within specialized groups consisting of software engineering, hardware engineering, very large scale integration design engineering, process engineering, architecture and algorithms. These groups act as a pipeline designed to allow the efficient simultaneous development of multiple generations of products.

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A critical component of our product development effort is our partnerships with leaders in the computer-aided design industry. We invest significant resources in the development of relationships with industry leaders, often assisting these companies in the product definition of their new products. We believe that forming these relationships and utilizing next-generation development tools to design, simulate and verify our products will help us remain at the forefront of the 3D graphics market and develop products that utilize leading-edge technology on a rapid basis. We believe this approach assists us in meeting the new design schedules of PC OEMs and other manufacturers.

As of January 29, 2012, we had 5,042 full-time employees engaged in research and development. During fiscal years 2012, 2011 and 2010, we incurred research and development expense of $1,002.6 million, $848.8 million and $908.9 million, respectively.

Competition

The market for our products is intensely competitive and is characterized by rapid technological change, evolving industry standards and declining average selling prices. We believe that the principal competitive factors in this market are performance, breadth of product offerings, access to customers and distribution channels, software support, conformity to industry standard Application Programming Interfaces, manufacturing capabilities, processor pricing and total system costs. We believe that our ability to remain competitive will depend on how well we are able to anticipate the features and functions that customers will demand and whether we are able to deliver consistent volumes of our products at acceptable levels of quality and at competitive prices. We expect competition to increase from both existing competitors and new market entrants with products that may be less costly than ours, or may provide better performance or additional features not provided by our products. In addition, it is possible that new competitors or alliances among competitors could emerge and acquire significant market share.

A significant source of competition comes from companies that provide or intend to provide GPUs and mobile and consumer products. Some of our competitors may have greater marketing, financial, distribution and manufacturing resources than we do and may be more able to adapt to customer or technological changes.

Our current competitors include:

- suppliers of GPUs, including chipsets that incorporate 3D graphics functionality as part of their existing solutions, such as Advanced Micro Devices, or AMD, Intel, Matrox Electronics Systems Ltd. and VIA Technologies, Inc.;

- suppliers of system-on-chip products that support tablets, smartphones, portable media players, internet television, automotive navigation and other similar devices, such as AMD, ARM Holdings plc, Broadcom Corporation, Freescale Semiconductor Inc., Fujitsu Limited, Imagination Technologies Ltd., Intel, Marvell Technology Group Ltd., NEC Corporation, Qualcomm Incorporated, Renesas Technology Corp., Samsung Electronics Co. Ltd., Seiko Epson Corporation, ST-Ericsson, Texas Instruments Incorporated and Toshiba America Electronic Components, Inc.;

- licensors of graphics technologies, such as ARM Holdings plc and Imagination Technologies Group plc.; and

- suppliers of cellular basebands such as Broadcom Corporation, Freescale Semiconductor Inc., HiSilicon Technologies Co., Ltd., Intel, Marvell Technology Group Ltd., Mediatek, Qualcomm Incorporated, Renesas Technology Corp., Samsung Electronics Co. Ltd., Spreadtrum Communications Co., Ltd, ST-Ericsson, and Texas Instruments Incorporated.

If and to the extent we offer products in new markets, we may face competition from existing competitors as well as from companies with which we currently do not compete. We expect substantial competition from both Intel's and AMD's strategy of selling platform solutions, including integrating a CPU and a GPU on the same chip or same package, as evidenced by AMD's announcement of its Fusion processors and Intel's announcement of its family of CPUs codenamed Sandy Bridge. As AMD and Intel continue to pursue platform solutions and integrated CPUs, we may not be able to successfully compete and our business could be negatively impacted.

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Patents and Proprietary Rights

We rely primarily on a combination of patents, trademarks, trade secrets, employee and third-party nondisclosure agreements and licensing arrangements to protect our intellectual property in the United States and internationally. Our currently issued patents have expiration dates from March 2012 to January 2031. We have numerous patents issued, allowed and pending in the United States and in foreign jurisdictions. Our patents and pending patent applications primarily relate to our products and the technology used in connection with our products. We also rely on international treaties, organizations and foreign laws to protect our intellectual property. The laws of certain foreign countries in which our products are or may be manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as the laws of the United States. This makes the possibility of piracy of our technology and products more likely. We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as:

- the location in which our products are manufactured;
- our strategic technology or product directions in different countries;
- the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions; and
- the commercial significance of our operations and our competitors' operations in particular countries and regions.

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged by third parties. The enforcement of patents by others may harm our ability to conduct our business. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to effectively protect our intellectual property could harm our business. We have licensed technology from third parties for incorporation in some of our products and for defensive reasons, and expect to continue to enter into such license agreements. These licenses may result in royalty payments to third parties, the cross licensing of technology by us or payment of other consideration. If these arrangements are not concluded on commercially reasonable terms, our business could suffer.

Employees

As of January 29, 2012, we had 7,133 employees, 5,042 of whom were engaged in research and development and 2,091 of whom were engaged in sales, marketing, operations and administrative positions. We believe we have good relationships with our employees.

Financial Information by Reporting Segment and Geographic Data

The information included in Note 18 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K, including financial information by business segment and revenue and long-lived assets by geographic region, is hereby incorporated by reference.

Executive Officers of the Registrant

The following sets forth certain information regarding our executive officers, their ages and their positions as of February 29, 2012:

Name	Age	Position
Jen-Hsun Huang	49	President, Chief Executive Officer and Director
Karen Burns	44	Vice President and Interim Chief Financial Officer
Ajay K. Puri	57	Executive Vice President, Worldwide Sales
David M. Shannon	56	Executive Vice President, General Counsel and Secretary

Debora Shoquist	57	Executive Vice President, Operations

Jen-Hsun Huang co-founded NVIDIA in April 1993 and has served as its President, Chief Executive Officer and a member of the Board of Directors since its inception. From 1985 to 1993, Mr. Huang was employed at LSI Logic Corporation, a computer chip manufacturer, where he held a variety of positions, most recently as Director of Coreware, the business unit responsible for LSI's “system-on-chip” strategy. From 1983 to 1985, Mr. Huang was a microprocessor designer for Advanced Micro Devices, Inc., a semiconductor company. Mr. Huang holds a B.S.E.E. degree from Oregon State University and an M.S.E.E. degree from Stanford University.

Karen Burns joined NVIDIA in October 2000 and has served as Vice President and Interim Chief Financial Officer of NVIDIA since March 2011. From December 2010 to March 2011, Ms. Burns served as NVIDIA's Vice President, Corporate Controller and Tax and as Vice President - Tax from November 2007. From October 2000 to October 2007, Ms. Burns served as head of the tax department in various capacities, including Senior Director and Director. Previous to NVIDIA, Ms. Burns served nine years in various capacities in tax and audit with KPMG, a global public accounting firm, in their Atlanta, London, and Silicon Valley based practices. Ms. Burns holds both a B.A. and an M.A. in Accounting from Florida State University.

Ajay K. Puri joined NVIDIA in December 2005 as Senior Vice President, Worldwide Sales and became Executive Vice President, Worldwide Sales in January 2009. Prior to NVIDIA, he held positions in sales, marketing, and general management over a 22-year career at Sun Microsystems, Inc. Mr. Puri previously held marketing, management consulting, and product development positions at Hewlett-Packard Company, Booz Allen Hamilton Inc., and Texas Instruments Incorporated. Mr. Puri holds an M.B.A. degree from Harvard University, an M.S.E.E. degree from the California Institute of Technology and a B.S.E.E. degree from the University of Minnesota.

David M. Shannon joined NVIDIA in August 2002 as Vice President and General Counsel. Mr. Shannon became Secretary of NVIDIA in April 2005, a Senior Vice President in December 2005 and an Executive Vice President in January 2009. From 1993 to 2002, Mr. Shannon held various counsel positions at Intel, including the most recent position of Vice President and Assistant General Counsel. Mr. Shannon also practiced for eight years in the law firm of Gibson Dunn and Crutcher, focusing on complex commercial and high-technology related litigation. Mr. Shannon holds B.A. and J.D. degrees from Pepperdine University.

Debora Shoquist joined NVIDIA in September 2007 as Senior Vice President of Operations and became Executive Vice President of Operations in January 2009. From 2004 to 2007, Ms. Shoquist served as Senior Vice President of Operations at JDS Uniphase Corporation, a provider of communications test and measurement solutions and optical products for the telecommunications industry. From 2002 to 2004, she served as Senior Vice President and General Manager of the Electro-Optics business at Coherent, Inc., a manufacturer of commercial and scientific laser equipment. Her experience includes her role at Quantum Corporation as the President of the Personal Computer Hard Disk Drive Division. Her experience also includes senior roles at Hewlett-Packard Corporation. She holds a B.S degree in Electrical Engineering from Kansas State University and a B.S. degree in Biology from Santa Clara University.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as the amended are available free of charge on or through our web site, http://www.nvidia.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. Our web site and the information on it or connected to it is not a part of this Form 10-K.

ITEM 1A. RISK FACTORS

In evaluating NVIDIA and our business, the following factors should be considered in addition to the other information in this Annual Report on Form 10-K. Before you buy our common stock, you should know that making such an investment involves some risks including, but not limited to, the risks described below. Additionally, any one of the following risks could seriously harm our business, financial condition and results of operations, which could cause our stock price to decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Related to Our Business, Industry and Partners

If we are unable to compete in the markets for our products, our financial results will be adversely impacted.

The market for our products is extremely competitive, and we expect competition to intensify as current competitors expand their product offerings, industry standards continue to evolve and others realize the market potential of mobile and consumer products and services.

Our current competitors include:

- suppliers of GPUs, including chipsets that incorporate 3D graphics functionality as part of their existing solutions, such as Advanced Micro Devices, or AMD, Intel, Matrox Electronics Systems Ltd., and VIA Technologies, Inc.;

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- suppliers of system-on-chip products that support tablets, smartphones, portable media players, internet television, automotive navigation and other similar devices, such as AMD, ARM Holdings plc, Broadcom Corporation, Freescale Semiconductor Inc., Fujitsu Limited, Imagination Technologies Ltd., Intel, Marvell Technology Group Ltd., NEC Corporation, Qualcomm Incorporated, Renesas Technology Corp., Samsung Electronics Co. Ltd., Seiko Epson Corporation, ST-Ericsson, Texas Instruments Incorporated and Toshiba America Electronic Components, Inc.;
- licensors of graphics technologies such as ARM Holdings plc and Imagination Technologies Group plc and
- suppliers of cellular basebands such as , Broadcom Corporation, Freescale Semiconductor Inc., HiSilicon Technologies Co., Ltd., Intel, Marvell Technology Group Ltd., Mediatek, Qualcomm Incorporated, Renesas Technology Corp., Samsung Electronics Co. Ltd., Spreadtrum Communications Co., Ltd, ST-Ericsson and Texas Instruments Incorporated.

We expect competition to increase from both existing competitors and new market entrants with products that may be less costly than ours, or may provide better performance or additional features not provided by our products. In addition, it is possible that new competitors or alliances among competitors could emerge and acquire significant market share. Furthermore, competitors with greater financial resources may be able to offer lower prices than us, or they may offer additional products, services or other incentives that we may not be able to match. In addition, many of our competitors operate and maintain their own fabrication facilities and have longer operating histories, greater name recognition, larger customer bases, and greater sales, marketing and distribution resources than we do.

Our ability to compete will depend on, among other factors, our ability to:

- continue to keep pace with technological developments;
- develop and introduce new products, services, technologies and enhancements on a timely basis;
- transition our semiconductor products to increasingly smaller line width geometries;
- obtain sufficient foundry capacity and packaging materials; and
- succeed in significant foreign markets, such as China and India.

If we are unable to compete in our current or new markets, demand for our products could decrease which could cause our revenue to decline and our financial results to suffer.

If and to the extent we offer products in new markets, we may face competition from existing competitors as well as from companies with which we currently do not compete. We expect substantial competition from Intel and AMD, both of whom has a strategy of selling platform solutions, including integrating a CPU and a GPU on the same chip or same package, as evidenced by AMD's announcement of its Fusion processors and Intel's announcement of its family of CPUs codenamed Sandy Bridge. As Intel and AMD continue to pursue platform solutions and integrated CPUs, our business could be negatively impacted.

We depend on foundries to manufacture our products and these third parties may not be able to satisfy our manufacturing requirements, which would harm our business.

We do not manufacture the silicon wafers used for our products and do not own or operate a wafer fabrication facility. Instead, we are dependent on industry-leading foundries, such as Taiwan Semiconductor Manufacturing Company Limited, or TSMC, to manufacture our semiconductor wafers using their fabrication equipment and techniques. A substantial portion of our wafers are supplied by TSMC. The foundries, which have limited capacity, also manufacture products for other semiconductor companies, including some of our competitors. Since we do not have long-term commitment contracts with any of these foundries, they do not have an obligation to provide us with any set pricing or minimum quantity of product at any time except as may be provided in a specific purchase order. Most of our products are only manufactured by one foundry at a time. In times of high demand, the foundries could choose to prioritize their capacity for other companies, reduce or eliminate deliveries to us, or increase the prices that they charge us. If we are unable to meet customer demand due to reduced or eliminated deliveries or have to increase the prices of our products, we could lose sales to customers, which would negatively impact our revenue and our reputation.

Because the lead-time needed to establish a strategic relationship with a new manufacturing partner and achieve initial production could be over a year, we do not have an alternative source of supply for our products. In addition, the time and effort to qualify a new foundry would result in additional expense, diversion of resources, and could result in lost sales, any of which would negatively impact our financial results. We believe that long-term market acceptance for our products will depend on reliable relationships with the third-party manufacturers we use to ensure adequate product supply and competitive pricing to respond to customer demand.

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If our third-party foundries are not able to transition to new manufacturing process technologies or develop, obtain or successfully implement high quality, leading-edge process technologies our operating results and gross margin could be adversely affected.

We use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we continuously evaluate the benefits of migrating our products to smaller geometry process technologies in order to improve performance and reduce costs. We believe this strategy will help us remain competitive. Our current product families are manufactured using 0.18 micron, 0.14 micron, 0.13 micron, 0.11 micron, 90 nanometer, 80 nanometer, 65 nanometer, 55 nanometer and 40 nanometer process technologies. Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development, which could negatively impact our operating expenses and gross margin.

We have experienced difficulty in migrating to new manufacturing processes in the past and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. We may face similar difficulties, delays and expenses as we continue to transition our new products to smaller geometry processes. Moreover, we are dependent on our third-party manufacturers to invest sufficient funds in new manufacturing processes in order to have ample capacity for all of their customers and to develop the processes in a timely manner. Our product cycles may also depend on our third-party manufacturers migrating to smaller geometry processes successfully and in time for us to meet our customer demands. Some of our competitors own their manufacturing facilities and may be able to move to a new state of the art manufacturing process more quickly or more successfully than our manufacturing partners. If our suppliers fall behind our competitors in manufacturing processes, the development and customer demand for our products and the use of our products could be negatively impacted. If we are forced to use larger geometric processes in manufacturing a product than our competition, our gross margin may be reduced. The inability by us or our third-party manufacturers to effectively and efficiently transition to new manufacturing process technologies may adversely affect our operating results and our gross margin.

We cannot be certain that our third-party foundries will be able to develop, obtain or successfully implement high quality, leading-edge process technologies needed to manufacturer our products profitably or on a timely basis or that our competitors (including those that own their own manufacturing facilities) will not develop such high quality, leading-edge process technologies earlier. If our third-party foundries experience manufacturing inefficiencies, we may fail to achieve acceptable yields or experience product delivery delays. If our third-party foundries fall behind our competitors (including those that own their own manufacturing facilities), the development and customer demand for our products and the use of our products could be negatively impacted. Additionally, we cannot be certain that our third-party foundries will manufacture our products at prices that are competitive to what our competitors pay. If our third-party foundries do not charge us competitive prices, our operating results and gross margin will be negatively impacted.

Failure to achieve expected manufacturing yields for our products could negatively impact our financial results and damage our reputation.

Manufacturing yields for our products are a function of product design, which is developed largely by us, and process technology, which typically is proprietary to the manufacturer. Low yields may result from either product design or process technology failure. We do not know a yield problem exists until our design is manufactured. When a yield issue is identified, the product is analyzed and tested to determine the cause. As a result, yield problems may not be identified until well into the production process. Resolution of yield problems requires cooperation by, and communication between, us and the manufacturer. Because of our potentially limited access to wafer foundry capacity and our recent transition to a wafer buy model where the costs of our products are based on the price per wafer versus price per functional die, decreases in manufacturing yields could result in an increase in our costs and force us to allocate our available product supply among our customers. Lower than expected yields could potentially harm customer relationships, our reputation and our financial results.

Our business results could be adversely affected if the identification and development of new products is delayed or unsuccessful.

In order to maintain or improve our financial results, we will need to continue to identify and develop new products and enhancements to our existing products in a timely and cost-effective manner. The process of developing new products and services and enhancing existing products and services is highly complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technology trends could adversely affect our business. We must make long-term investments and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our new products and technologies. It is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. Even if we introduce new and enhanced products to the market, we may not be able to achieve market acceptance of them in a timely manner.

Our ability to successfully develop and deliver new products will depend on various factors, including our ability to:

- effectively identify and capitalize upon opportunities in new markets;
- timely complete and introduce new products and technologies;
- transition our semiconductor products to increasingly smaller line width geometries; and
- obtain sufficient foundry capacity and packaging materials.

We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. In addition, in the past, we have been unable to successfully manage product transitions from older to newer products resulting in obsolete inventory. Our failure to successfully develop and introduce new products and technologies or identify new uses for existing or future products, could result in rapidly declining average selling prices, reduced demand for our products or loss of market share any of which could harm our competitive position and cause our revenue, gross margin and overall financial results to suffer.

If we are unable to achieve market acceptance and design wins for our products and technologies, our results of operations and competitive position will be harmed.

The success of our business depends to a significant extent on our ability to achieve market acceptance of our new products and enhancements to our existing products and identify and enter new markets. The market for our product and technologies has been characterized by unpredictable and sometimes rapid shifts in the popularity of products, often caused by the publication of competitive industry benchmark results, changes in pricing of dynamic random-access memory devices and other changes in the total system cost of add-in boards, as well as by severe price competition and by frequent new technology and product introductions. Broad market acceptance is difficult to achieve and such market acceptance, if achieved, is difficult to sustain due to intense competition and frequent new technology and product introductions. If we do not successfully achieve or maintain market acceptance for our products and enhancements or identify and enter new markets, our ability to compete and maintain or increase revenues will suffer.

Additionally, there can be no assurance that the industry will continue to demand new products with improved standards, features or performance. If our customers, original equipment manufacturers, or OEMs, original design manufacturers, or ODMs, add-in-card and motherboard manufacturers, system builders and consumer electronics companies, do not continue to design products that require more advanced or efficient processors and/or the market does not continue to demand new products with increased performance, features, functionality or standards, sales of our products could decline and the markets for our products could shrink. Decreased sales of our products for these markets could negatively impact our revenue and our financial results.

We believe achieving design wins, which entails having our existing and future products chosen for hardware components or subassemblies designed by OEMs, ODMs, and add-in board, or AIB, and motherboard manufacturers is an integral part of our future success. Our OEM, ODM, and AIB and motherboard manufacturers' customers typically introduce new system configurations as often as twice per year, typically based on spring and fall design cycles or in connection with trade shows. Accordingly, when our customers are making their design decisions, our existing products must have competitive performance levels or we must timely introduce new products in order to be included in our customers' new system configurations. This requires that we:

- anticipate the features and functionality that customers and consumers will demand;
- incorporate those features and functionalities into products that meet the exacting design requirements of our customers;

- price our products competitively; and
- introduce products to the market within our customers' limited design cycles.

If OEMs, ODMs and AIB and motherboard manufacturers do not include our products in their systems, they will typically not use our products in their systems until at least the next design configuration. Therefore, we endeavor to develop close relationships with our OEMs and ODMs, in an attempt to better anticipate and address customer needs in new products so that we will achieve design wins.

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Our ability to achieve design wins also depends in part on our ability to identify and be compliant with evolving industry standards. Unanticipated changes in industry standards could render our products incompatible with products developed by major hardware manufacturers and software developers. If our products are not in compliance with prevailing industry standards, we may not be designed into our customers' product designs. However, to be compliant with changes to industry standards, we may have to invest significant time and resources to redesign our products which could negatively impact our gross margin or operating results. If we are unable to achieve new design wins for existing or new customers, we may lose market share and our operating results would be negatively impacted.

If new consumer products and technologies which incorporate our products do not achieve market acceptance, our business could be negatively impacted.

The success of our business also depends on market acceptance of new consumer products and technologies, such as smartphones, smartbooks, tablets and other similar consumer electronics devices, which contain our products. As markets for these new consumer products emerge, we may encounter new sources of competition as well as customers who have different requirements than those in the PC business. If market acceptance of such products and technologies is not attained, our ability to compete and maintain or increase revenues will be adversely affected.

Our ability to be successful in emerging consumer product markets depends in part on our ability to cultivate new industry relationships in these market segments. As the number and variety of Internet-connected devices increase, we will need to improve the functionality of our products to succeed in these new markets, which may require significant time and resources on our part to design our products which could negatively impact our business.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, climate change, medical epidemics or pandemics and other natural or man-made disasters or catastrophic events. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in Asia, near major earthquake faults known for seismic activity. In addition, a majority of our principal IT data centers are located in California, making our operations vulnerable to natural disasters or other business disruptions occurring in this geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Taiwan, China and Korea. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. However, in the event of a major earthquake or other natural disaster or catastrophic event, our revenue, profitability and financial condition could suffer.

In late July 2011, Thailand began experiencing severe flooding that has caused widespread damage to the local manufacturing industry. PC manufacturers obtain disk drive components used in its PCs from suppliers with operations in Thailand that were and continue to be severely impacted by the flooding. These PC manufacturers have and expect to continue to experience a short-term reduction in the supply of these disk drive components. As a result, in our fourth quarter of fiscal year 2012 shipments of PCs by some PC manufacturers were reduced, which reduced the demand for our GPUs. In addition, higher disk-drive prices constrained the ability of some PC manufacturers to include a GPU in their systems which also reduced demand for our GPUs and negatively impacted our financial results for the fourth quarter of fiscal year 2012.

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A decline in demand in certain end-user markets could have a material adverse effect on the demand for our products and results of operations.

Our customer base includes companies in a wide range of end-user markets, but we generate a significant amount of revenue from sales to customers in the communications-and computer-related industries. Within these end-user markets, a large portion of our revenue is generated from sales to customers in the cell phone, tablet and PC markets, including professional workstations. Decline in one or several of these end-user markets could have a material adverse effect on the demand for our products and our results of operations and financial condition. These declines could be large and sudden. Since PC, cell phone and tablet manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they incorrectly forecast product transitions. In these cases, these manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until their excess inventory has been absorbed, which would have a negative impact on our financial results.

We sell our products to a small number of customers and our business could suffer if we lose any of these customers.

We receive a significant amount of our revenue from a limited number of customers. Revenue from significant customers, those representing 10% or more of total revenue, aggregated approximately 11% of our total revenue from one customer for the fiscal year 2012 and approximately 12% of our total revenue from another customer for fiscal years 2011 and 2010. Sales to our largest customers have fluctuated significantly from period to period primarily due to the timing and number of design wins with each customer, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate dramatically in the future. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

- substantially all of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;
- our customers may develop their own solutions;
- our customers may purchase products from our competitors; or
- our customers may discontinue sales or lose market share in the markets for which they purchase our products.

The loss of any of our large customers or a significant reduction in sales we make to them would likely harm our financial condition and results of operations.

If we fail to appropriately scale our operations in response to changes in demand for our existing products or to the demand for new products requested by our customers, our business and profitability could be materially and adversely affected.

To achieve our business objectives, it may be necessary from time to time for us to expand or contract our operations. In the future, we may not be able to scale our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our costs and operating expenses may exceed the rate of increase in our revenue, which would adversely affect our results of operations. In addition, if such demand does not materialize at the pace which we expect, we may be required to scale down our business through expense and headcount reductions as well as facility consolidations or closures that could result in restructuring charges that would materially and adversely affect our results of operations. Because many of our expenses are fixed in the short-term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any decrease in customer demand. If customer demand does not increase as anticipated, our profitability could be adversely affected due to our higher expense levels.

Our past growth has placed, and any future long-term growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors require substantial management effort. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our costs and expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our results of operations.

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Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations.

Demand for many of our revenue components fluctuates and is difficult to predict, and our operating expenses are relatively fixed and largely independent of revenue. Therefore, it is difficult for us to accurately forecast revenue and profits or losses in any particular period. Our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses, represented 35.2%, 32.6% and 38.3% of our total revenue for fiscal years 2012, 2011 and 2010, respectively. Since we often recognize a substantial portion of our revenue in the last month of each quarter, we may not be able to adjust our operating expenses in a timely manner in response to any unanticipated revenue shortfalls in any quarter. Further, some of our operating expenses, like stock-based compensation expense, can only be adjusted over a longer period of time and cannot be reduced during a quarter. If we are unable to reduce operating expenses quickly in response to any revenue shortfalls, our financial results will be negatively impacted.

Any one or more of the risks discussed in this Annual Report on Form 10-K or other factors could prevent us from achieving our expected future revenue or net income. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of future performance. Similarly, the results of any quarterly or full fiscal year period are not necessarily indicative of results to be expected for a subsequent quarter or a full fiscal year. As a result, it is possible that in some quarters our operating results could be below the expectations of securities analysts or investors, which could cause the trading price of our common stock to decline. We believe that our quarterly and annual results of operations may continue to be affected by a variety of factors that could harm our revenue, gross profit and results of operations.

Because our gross margin for any period depends on a number of factors, our failure to forecast changes in any of these factors could adversely affect our gross margin.

We are focused on improving our gross margin. Our gross margin for any period depends on a number of factors, including:

- the mix of our products sold;
- average selling prices;
- introduction of new products;
- product transitions;
- sales discounts;
- unexpected pricing actions by our competitors;
- the cost of product components; and
- the yield of wafers produced by the foundries that manufacture our products.

If we do not correctly forecast the impact of any of the relevant factors on our business, there may not be any actions we can take or we may not be able to take any possible actions in time to counteract any negative impact on our gross margin. In addition, if we are unable to meet our gross margin target for any period or the target set by analysts, the trading price of our common stock may decline.

Global economic conditions may adversely affect our business and financial results.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a continuing risk to our business as consumers and businesses have postponed spending in response to tighter credit, negative financial news and/or declines in income or asset values, which have reduced the demand for our products.

Other factors that could depress demand for our products in the future include the European sovereign debt crisis, conditions in the residential real estate and mortgage markets, expectations for inflation, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer and business spending behavior. These and other economic factors have reduced demand for our products in the past and could further harm our business, financial condition and operating results.

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Our business is cyclical in nature and has experienced severe downturns that have harmed, and may in the future harm, our business and financial results.

Our business is directly affected by market conditions in the highly cyclical semiconductor industry. The semiconductor industry has been adversely affected by many factors, including the global downturn, ongoing efforts by our customers to reduce their spending, diminished product demand, increased inventory levels, lower average selling prices, uncertainty regarding long-term growth rates and underlying financial health and increased competition. These factors, could, among other things, limit our ability to maintain or increase our sales or recognize revenue and in turn adversely affect our business, operating results and financial condition. If our actions to reduce our operating expenses to sufficiently offset these factors when they occur are unsuccessful, our operating results will suffer.

Our stock price continues to be volatile and investors may suffer losses.

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, or uncertainty about current global economic conditions. The stock market as a whole also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. For example, following our announcement in July 2008 that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/packaging material set in certain versions of our previous generation media and communication processor, or MCP and GPU products and that we were revising financial guidance for our second fiscal quarter of 2009, the trading price of our common stock declined. In September, October and November 2008, several putative class action lawsuits were filed against us relating to this announcement. Please refer to Note 14 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further information regarding these lawsuits. Due to changes in the potential volatility of our stock price, we may be the target of securities litigation in the future. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

Our failure to estimate customer demand properly could adversely affect our financial results.

We manufacture our products based on forecasts of customer demand in order to have shorter shipment lead times and quicker delivery schedules for our customers. As a result, we may build inventories for anticipated periods of growth which do not occur or may build inventory anticipating demand for a product that does not materialize. In forecasting demand, we make multiple assumptions any of which may prove to be incorrect. Situations that may result in excess or obsolete inventory include:

- changes in business and economic conditions, including downturns in the semiconductor industry and/or overall economy;
- changes in consumer confidence caused by changes in market conditions, including changes in the credit market, expectations for inflation, and energy prices;
- if there were a sudden and significant decrease in demand for our products;
- if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements;
- if we fail to estimate customer demand properly for our older products as our newer products are introduced; or
- if our competition were to take unexpected competitive pricing actions.

Any inability to sell products to which we have devoted resources could harm our business. In addition, cancellation or deferral of customer purchase orders could result in our holding excess inventory, which could adversely affect our gross margin and restrict our ability to fund operations. Additionally, because we often sell a substantial portion of our products in the last month of each quarter, we may not be able to reduce our inventory purchase commitments in a timely manner in response to customer cancellations or deferrals. We could be subject to excess or obsolete inventories and be required to take corresponding inventory write-downs and/or a reduction in average selling prices if growth slows or does not materialize, or if we incorrectly forecast product demand, which could negatively impact our financial results.

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Conversely, if we underestimate our customers' demand for our products, our third-party manufacturing partners may not have adequate lead-time or capacity to increase production for us meaning that we may not be able to obtain sufficient inventory to fill our customers' orders on a timely basis. Even if we are able to increase production levels to meet customer demand, we may not be able to do so in a cost effective or timely manner. Inability to fulfill our customers' orders on a timely basis, or at all, could damage our customer relationships, result in lost revenue, cause a loss in market share, impact our customer relationships or damage our reputation, any of which could adversely impact our business.

We may not be able to realize the potential financial or strategic benefits of business acquisitions or strategic investments and we may not be able to successfully integrate acquisition targets, which could hurt our ability to grow our business, develop new products or sell our products.

We have acquired and invested in other businesses that offered products, services and technologies that we believe will help expand or enhance our existing products and business. Most recently, we completed our acquisition of Icera Inc., an innovator of baseband processors for 3G and 4G cellular phones and tablets. Such a transaction can involve significant integration challenges and there can be no assurance that pre-acquisition due diligence will have identified all possible issues and risks that might arise with respect to the acquisition. If we are unable to timely and successfully integrate the acquired operations, product lines and technology of Icera, we may not be able to realize the expected benefits of the acquisition, which could adversely affect our business plans and operating results.

We may enter into future acquisitions of, or investments in, businesses, in order to complement or expand our current businesses or enter into a new business market. Negotiations associated with an acquisition or strategic investment could divert management's attention and other company resources. Any of the following risks associated with past or future acquisitions or investments could impair our ability to grow our business, develop new products, our ability to sell our products, and ultimately could have a negative impact on our growth or our financial results:

- difficulty in combining the technology, products, operations or workforce of the acquired business with our business;
- difficulty in operating in a new or multiple new locations;
- disruption of our ongoing businesses or the ongoing business of the company we invest in or acquire;
- difficulty in realizing the potential financial or strategic benefits of the transaction;
- difficulty in maintaining uniform standards, controls, procedures and policies;
- difficulty integrating the target's accounting, management information, human resources and other administrative systems;
- disruption of or delays in ongoing research and development efforts;
- diversion of capital and other resources;
- assumption of liabilities;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture and development, or legal and financial contingencies, among other things;
- difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions;
- incurring significant exit charges if products acquired in business combinations are unsuccessful;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions or investments;
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- potential delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product offerings; and
- impairment of relationships with employees, vendors and customers, or the loss of any of our key employees, vendors or customers our target's key employees, vendors or customers, as a result of our acquisition or investment.

In addition, the consideration for any future acquisition could be paid in cash, shares of our common stock, the issuance of convertible debt securities or a combination of cash, convertible debt and common stock. If we make an investment in cash or use cash to pay for all or a portion of an acquisition, our cash reserves would be reduced which could negatively impact the growth of our business or our ability to develop new products. However, if we pay the consideration with shares of common stock, or convertible debentures, the holdings of our existing stockholders would be diluted. The significant decline in the trading price of our common stock would make the dilution to our stockholders more extreme and could negatively impact our ability to pay the consideration with shares of common stock or convertible debentures. We cannot forecast the number, timing or size of future strategic investments or acquisitions, or the effect that any such investments or acquisitions might have on our operations or financial results.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systemic failures, systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect, our financial results, stock price and reputation.

Any difficulties in collecting accounts receivable, including from foreign customers, could harm our operating results and financial condition.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. We recorded approximately 20% and 11% of our accounts receivable balance from the same customer at January 29, 2012 and January 30, 2011, respectively.

Difficulties in collecting accounts receivable could materially and adversely affect our financial condition and results of operations. These difficulties are heightened during periods when economic conditions worsen. We continue to work directly with more foreign customers and it may be difficult to collect accounts receivable from them. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. If the financial condition of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required, we may be required to defer revenue recognition on sales to affected customers, and we may be required to pay higher credit insurance premiums, any of which could adversely affect our operating results. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results.

We obtain credit insurance over the purchasing credit extended to certain customers. As a result of the tightening of the credit markets, we may not be able to acquire credit insurance on the credit we extend to these customers or in amounts that we deem sufficient. While we have procedures to monitor and limit exposure to credit risk on our accounts receivable, there can be no assurance such procedures will effectively limit our credit risk or avoid losses, which could harm our financial condition or operating results.

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We may not be able to attract and retain qualified employees which could negatively impact our business.

Our future success and ability to compete is substantially dependent on our ability to identify, hire, train and retain highly qualified key personnel. The market for key employees in the technology industry can be competitive. None of our key employees is bound by an employment agreement, meaning our relationships with all of our key employees are at will. The loss of the services of any of our other key employees without an adequate replacement or our inability to hire new employees as needed could delay our product development efforts, harm our ability to sell our products or otherwise negatively impact our business.

In addition, we rely on stock-based awards as a means for recruiting, motivating and retaining highly skilled talent. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our results of operations.

We are dependent on third parties for assembly, testing and packaging of our products, which reduce our control over the delivery schedule, product quantity or product quality.

Our products are assembled, tested and packaged by independent subcontractors, such as Advanced Semiconductor Engineering, Inc., Amkor Technology, ChipPAC, JSI Logistics, Ltd., King Yuan Electronics Co. and Siliconware Precision Industries Co. Ltd. As a result, we do not directly control our product delivery schedules, product quantity, or product quality. All of these subcontractors assemble, test and package products for other companies, including some of our competitors. Since we do not have long-term agreements with our subcontractors, when demand for subcontractors to assemble, test or package products is high, our subcontractors may decide to prioritize the orders of other customers over our orders. Since the time required to qualify a different subcontractor to assemble, test or package our products can be lengthy, if we have to find a replacement subcontractor we could experience significant delays in shipments of our products, product shortages, a decrease in the quality of our products, or an increase in product cost. Any product shortages or quality assurance problems could increase the costs of manufacture, assembly or testing of our products, which could cause our gross margin and revenue to decline.

We rely on third-party vendors to supply software development tools to us for the development of our new products and we may be unable to obtain the tools necessary to develop or enhance new or existing products.

We rely on third-party software development tools to assist us in the design, simulation and verification of new products or product enhancements. To bring new products or product enhancements to market in a timely manner, or at all, we need software development tools that are sophisticated enough or technologically advanced enough to complete our design, simulations and verifications. In the past, we have experienced delays in the introduction of products as a result of the inability of then available software development tools to fully simulate the complex features and functionalities of our products. In the future, the design requirements necessary to meet consumer demands for more features and greater functionality from our products may exceed the capabilities of available software development tools. Unavailability of software development tools may result in our missing design cycles or losing design wins, either of which could result in a loss of market share or negatively impact our operating results.

Because of the importance of software development tools to the development and enhancement of our products, a critical component of our product development efforts is our partnerships with leaders in the computer-aided design industry, including Cadence Design Systems, Inc. and Synopsys, Inc. We have invested significant resources to develop relationships with these industry leaders and have often assisted them in the definition of their new products. We believe that forming these relationships and utilizing next-generation development tools to design, simulate and verify our products will help us remain at the forefront of the 3D graphics, communications and networking segments and develop products that utilize leading-edge technology on a rapid basis. If these relationships are not successful, we may be unable to develop new products or product enhancements in a timely manner, which could result in a loss of market share, a decrease in revenue or negatively impact our operating results.

If our products contain significant defects, our financial results could be negatively impacted, our reputation could be damaged and we could lose market share.

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including our customers' costs to repair or replace products in the field. A product recall or a significant

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number of product returns could be expensive, damage our reputation, could result in the shifting of business to our competitors and could result in litigation against us. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results. During fiscal years 2011, 2010 and 2009, we recorded net warranty charges of $466.4 million against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set used in certain versions of our previous generation MCP, and GPU products used in notebook configurations and shipped after July 2008. Please see the risk entitled "We are subject to litigation arising from alleged defects in our previous generation MCP and GPU products which, if determined adversely to us, could harm our business" for further information regarding this product defect.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.

If new competitors, technological advances by existing competitors, our entry into new markets, or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. Our engineering and technical resources included 5,042, 4,161 and 3,940 full-time employees as of January 29, 2012, January 30, 2011 and January 31, 2010, respectively. Research and development expenditures were $1,002.6 million, $848.8 million and $908.9 million for fiscal years 2012, 2011 and 2010, respectively. If we are required to invest significantly greater resources than anticipated in research and development efforts without a corresponding increase in revenue, our operating results could decline. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development and these investments may be independent of our level of revenue which could negatively impact our financial results. In order to remain competitive, we anticipate that we will continue to devote substantial resources to research and development, and we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and the greater number of products under development.

We are subject to risks associated with international operations which may harm our business.

We conduct our business worldwide. Our semiconductor wafers are manufactured, assembled, tested and packaged by third-parties located outside of the United States and other Americas. We generated 78%, 83%, and 84% of our revenue for fiscal years 2012, 2011 and 2010 respectively, from sales to customers outside the United States and other Americas. As of January 29, 2012, we had offices in 15 countries outside of the United States. The manufacture, assembly, test and packaging of our products outside of the United States, operation of offices outside of the United States, and sales to customers internationally subjects us to a number of risks, including:

- international economic and political conditions, such as political tensions between countries in which we do business;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- complying with a variety of foreign laws;
- differing legal standards with respect to protection of intellectual property and employment practices;
- local business and cultural factors that differ from our normal standards and practices, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act (FCPA) and other anticorruption laws and regulations;
- inadequate local infrastructure that could result in business disruptions;
- exporting or importing issues related to export or import restrictions, tariffs, quotas and other trade barriers and restrictions;
- financial risks such as longer payment cycles, difficulty in collecting accounts receivable and fluctuations in currency exchange rates;
- imposition of additional taxes and penalties; and

- other factors beyond our control such as terrorism, cyber attack, civil unrest, war and diseases such as severe acute respiratory syndrome and the Avian flu.

If sales to any of our customers outside of the United States and other Americas are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.

Our international operations in Canada, China, Hong Kong, Finland, France, Germany, India, Japan, Korea, Russia, Singapore, Sweden, Switzerland, Taiwan and the United Kingdom are subject to many of the above listed risks. Difficulties with our international operations, including finding appropriate staffing and office space, may divert management's attention and other resources any of which could negatively impact our operating results.

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Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have policies, controls, and procedures designed to ensure compliance with foreign laws, many of these laws and regulations are ambiguous and are often interpreted and enforced in unpredictable ways.

The economic conditions in our primary overseas markets, particularly in Asia, may negatively impact the demand for our products abroad. All of our international sales to date have been denominated in United States dollars. Accordingly, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive in international markets or require us to assume the risk of denominating certain sales in foreign currencies. We anticipate that these factors will impact our business to a greater degree as we further expand our international business activities.

Our investment portfolio may become impaired by deterioration of the capital markets.

Our cash equivalent and short-term investment portfolio as of January 29, 2012 consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. We follow an established investment policy and set of guidelines, designed to preserve principal, minimize risk, monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes, variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of January 29, 2012 we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has very little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

Risks Related to Regulatory, Legal, Our Common Stock and Other Matters

We are subject to litigation arising from alleged defects in our previous generation MCP and GPU products which, if determined adversely to us, could harm our business.

As of January 29, 2012, we recorded a total cumulative net warranty charge of $475.9 million, of which $466.4 million has been charged against cost of revenue, to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set used in certain versions of our previous generation MCP and GPU products shipped after July 2008 and used in notebook configuration. The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these MCP and GPU products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. Although we believe this issue has been nearly fully remediated, we remain committed to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to not see any abnormal failure rates in any systems using NVIDIA products other than certain notebook configurations. However, we are continuing to test and otherwise investigate other products. There can be no assurance that we will not discover defects in other products.

In September, October and November 2008, several putative securities class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from this litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

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We are a party to other litigation, including patent litigation, which, if determined adversely to us, could adversely affect our cash flow and financial results.

We are a party to other litigation as both a defendant and as a plaintiff. For example, we are engaged in litigation with parties related to our acquisition of 3dfx in 2001. Please refer to Note 14 of the Notes to the Consolidated Financial Statements in Part IV of this Form 10-K for further details on this lawsuit. There can be no assurance that any litigation to which we are a party will be resolved in our favor. Any claim that is successfully decided against us may cause us to pay substantial damages, including punitive damages, and other related fees or prevent us from selling or importing certain of our products. Regardless of whether lawsuits are resolved in our favor or if we are the plaintiff or the defendant in the litigation, any lawsuits to which we are a party will likely be expensive and time consuming to defend or resolve. Such lawsuits could also harm our relationships with existing customers and result in the diversion of management's time and attention away from business operations, which could harm our business. Costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

Changes in United States tax legislation regarding our foreign earnings could materially impact our business.

Currently, a majority of our revenue is generated from customers located outside the United States, and a significant portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Throughout the period of President Obama's administration and as recently as on February 13, 2012 with the release of the administration's fiscal year 2013 budget, the White House has proposed various international tax measures, some of which, if enacted into law would substantially reduce our ability to defer United States taxes on such indefinitely reinvested non-United States earnings, eliminate certain tax deductions until foreign earnings are repatriated to the United States and/or otherwise cause the total tax cost of U.S. multinational corporations to increase. If these or similar proposals are constituted into legislation in the current or future year(s), they could have a negative impact on our financial position and results of operations.

Our operating results may be adversely affected if we are subject to unexpected tax liabilities.

We are subject to taxation by a number of taxing authorities both in the United States and throughout the world. Tax rates vary among the jurisdictions in which we operate. Significant judgment is required in determining our provision for our income taxes as there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, any of the below could cause our effective tax rate to be materially different than that which is reflected in historical income tax provisions and accruals:

- the jurisdictions in which profits are determined to be earned and taxed;
- adjustments to estimated taxes upon finalization of various tax returns;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in tax laws, the interpretation of tax laws either in the United States or abroad or the issuance of new interpretative accounting guidance related to uncertain transactions and calculations where the tax treatment was previously uncertain; and
- the resolution of issues arising from tax audits with various tax authorities.

Should additional taxes be assessed as a result of any of the above, our operating results could be adversely affected. In addition, our future effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws or changes in the interpretation of tax laws.

Litigation to defend against alleged infringement of intellectual property rights or to enforce our intellectual property rights and the outcome of such litigation could result in substantial costs to us.

We expect that as the number of issued hardware and software patents increases and as competition intensifies, the volume of intellectual property infringement claims and lawsuits may increase. We may in the future become involved in lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights violations by us or by our customers that we have agreed to indemnify them for certain claims of infringement.

An unfavorable ruling in any such intellectual property related litigation could include significant damages, invalidation of a patent or family of patents, indemnification of customers, payment of lost profits, or, when it has been sought, injunctive relief.

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In addition, in the future, we may need to commence litigation or other legal proceedings in order to:

- assert claims of infringement of our intellectual property;
- enforce our patents;
- protect our trade secrets or know-how; or
- determine the enforceability, scope and validity of the propriety rights of others.

If we have to initiate litigation in order to protect our intellectual property, our operating expenses may increase which could negatively impact our operating results. Our failure to effectively protect our intellectual property could harm our business.

If infringement claims are made against us or our products are found to infringe a third parties' patent or intellectual property, we or one of our indemnified customers may have to seek a license to the third parties' patent or other intellectual property rights. However, we may not be able to obtain licenses at all or on terms acceptable to us particularly from our competitors. If we or one of our indemnified customers is unable to obtain a license from a third party for technology that we use or that is used in one of our products, we could be subject to substantial liabilities or have to suspend or discontinue the manufacture and sale of one or more of our products. We may also have to make royalty or other payments, or cross license our technology. If these arrangements are not concluded on commercially reasonable terms, our business could be negatively impacted. Furthermore, the indemnification of a customer may increase our operating expenses which could negatively impact our operating results.

Our ability to compete will be harmed if we are unable to adequately protect our intellectual property.

We rely primarily on a combination of patents, trademarks, trade secrets, employee and third-party nondisclosure agreements, and licensing arrangements to protect our intellectual property in the United States and internationally. We have numerous patents issued, allowed and pending in the United States and in foreign jurisdictions. Our patents and pending patent applications primarily relate to our products and the technology used in connection with our products. We also rely on international treaties, organizations and foreign laws to protect our intellectual property. The laws of certain foreign countries in which our products are or may be manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as the laws of the United States. This makes the possibility of piracy of our technology and products more likely. We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as:

- the commercial significance of our operations and our competitors' operations in particular countries and regions;
- the location in which our products are manufactured;
- our strategic technology or product directions in different countries; and
- the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions.

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged by third parties. The enforcement of patents by others may harm our ability to conduct our business. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to effectively protect our intellectual property could harm our business.

On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. The United States Patent Office is currently developing regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act will not become effective until one year or 18 months after its enactment. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Government investigations and inquiries from regulatory agencies could lead to enforcement actions, fines or other penalties and could result in litigation against us.

In the past, we have been subject to government investigations and inquiries from regulatory agencies such as the Department of Justice and the SEC. We may be subject to government investigations and receive additional inquiries from regulatory agencies in the future, which may lead to enforcement actions, fines or other penalties.

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In addition, litigation has often been brought against a company in connection with the announcement of a government investigation or inquiry from a regulatory agency. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

We are subject to the risks of owning real property.

During fiscal year 2009, we purchased real property in Santa Clara, California that includes approximately 25 acres of land and ten commercial buildings. We also own real property in China and India. We have limited experience in the ownership and management of real property and are subject to the risks of owning real property, including:

- the possibility of environmental contamination and the costs associated with mitigating any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the market in which the property is located, or other factors;
- the risk of loss if we decide to sell and are not able to recover all capitalized costs;
- increased cash commitments for the possible construction of a campus;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
- increased operating expenses for the buildings or the property or both;
- possible disputes with third parties, such as neighboring owners or others, related to the buildings or the property or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and or other natural disasters.

Expensing employee equity compensation adversely affects our operating results and could also adversely affect our competitive position.

Since inception, we have used equity through our equity incentive plans and our employee stock purchase program as a fundamental component of our compensation packages. We believe that these programs directly motivate our employees and, through the use of vesting, encourage our employees to remain with us.

We record compensation expense for stock options, restricted stock units and our employee stock purchase plan using the fair value of those awards in accordance with generally accepted accounting principles in United States of America, or U.S. GAAP. Stock-based compensation expense was $136.4 million, $100.4 million and $107.1 million for fiscal years 2012, 2011 and 2010, respectively, related to on-going vesting of equity awards, which negatively impacted our operating results.

To the extent that expensing employee equity compensation makes it more expensive to grant stock options and restricted stock units or to continue to have an employee stock purchase program, we may decide to incur increased cash compensation costs. In addition, actions that we may take to reduce stock-based compensation expense that may be more severe than any actions our competitors may implement and may make it difficult to attract retain and motivate employees, which could adversely affect our competitive position as well as our business and operating results.

We may be required to record a charge to earnings if our goodwill or amortizable intangible assets become impaired, which could negatively impact our operating results.

Under U.S. GAAP, we review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. The carrying value of our goodwill or amortizable assets from acquisitions may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry or in any of our business units. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, if one of our business units does not meet its near-term and longer-term forecasts, the goodwill assigned to the business unit could be impaired. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill or amortizable intangible assets is determined to exist, which may negatively impact our results of operations.

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Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory.

There is also a movement to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones of the Democratic Republic of Congo. New U.S. legislation includes disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such “conflict” minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stockholders if we are unable to sufficiently verify the origins for all metals used in our products.

Future environmental legal requirements may become more stringent or costly and our compliance costs and potential liabilities arising from past and future releases of, or exposure to, hazardous substances may harm our business and our reputation.

While we believe that we have adequate internal control over financial reporting, if we or our independent registered public accounting firm determines that we do not, our reputation may be adversely affected and our stock price may decline.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to audit, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. However, the manner in which companies and their independent public accounting firms apply these requirements and test companies' internal controls remains subject to some judgment. To date, we have incurred, and we expect to continue to incur, increased expense and to devote additional management resources to Section 404 compliance. Despite our efforts, if we identify a material weakness in our internal controls, there can be no assurance that we will be able to remediate that material weakness in a timely manner, or that we will be able to maintain all of the controls necessary to determine that our internal control over financial reporting is effective. In the event that our chief executive officer, interim chief financial officer or our independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions of us may be adversely affected and could cause a decline in the market price of our stock.

Changes in financial accounting standards or interpretations of existing standards could affect our reported results of operations.

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are constantly subject to review and interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, could have a significant adverse effect on our results of operations or the manner in which we conduct our business.

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Provisions in our certificate of incorporation, our bylaws and our agreement with Microsoft could delay or prevent a change in control.

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire a majority of our outstanding voting stock. These provisions include the following:

- the ability of our Board to create and issue preferred stock without prior stockholder approval;
- the prohibition of stockholder action by written consent;
- a classified Board; and
- advance notice requirements for director nominations and stockholder proposals.

On March 5, 2000, we entered into an agreement with Microsoft in which we agreed to develop and sell graphics chips and to license certain technology to Microsoft and its licensees for use in the Xbox. Under the agreement, if an individual or corporation makes an offer to purchase shares equal to or greater than 30% of the outstanding shares of our common stock, Microsoft may have first and last rights of refusal to purchase the stock. The Microsoft provision and the other factors listed above could also delay or prevent a change in control of NVIDIA.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our headquarters complex is located in Santa Clara, California. Our corporate campus is comprised of approximately 25 acres of land and ten commercial buildings and seven other leased buildings with five used primarily as office buildings, one used primarily as warehouse space and the other remaining used primarily as lab space. In addition, we also lease a data center space in Santa Clara.

Outside of Santa Clara, we lease space in Marina Del Rey, California; Austin and Richardson, Texas; Beaverton, Oregon; Bedford and Marion, Massachusetts; Bellevue and Bothell, Washington; Madison, Alabama; Durham, North Carolina; Greenville, South Carolina; Orlando, Florida; Salt Lake City, Utah; St. Louis, Missouri; Fort Collins and Boulder, Colorado; and Charlottesville, Virginia. These facilities are used as design centers and/or sales and administrative offices.

Outside of the United States, we lease space in HsinChu City, Taiwan; Tokyo, Japan; Seoul and Seongnam, Korea; Beijing, Shanghai, and Xi'an, China; Shatin, Hong Kong; Mumbai, India; Courbevoie and Sophia Antipolis, France; Moscow, Russia; Berlin and Munich, Germany; Helsinki, Finland; Bristol, Cambridge, Theale and London, United Kingdom; Ontario, Canada; Singapore; Uppsala, Sweden; and Zurich, Switzerland. These facilities are used primarily to support our customers and operations and as sales and administrative offices. We also lease spaces in Wuerselen, Germany; Shenzhen, China; Taipei City, Taiwan; and Bangalore and Pune, India, which are used primarily as design centers. Additionally, we own buildings in Hyderabad, India and Shanghai, China which are being used primarily as research and development centers.

We believe that we currently have sufficient facilities to conduct our operations for the next twelve months, although we expect to lease additional facilities throughout the world as our business requires. For additional information regarding obligations under leases, see Note 14 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K under the subheading “Lease Obligations,” which information is hereby incorporated by reference.

ITEM 3. LEGAL PROCEEDINGS

3dfx

On December 15, 2000, NVIDIA and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, to purchase certain graphics chip assets from 3dfx. The transaction closed on April 18, 2001. That acquisition, and 3dfx's October 2002 bankruptcy filing, led to four lawsuits against NVIDIA: two brought by 3dfx's former landlords, one by 3dfx's bankruptcy trustee and the fourth by a committee of 3dfx's equity security holders in the bankruptcy estate. The two landlord cases have been settled with payments from the landlords to NVIDIA, and the equity security holders lawsuit was dismissed with prejudice and no appeal was filed. Accordingly, only the bankruptcy trustee suit remains outstanding as more fully explained below.

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In March 2003, the Trustee appointed by the Bankruptcy Court to represent 3dfx's bankruptcy estate served a complaint on NVIDIA asserting claims for, among other things, successor liability and fraudulent transfer and seeking additional payments from us. The Trustee's fraudulent transfer theory alleged that NVIDIA had failed to pay reasonably equivalent value for 3dfx's assets, and sought recovery of the difference between the $70 million paid and the alleged fair value, which the Trustee estimated to exceed $50 million. The Trustee's successor liability theory alleged NVIDIA was effectively 3dfx's legal successor and therefore was responsible for all of 3dfx's unpaid liabilities.

On October 13, 2005, the Bankruptcy Court heard the Trustee's motion for summary adjudication, and on December 23, 2005, denied that motion in all material respects and held that NVIDIA may not dispute that the value of the 3dfx transaction was less than $108 million. The Bankruptcy Court denied the Trustee's request to find that the value of the 3dfx assets conveyed to NVIDIA was at least $108 million.

In early November 2005, after several months of mediation, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, agreed to a Plan of Liquidation of 3dfx, which included a conditional settlement of the Trustee's claims against us. This conditional settlement was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court. The conditional settlement called for a payment by NVIDIA of approximately $30.6 million to the 3dfx estate. Under the settlement, $5.6 million related to various administrative expenses and Trustee fees, and $25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement. The conditional settlement never progressed substantially through the confirmation process.

On December 21, 2006, the Bankruptcy Court scheduled a trial for one portion of the Trustee's case against NVIDIA. On January 2, 2007, NVIDIA terminated the settlement agreement on grounds that the Bankruptcy Court had failed to proceed toward confirmation of the Creditors' Committee's plan. A non-jury trial began on March 21, 2007 on valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. Specifically, the Bankruptcy Court tried four questions: (1) what did 3dfx transfer to NVIDIA in the APA; (2) of what was transferred, what qualifies as “property” subject to the Bankruptcy Court's avoidance powers under the Uniform Fraudulent Transfer Act and relevant bankruptcy code provisions; (3) what is the fair market value of the “property” identified in answer to question (2); and (4) was the $70 million that NVIDIA paid “reasonably equivalent” to the fair market value of that property. The parties completed post-trial briefing on May 25, 2007.

On April 30, 2008, the Bankruptcy Court issued its Memorandum Decision After Trial, in which it provided a detailed summary of the trial proceedings and the parties' contentions and evidence and concluded that “the creditors of 3dfx were not injured by the Transaction.” This decision did not entirely dispose of the Trustee's action, however, as the Trustee's claims for successor liability and intentional fraudulent conveyance were still pending. On June 19, 2008, NVIDIA filed a motion for summary judgment to convert the Memorandum Decision After Trial to a final judgment. That motion was granted in its entirety and judgment was entered in NVIDIA's favor on September 11, 2008. The Trustee filed a Notice of Appeal from that judgment on September 22, 2008, and on September 25, 2008, NVIDIA exercised its election to have the appeal heard by the United States District Court.

The District Court's hearing on the Trustee's appeal was held on June 10, 2009. On December 20, 2010, the District Court issued an Order affirming the Bankruptcy Court's entry of summary judgment in NVIDIA's favor. On January 19, 2011, the Trustee filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. Oral argument regarding the Appeal is currently scheduled for May 15, 2012.

While the conditional settlement reached in November 2005 never progressed through the confirmation process, the Trustee's case still remains pending on appeal. Accordingly, we have not reversed the accrual of $30.6 million - $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx - that we recorded during the three months ended October 30, 2005, pending resolution of the appeal of the Trustee's case.

Rambus Inc.

On July 10, 2008, Rambus Inc. filed suit against NVIDIA, asserting patent infringement of 17 patents claimed to be owned by Rambus. Rambus seeks damages, enhanced damages and injunctive relief. The lawsuit was filed in the Northern District of California in San Jose, California. On July 11, 2008, NVIDIA filed suit against Rambus in the Middle District of North Carolina asserting numerous claims, including antitrust and other claims. NVIDIA seeks damages, enhanced damages and injunctive relief. Rambus has since dropped two patents from its lawsuit in the Northern District of California. The two cases have been consolidated into a single proceeding in the San Francisco division of the Northern District of California. On April 13, 2009, the Court issued an order staying motion practice and allowing only certain document discovery to proceed. On February 11, 2011, the Court lifted

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the stay and ordered that discovery on other issues could proceed. The Court has since opened motion practice and discovery with respect to ten patents, referred to as the “Farmwald” and “Barth II” patents. Most of the “Farmwald” patents are also subject to patent reexamination requests. The Court has issued a scheduling order through the claim construction proceedings, currently scheduled for April 23 and 24, 2012. A case management conference is currently scheduled for May 18, 2012.

On November 6, 2008, Rambus filed a complaint alleging a violation of 19 U.S.C. Section 1337 based on a claim of patent infringement of nine Rambus patents against NVIDIA and 14 other respondents with the U.S. International Trade Commission, or ITC. Rambus has subsequently withdrawn four of the nine patents at issue. The complaint sought an exclusion order barring the importation of products that allegedly infringe the now five Rambus patents. The ITC instituted the investigation and a hearing was held October 13-20, 2009. The Administrative Law Judge issued an Initial Determination on January 22, 2010, which found the asserted claims of two patents in one patent family infringed but invalid, and the asserted claims of three patents in a separate patent family, valid, infringed and enforceable. This decision was reviewed by the ITC. The ITC issued a Final Decision on July 26, 2010. In its Final Decision, the ITC found that NVIDIA infringed three related patents and issued a limited exclusion order prohibiting import of certain NVIDIA products. NVIDIA is appealing certain aspects of the ruling that were unfavorable to NVIDIA. Rambus is also appealing certain aspects of the ruling that were unfavorable to Rambus. A hearing was held on October 6, 2011 and a decision regarding the appeal has not yet been issued.

On May 13, 2011, the Federal Circuit issued opinions in two related cases that address issues material to the disputes between Rambus and certain other parties in the ITC. Those opinions may positively affect NVIDIA's defenses in all of the cases brought against NVIDIA by Rambus. In those opinions, the Federal Circuit held Rambus destroyed documents when it had a legal duty to preserve them and that, if done in bad faith, Rambus is to bear the “heavy burden” to prove that NVIDIA suffered no prejudice in its ability to defend the cases brought against it by Rambus. In the ITC's Final Decision, despite finding Rambus acted in bad faith, the ITC incorrectly placed the burden on NVIDIA to prove actual prejudice. The Federal Circuit remanded both cases to the respective district courts for further proceedings consistent with its opinions. Those proceedings are currently underway.

NVIDIA also sought reexamination of the patents asserted in the ITC, as well as other patents, in the United States Patent and Trademark Office, or USPTO. Proceedings are underway with respect to all challenged patents. With respect to the claims asserted in the ITC, the USPTO has issued a preliminary ruling invalidating many of the claims. The USPTO issued "Right to Appeal Notices" for the three patents found by the administrative law judge to be valid, enforceable and infringed. In the Right to Appeal Notices, the USPTO Examiner has cancelled all asserted claims of one of the patents and allowed the asserted claims on the other two patents. Rambus and NVIDIA both sought review of the USPTO Examiner's adverse findings. On appeal, the Board of Patent Appeals and Interferences found the relevant claims of the three asserted “Barth I” patents subject to reexamination invalid.

Rambus has also been subject to an investigation in the European Union. NVIDIA was not a party to that investigation, but has sought to intervene in the appeal of the investigation. As a result of Rambus' commitments to resolve that investigation, for a period of five years from the date of the resolution, Rambus must now provide a license to memory controller manufacturers, sellers and/or companies that integrate memory controllers into other products. The license terms are set forth in a license made available on Rambus' website, or the Required Rambus License. On August 12, 2010, we entered into the Required Rambus License. Pursuant to the agreement, Rambus charges a royalty of (i) one percent of the net sales price per unit for certain memory controllers and (ii) two percent of the net sales price per unit for certain other memory controllers, provided that the maximum average net sales price per unit for these royalty bearing products shall be deemed not to exceed a maximum of $20. The agreement has a term until December 9, 2014. However, NVIDIA may terminate the agreement with thirty days prior written notice to Rambus. NVIDIA has already provided written notice to Rambus of its' intent to terminate effective immediately upon the removal of the ITC's limited exclusion order.

On December 1, 2010, Rambus filed a lawsuit against NVIDIA and several other companies alleging six claims for patent infringement. This lawsuit is pending in the Northern District of California and seeks damages, enhanced damages and injunctive relief. On the same day, Rambus filed a complaint with the ITC alleging that NVIDIA and several other companies violated 19 U.S.C. Section 1337 based on a claim of patent infringement of three Rambus patents. Rambus seeks exclusion of certain NVIDIA products from importation into the United States. The Northern District of California has stayed the case pending resolution of the ITC investigation. The asserted patents are related to each other, and the three patents in the ITC complaint are also at issue in the lawsuit pending in the Northern District of California. Many of the patents at issue in these lawsuits are also being challenged in Rambus' other disputes with NVIDIA. A hearing before an Administrative Law Judge of the ITC was held from October 12-20, 2011, and no ruling has been issued to date.

On February 7, 2012, NVIDIA and Rambus entered into a settlement agreement and a patent license agreement. The two agreements resolve all disputes between NVIDIA and Rambus. The parties are in the process of dismissing all lawsuits, appeals, and ITC actions to the maximum extent allowable by law.

Product Defect Litigation and Securities Cases

Product Defect Litigation

In September, October and November 2008, several putative consumer class action lawsuits were filed against us, asserting various claims arising from a weak die/packaging material set in certain versions of our previous generation products used in notebook configurations. Most of the lawsuits were filed in Federal Court in the Northern District of California, but three were filed in state court in California, in Federal Court in New York, and in Federal Court in Texas. Those three actions have since been removed or transferred to the United States District Court for the Northern District of California, San Jose Division, where all of the actions now are currently pending. The various lawsuits are titled Nakash v. NVIDIA Corp., Feinstein v. NVIDIA Corp., Inicom Networks, Inc. v. NVIDIA Corp. and Dell, Inc. and Hewlett Packard, Olivos v. NVIDIA Corp., Dell, Inc. and Hewlett Packard, Sielicki v. NVIDIA Corp. and Dell, Inc., Cormier v. NVIDIA Corp., National Business Officers Association, Inc. v. NVIDIA Corp., and West v. NVIDIA Corp. The First Amended Complaint was filed on October 27, 2008, which no longer asserted claims against Dell, Inc. The various complaints assert claims for, among other things, breach of warranty, violations of the Consumer Legal Remedies Act, Business & Professions Code sections 17200 and 17500 and other consumer protection statutes under the laws of various jurisdictions, unjust enrichment, and strict liability.

The District Court has entered orders deeming all of the above cases related under the relevant local rules. On December 11, 2008, NVIDIA filed a motion to consolidate all of the aforementioned consumer class action cases. On February 26, 2009, the District Court consolidated the cases, as well as two other cases pending against Hewlett Packard, under the caption “The NVIDIA GPU Litigation” and ordered the plaintiffs to file lead counsel motions by March 2, 2009. On March 2, 2009, several of the parties filed motions for appointment of lead counsel and briefs addressing certain related issues. On April 10, 2009, the District Court appointed Milberg LLP lead counsel. On May 6, 2009, the plaintiffs filed an Amended Consolidated Complaint, alleging claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of the Implied Warranty of Merchantability under the laws of 27 other states, Breach of Warranty under the Magnuson-Moss Warranty Act, Unjust Enrichment, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act.

On August 19, 2009, we filed a motion to dismiss the Amended Consolidated Complaint, and the Court heard arguments on that motion on October 19, 2009. On November 19, 2009, the Court issued an order dismissing with prejudice plaintiffs causes of action for Breach of the Implied Warranty under the laws of 27 other states and unjust enrichment, dismissing with leave to amend plaintiffs' causes of action for Breach of Implied Warranty under California Civil Code Section 1792 and Breach of Warranty under the Magnuson-Moss Warranty Act, and denying NVIDIA's motion to dismiss as to the other causes of action. The Court gave plaintiffs until December 14, 2009 to file an amended complaint. On December 14, 2009, plaintiffs filed a Second Amended Consolidated Complaint, asserting claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of Warranty under the Magnuson-Moss Warranty Act, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act. The Second Amended Complaint seeks unspecified damages. On January 19, 2010, we filed a motion to dismiss the Breach of Implied Warranty under California Civil Code Section 1792, Breach of Warranty under the Magnuson-Moss Warranty Act, and California's Consumer Legal Remedies Act claims in the Second Amended Consolidated Complaint. In addition, on April 1, 2010, Plaintiffs filed a motion to certify a class consisting of all people who purchased computers containing certain of our MCP and GPU products. On May 3, 2010, we filed an opposition to Plaintiffs' motion for class certification. A hearing on both motions was held on June 14, 2010. On July 16, 2010, the parties filed a stipulation with the District Court advising that, following mediation they had reached a settlement in principle in The NVIDIA GPU Litigation. The settlement in principle was subject to certain approvals, including final approval by the court. As a result of the settlement in principle, and the other estimated settlement, and offsetting insurance reimbursements, NVIDIA recorded a net charge of $12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. In addition, a portion of the $181.2 million of additional charges we recorded against cost of revenue related to the weak die/packaging set during the second quarter of fiscal year 2011, relates to estimated additional repair and replacement costs related to the implementation of these settlements. On August 12, 2010, the parties executed a Stipulation and Agreement of Settlement and Release. On September 15, 2010, the Court issued an order granting preliminary approval of the settlement and providing for notice to the potential class members. The Final Approval Hearing was held on December 20, 2010, and on that same day the Court approved the settlement and entered Final Judgment over several objections. In January 2011, several objectors filed Notices of Appeal of the Final Judgment to the United States Court of Appeals for the Ninth Circuit.

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On February 28, 2011, a group of purported class members filed a motion with the District Court purporting to seek enforcement of the settlement. The Motion claimed that NVIDIA was not properly complying with its obligations under the settlement in connection with the remedies provided to purchasers of Hewlett-Packard computers included in the settlement. On March 4, 2011, NVIDIA and Class Counsel at Milberg LLP filed oppositions to the Motion. The Court held a hearing on March 28, 2011, and denied the Motion on May 2, 2011.

On July 22, 2011, a putative class action titled Granfield v. NVIDIA Corp. was filed in federal court in Massachusetts asserting claims for breach of implied warranties arising out of the weak die/packaging material set, on behalf of a class of consumers alleged to not be covered by the settlement approved by the California court in The NVIDIA GPU Litigation. On November 3, 2011 the action was transferred to the Northern District of California, San Francisco Division, based upon stipulation of the parties. On December 30, 2011, Plaintiff filed a First Amended Complaint asserting claims for violation of California Consumers Legal Remedies Act and Unfair Competition Law. On September 27, 2011, a second putative class action captioned Van der Maas v. NVIDIA Corp., et al., was filed in the Central District of California against NVIDIA, Asustek Computer Inc., and Asustek Computer International on behalf of certain consumers alleged not to be covered by the NVIDIA GPU settlement. This action asserts claims for violations of California's unfair competition laws, violation of California's Consumer Legal Remedies Act, negligence and strict liability, and violation of the Texas Business and Commerce Code Section 17.50. We intend to defend against the actions vigorously.

Securities Cases

In September 2008, three putative securities class actions, or the Actions, were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The Actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. October 30, 2008, the Actions were consolidated under the caption In re NVIDIA Corporation Securities Litigation, Civil Action No. 08-CV-04260-JW (HRL). Lead Plaintiffs and Lead Plaintiffs' Counsel were appointed on December 23, 2008. On February 6, 2009, co-Lead Plaintiff filed a Writ of Mandamus with the Ninth Circuit Court of Appeals challenging the designation of co-Lead Plaintiffs' Counsel. On February 19, 2009, co-Lead Plaintiff filed with the District Court, a motion to stay the District Court proceedings pending resolution of the Writ of Mandamus by the Ninth Circuit. On February 24, 2009, Judge Ware granted the stay. On November 5, 2009, the Court of Appeals issued an opinion reversing the District Court's appointment of one of the lead plaintiffs' counsel, and remanding the matter for further proceedings.   On December 8, 2009, the District Court appointed Milberg LLP and Kahn Swick & Foti, LLC as co-lead counsel.

On January 22, 2010, Plaintiffs filed a Consolidated Amended Class Action Complaint for Violations of the Federal Securities Laws, asserting claims for violations of Section 10(b), Rule 10b-5, and Section 20(a) of the Exchange Act. The consolidated complaint sought unspecified compensatory damages. We filed a motion to dismiss the consolidated complaint in March 2010 and a hearing was held on June 24, 2010 before Judge Seeborg. On October 19, 2010, Judge Seeborg granted our motion to dismiss with leave to amend. On December 2, 2010, co-Lead Plaintiffs filed a Second Consolidated Amended Complaint. We moved to dismiss the Second Consolidated Amended Complaint on February 14, 2011. Following oral argument, on October 12, 2011, Judge Seeborg granted our motion to dismiss without leave to amend, and on November 8, 2011, Plaintiffs filed a Notice of Appeal to the Ninth Circuit.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol NVDA. Public trading of our common stock began on January 22, 1999. Prior to that, there was no public market for our common stock. As of March 9, 2012, we had approximately 421 registered stockholders, not including those shares held in street or nominee name. The following table sets forth for the periods indicated the high and low sales price for our common stock as quoted on the NASDAQ Global Select Market:

	High	Low
Fiscal year ending January 27, 2013		
First Quarter (through March 9, 2012)	$16.90	$14.43
Fiscal year ended January 29, 2012		
Fourth Quarter	$16.05	$13.11
Third Quarter	$16.10	$11.47
Second Quarter	$20.52	$13.59
First Quarter	$26.17	$16.83
Fiscal year ended January 30, 2011		
Fourth Quarter	$25.05	$11.94
Third Quarter	$12.36	$8.65
Second Quarter	$15.88	$8.92
First Quarter	$18.34	$15.32

Dividend Policy

We have never paid and do not expect to pay cash dividends for the foreseeable future.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

We did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock during the twelve months ended January 29, 2012. Through January 29, 2012, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of $1.46 billion. As of January 29, 2012, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $1.24 billion through May 2013.

In addition to our Board authorized stock repurchases, we withhold common stock shares associated with net share settlements to cover tax withholding obligations upon the vesting of restricted stock unit awards under our equity incentive program. During the twelve months ending January 29, 2012, we withheld approximately 1.1 million shares at a total cost of $17.5 million through net share settlements. Please refer to Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further discussion regarding our equity incentive plans.

Additionally, during fiscal year 2012, we granted approximately 6.4 million stock options and 7.3 million restricted stock units, or RSUs, under the 2007 Equity Incentive Plan. Please refer to Note 2 and Note 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further information regarding stock-based compensation related to our March 2009 stock option purchase and related to equity awards granted under our equity incentive programs, respectively.

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Stock Performance Graphs

The following graph compares the cumulative total stockholder return for our common stock, the S & P 500 Index and the S & P 500 Semiconductors Index for the five years ended January 29, 2012. The graph assumes that $100 was invested on January 28, 2007 in our common stock or on January 28, 2007 in each of the S & P 500 Index and the S & P Semiconductors Index. Total return assumes reinvestment of dividends in each of the indices indicated. We have never paid cash dividends on our common stock. Our results are calculated on fiscal year-end basis and each of the S & P 500 Index and the S & P Semiconductors Index are calculated on month-end basis. Total return is based on historical results and is not intended to indicate future performance.

	1/28/2007	(6,422)
Net proceeds from divestments (see Note 10)	—	53,950
Proceeds from sales of property and equipment and other, net (including real estate)	805	371
Cash Flows from Investing Activities - Continuing Operations	(150,612)	(402,643)
Cash Flows from Investing Activities - Discontinued Operations	—	90
Cash Flows from Investing Activities	(150,612)	(402,553)
Cash Flows from Financing Activities:		
Repayment of revolving credit, term loan and bridge facilities and other debt	(4,915,045)	(7,387,114)
Proceeds from revolving credit, term loan and bridge facilities and other debt	5,075,035	7,186,805
Net proceeds from sales of senior notes	—	738,750
Debt financing and equity contribution from noncontrolling interests	—	1,299
Debt repayment and equity distribution to noncontrolling interests	(830)	(843)
Parent cash dividends	(203,229)	(232,596)
Net proceeds (payments) associated with employee stock-based awards	9,454	18,641
Excess tax benefit (deficiency) from stock-based compensation	260	29
Payment of debt financing and stock issuance costs	(1,114)	(12,032)

Cash Flows from Financing Activities - Continuing Operations	(35,469)	312,939
Cash Flows from Financing Activities - Discontinued Operations	—	—
Cash Flows from Financing Activities	(35,469)	312,939
Effect of Exchange Rates on Cash and Cash Equivalents	(2,492)	(8,528)
(Decrease) Increase in Cash and Cash Equivalents	(8,835)	108,608
Cash and Cash Equivalents, Beginning of Period	125,933	128,381
Cash and Cash Equivalents, End of Period	$117,098	$236,989
Supplemental Information:		
Cash Paid for Interest	$129,518	$136,351
Cash Paid for Income Taxes, net	$23,151	$28,133
Non-Cash Investing and Financing Activities:		
Capital Leases	$21,481	$34,383
Accrued Capital Expenditures	$31,116	$40,801
Dividends Payable	$4,675	$4,493
Fair Value of Stock Issued for Recall Transaction (see Note 4)	$—	$1,835,026

The accompanying notes are an integral part of these consolidated financial statements.

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and Per Share Data)
(Unaudited)

(1) General

The interim consolidated financial statements are presented herein and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. Iron Mountain Incorporated, a Delaware corporation ("IMI"), and its subsidiaries ("we" or "us") store records, primarily physical records and data backup media, and provide information management services in various locations throughout North America, Europe, Latin America, Asia Pacific and Africa. We have a diversified customer base consisting of commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations.

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to those rules and regulations, but we believe that the disclosures included herein are adequate to make the information presented not misleading. The Consolidated Financial Statements and Notes thereto, which are included herein, should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K filed with the SEC on February 26, 2016 (our "Annual Report").

We have been organized and have operated as a real estate investment trust for federal income tax purposes ("REIT") effective for our taxable year beginning January 1, 2014.

On May 2, 2016 (Sydney, Australia time), we completed the acquisition of Recall Holdings Limited ("Recall") pursuant to the Scheme Implementation Deed, as amended, with Recall (the "Recall Transaction"). At the closing of the Recall Transaction, we paid approximately $331,800 and issued 50,233,412 shares of our common stock which, based on the closing price of our common stock as of April 29, 2016 (the last day of trading on the New York Stock Exchange ("NYSE") prior to the closing of the Recall Transaction) of $36.53 per share, resulted in a total purchase price to Recall shareholders of approximately $2,166,900. See Note 4.

(2) Summary of Significant Accounting Policies

This Note 2 to Notes to Consolidated Financial Statements provides information and disclosure regarding certain of our significant accounting policies and should be read in conjunction with Note 2 to Notes to Consolidated Financial Statements included in our Annual Report, which may provide additional information with regard to the accounting policies set forth herein and other of our significant accounting policies.

a. Foreign Currency

Local currencies are the functional currencies for our operations outside the United States, with the exception of certain foreign holding companies and our financing centers in Europe, whose functional currency is the United States dollar. In those instances where the local currency is the functional currency, assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period. Resulting translation adjustments are reflected in the accumulated other comprehensive items, net component of Iron Mountain Incorporated Stockholders' Equity and Noncontrolling Interests in the accompanying Consolidated Balance Sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (1) our previously outstanding $6^3/_4$% Euro Senior Subordinated Notes due 2018 (the "$6^3/_4$% Notes"), (2) borrowings in certain foreign currencies under our Revolving Credit Facility (as defined in Note 5) and (3) certain foreign currency denominated intercompany obligations of our foreign subsidiaries to us and between our foreign subsidiaries, which are not considered permanently invested, are included in other expense (income), net, in the accompanying Consolidated Statements of Operations.

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(2) Summary of Significant Accounting Policies (Continued)

Total loss on foreign currency transactions for the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Total loss on foreign currency transactions	$1,656	$17,193	$23,922	$4,651

b. Goodwill and Other Intangible Assets

Goodwill and indefinite-lived intangible assets

We have selected October 1 as our annual goodwill impairment review date. We performed our most recent annual goodwill impairment review as of October 1, 2015 and concluded there was no impairment of goodwill at such date. As of December 31, 2015, no factors were identified that would alter our October 1, 2015 goodwill analysis. While several of our reporting units were impacted by our acquisition of Recall, no factors were identified as of June 30, 2016 that would indicate an impairment of goodwill. In making this assessment, we relied on a number of factors including operating results, business plans, anticipated future cash flows, transactions and marketplace data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. When changes occur in the composition of one or more reporting units, the goodwill is reassigned to the reporting units affected based on their relative fair values.

Refer to our Annual Report for information regarding the composition of our reporting units as of December 31, 2015. The carrying value of goodwill, net for each of our reporting units as of December 31, 2015 was as follows:

	Carrying Value as of December 31, 2015
North American Records and Information Management(1)	$1,342,723
North American Secure Shredding(1)	73,021
North American Data Management(2)	369,907
Adjacent Businesses - Data Centers(3)	—
Adjacent Businesses - Consumer Storage(3)	4,636
Adjacent Businesses - Fine Arts(3)	21,550
UKI(4)	260,202
Continental Western Europe(4)	63,442
Emerging Markets - Europe(5)	87,378
Latin America(5)	78,537
Australia(5)	47,786
Southeast Asia(5)	5,683
India(5)	6,113
Total	$2,360,978

(1) This reporting unit is included in the North American Records and Information Management Business segment.
(2) This reporting unit is included in the North American Data Management Business segment.
(3) This reporting unit is included in the Corporate and Other Business segment.
(4) This reporting unit is included in the Western European Business segment.
(5) This reporting unit is included in the Other International Business segment.

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The acquisition of Recall, which is more fully disclosed in Note 4, impacted our reporting units as of June 30, 2016 as follows:

- North American Records and Information Management - includes the goodwill associated with the records and information management businesses of Recall in the United States and Canada.
- North American Secure Shredding - includes the goodwill associated with the secure shredding businesses of Recall in the United States and Canada.
- North American Data Management - includes the goodwill associated with the data management businesses of Recall in the United States and Canada.
- UKI - includes the goodwill associated with the operations of Recall in the United Kingdom.
- Continental Western Europe - includes the goodwill associated with the operations of Recall in Belgium, France, Germany, Spain and Switzerland, as well as the goodwill associated with the document management solutions ("DMS") operations of Recall in Sweden.
- Northern and Eastern Europe - this reporting unit consists of our former Emerging Markets - Europe reporting unit (as described in our Annual Report), and includes the goodwill associated with the operations of Recall in Denmark, Finland and Norway, as well as the goodwill associated with the records and information management operations of Recall in Sweden. This reporting unit is included in the Other International Business segment.
- Latin America - includes the goodwill associated with the operations of Recall in Brazil and Mexico.
- Australia and New Zealand - this reporting unit consists of the goodwill associated with the Australia Retained Business (as defined in Note 4), which was a component of our former Australia reporting unit, as well as the operations of Recall in Australia and New Zealand. This reporting unit is included in the Other International Business segment.
- Southeast Asia - includes the goodwill associated with the operations of Recall in China, Hong Kong, Malaysia, Singapore, Taiwan and Thailand.
- Africa and India - includes the goodwill associated with the operations of Recall in India.

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The carrying value of goodwill, net for each of our reporting units as of June 30, 2016 is as follows:

	Carrying Value as of June 30, 2016
North American Records and Information Management	$2,081,192
North American Secure Shredding	151,187
North American Data Management	503,913
Adjacent Businesses - Data Centers	—
Adjacent Businesses - Consumer Storage	4,636
Adjacent Businesses - Fine Arts	22,911
UKI	337,012
Continental Western Europe	116,290
Northern and Eastern Europe(1)	138,021
Latin America	141,145
Australia and New Zealand	150,727
Southeast Asia	174,802
Africa and India(2)	18,254
Total	$3,840,090

(1) Included in this reporting unit at June 30, 2016 is the goodwill associated with our March 2016 acquisition of Archyvu Sistemos as more fully disclosed in Note 4.
(2) Included in this reporting unit at June 30, 2016 is the goodwill associated with our March 2016 acquisition of Docufile Holdings Proprietary Limited as more fully disclosed in Note 4.

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The changes in the carrying value of goodwill attributable to each reportable operating segment for the six months ended June 30, 2016 are as follows:

	North American Records and Information Management Business	North American Data Management Business	Western European Business	Other International Business	Corporate and Other Business	Total Consolidated
Gross Balance as of December 31, 2015	$1,620,425	$ 423,606	$381,149	$ 225,626	$ 26,186	$2,676,992
Deductible goodwill acquired during the year	—	—	—	—	—	—
Non-deductible goodwill acquired during the year	812,945	132,251	154,750	425,426	215	1,525,587
Goodwill reclassified as assets held for sale (see Note 10)	(3,332)	—	—	(40,089)	—	(43,421)
Fair value and other adjustments(1)	(157)	—	—	(515)	1,146	474
Currency effects	7,649	1,873	(25,706)	12,563	—	(3,621)
Gross Balance as of June 30, 2016	$2,437,530	$ 557,730	$510,193	$ 623,011	$ 27,547	$4,156,011
Accumulated Amortization Balance as of December 31, 2015	$204,681	$ 53,699	$57,505	$ 129	$—	$316,014
Currency effects	470	118	(614)	(67)	—	(93)
Accumulated Amortization Balance as of June 30, 2016	$205,151	$ 53,817	$56,891	$ 62	$—	$315,921
Net Balance as of December 31, 2015	$1,415,744	$ 369,907	$323,644	$ 225,497	$ 26,186	$2,360,978
Net Balance as of June 30, 2016	$2,232,379	$ 503,913	$453,302	$ 622,949	$ 27,547	$3,840,090
Accumulated Goodwill Impairment Balance as of December 31, 2015	$85,909	$ —	$46,500	$ —	$—	$132,409
Accumulated Goodwill Impairment Balance as of June 30, 2016	$85,909	$ —	$46,500	$ —	$—	$132,409

(1) Total fair value and other adjustments primarily include net adjustments of $656 related to property, plant and equipment and customer relationship intangible assets, partially offset by $182 of cash received related to certain acquisitions completed in 2015.

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Finite-lived intangible assets
Customer relationship intangible assets, which are acquired through either business combinations or acquisitions of customer relationships, are amortized over periods ranging from 10 to 30 years. The value of customer relationship intangible assets is calculated based upon estimates of their fair value utilizing an income approach based on the present value of expected future cash flows.
Costs related to the acquisition of large volume accounts are capitalized. Free intake costs to transport boxes to one of our facilities, which include labor and transportation charges ("Move Costs"), are amortized over periods ranging from one to 30 years, and are included in depreciation and amortization in the accompanying Consolidated Statements of Operations. Payments that are made to a customer's current records management vendor in order to terminate the customer's existing contract with that vendor, or direct payments to a customer ("Permanent Withdrawal Fees"), are amortized over periods ranging from one to 15 years and are included in storage and service revenue in the accompanying Consolidated Statements of Operations. Move Costs and Permanent Withdrawal Fees are collectively referred to as "Customer Inducements". If the customer terminates its relationship with us, the unamortized carrying value of the Customer Inducement intangible asset is charged to expense or revenue. However, in the event of such termination, we generally collect, and record as income, permanent removal fees that generally equal or exceed the amount of the unamortized Customer Inducement intangible asset.
Other intangible assets, including noncompetition agreements and trademarks, are capitalized and amortized over periods ranging from five to 10 years.

The components of our finite-lived intangible assets as of December 31, 2015 and June 30, 2016 are as follows:

	December 31, 2015			June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationship intangible assets and Customer Inducements	$937,174	$(333,860)	$603,314	$1,663,678	$(352,869)	$1,310,809
Core Technology(1)	3,370	(3,370)	—	1,625	(1,625)	—
Trademarks and Non-Compete Agreements(1)	7,741	(4,955)	2,786	24,448	(6,164)	18,284
Total	$948,285	$(342,185)	$606,100	$1,689,751	$(360,658)	$1,329,093

(1) Included in Other, a component of Other Assets, net in the accompanying Consolidated Balance Sheets.
Amortization expense associated with finite-lived intangible assets and deferred financing costs for the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Amortization expense associated with finite-lived intangible assets and deferred financing costs	$13,593	$24,395	$26,845	$38,958

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c. Stock-Based Compensation
We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock units ("RSUs"), performance units ("PUs") and shares of stock issued under our employee stock purchase plan ("ESPP") (together, "Employee Stock-Based Awards").
Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2015 was $7,921 ($5,467 after tax or $0.03 per basic and diluted share) and $14,777 ($10,413 after tax or $0.05 per basic and diluted share), respectively.
Stock-based compensation expense for Employee Stock-Based Awards for the three and six months ended June 30, 2016 was $9,028 ($7,011 after tax or $0.03 per basic and diluted share) and $15,913 ($11,925 after tax or $0.05 per basic and diluted share), respectively.
Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cost of sales (excluding depreciation and amortization)	$46	$25	$91	$52
Selling, general and administrative expenses	7,875	9,003	14,686	15,861
Total stock-based compensation	$7,921	$9,028	$14,777	$15,913

The benefits associated with the tax deductions in excess of recognized compensation cost are required to be reported as financing activities in the accompanying Consolidated Statements of Cash Flows. This requirement impacts reported operating cash flows and reported financing cash flows. As a result, net financing cash flows included $260 and $29 for the six months ended June 30, 2015 and 2016, respectively, from the benefit of tax deductions compared to recognized compensation cost. The tax benefit of any resulting excess tax deduction increases the Additional Paid-in Capital ("APIC") pool. Any resulting tax deficiency is deducted from the APIC pool.
Stock Options
A summary of our stock options outstanding as of June 30, 2016 by vesting terms is as follows:

	June 30, 2016		
	Stock Options Outstanding	% of Stock Options Outstanding	
Three-year vesting period (10 year contractual life)	2,856,930	70.1	%
Five-year vesting period (10 year contractual life)	948,752	23.3	%
Ten-year vesting period (12 year contractual life)	271,138	6.6	%
	4,076,820		

(In Thousands, Except Share and Per Share Data)

The weighted average fair value of stock options granted for the six months ended June 30, 2015 and 2016 was $4.99 and $2.49 per share, respectively. These values were estimated on the date of grant using the Black-Scholes stock option pricing model. The weighted average assumptions used for grants in the respective period are as follows:

	Six Months Ended June 30,	
Weighted Average Assumptions	2015	2016
Expected volatility	28.6 %	27.2 %
Risk-free interest rate	1.70 %	1.32 %
Expected dividend yield	5 %	7 %
Expected life	5.5 years	5.6 years

Expected volatility is calculated utilizing daily historical volatility over a period that equates to the expected life of the stock option. The risk-free interest rate was based on the United States Treasury interest rates whose term is consistent with the expected life (estimated period of time outstanding) of the stock options. Expected dividend yield is considered in the stock option pricing model and represents our current annualized expected per share dividends over the current trade price of our common stock. The expected life of the stock options granted is estimated using the historical exercise behavior of employees.

A summary of stock option activity for the six months ended June 30, 2016 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Outstanding at December 31, 2015	3,688,814	$ 27.79		
Granted	1,408,788	33.88		
Exercised	(998,993)	23.94		
Forfeited	(10,526)	34.16		
Expired	(11,263)	30.60		
Outstanding at June 30, 2016	4,076,820	$ 30.81	6.91	$39,796
Options exercisable at June 30, 2016	1,897,278	$ 25.70	4.34	$27,818
Options expected to vest	2,030,097	$ 35.27	9.15	$11,180

The aggregate intrinsic value of stock options exercised for the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Aggregate intrinsic value of stock options exercised	$1,716	$9,926	$5,883	$11,359

Restricted Stock Units

Under our various equity compensation plans, we may also grant RSUs. Our RSUs generally have a vesting period of between three and five years from the date of grant. However, RSUs granted to our non-employee directors in 2015 and thereafter vest immediately upon grant.

All RSUs accrue dividend equivalents associated with the underlying stock as we declare dividends. Dividends will generally be paid to holders of RSUs in cash upon the vesting date of the associated RSU and will be forfeited if the RSU does not vest. The fair value of RSUs is the excess of the market price of our common stock at the date of grant over the purchase price (which is typically zero).

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Cash dividends accrued and paid on RSUs for the three and six months ended June 30, 2015 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cash dividends accrued on RSUs	$631	$616	$1,301	$1,247
Cash dividends paid on RSUs	571	196	2,300	1,831

The fair value of RSUs vested during the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Fair value of RSUs vested	$3,600	$2,807	$19,184	$17,785

A summary of RSU activity for the six months ended June 30, 2016 is as follows:

	RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	1,217,597	$ 33.68
Granted	596,401	31.26
Vested	(528,210)	33.67
Forfeited	(33,563)	34.31
Non-vested at June 30, 2016	1,252,225	$ 32.51

Performance Units

Under our various equity compensation plans, we may also make awards of PUs. For the majority of outstanding PUs, the number of PUs earned is determined based on our performance against predefined targets of revenue and return on invested capital ("ROIC"). The number of PUs earned may range from 0% to 200% of the initial award. The number of PUs earned is determined based on our actual performance as compared to the targets at the end of a three-year performance period. Certain PUs that we grant will be earned based on a market condition associated with the total return on our common stock in relation to a subset of the Standard & Poor's 500 Index rather than the revenue and ROIC targets noted above. The number of PUs earned based on this market condition may range from 0% to 200% of the initial award.

All of our PUs will be settled in shares of our common stock and are subject to cliff vesting three years from the date of the original PU grant. PUs awarded to employees who terminate their employment during the three-year performance period and on or after attaining age 55 and completing 10 years of qualifying service are eligible for pro-rated vesting, subject to the actual achievement against the predefined targets or a market condition as discussed above, based on the number of full years of service completed following the grant date (but delivery of the shares remains deferred). As a result, PUs are generally expensed over the three-year performance period.

All PUs accrue dividend equivalents associated with the underlying stock as we declare dividends. Dividends will generally be paid to holders of PUs in cash upon the settlement date of the associated PU and will be forfeited if the PU does not vest.

(In Thousands, Except Share and Per Share Data)

Cash dividends accrued and paid on PUs for the three and six months ended June 30, 2015 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cash dividends accrued on PUs	$214	$263	$425	$525
Cash dividends paid on PUs	—	—	1,015	645

During the six months ended June 30, 2016, we issued 221,662 PUs. The majority of our PUs are earned based on our performance against revenue and ROIC targets during their applicable performance period; therefore, we forecast the likelihood of achieving the predefined revenue and ROIC targets in order to calculate the expected PUs to be earned. We record a compensation charge based on either the forecasted PUs to be earned (during the performance period) or the actual PUs earned (at the three-year anniversary of the grant date) over the vesting period for each of the awards. For PUs earned based on a market condition, we utilize a Monte Carlo simulation to fair value these awards at the date of grant, and such fair value is expensed over the three-year performance period. As of June 30, 2016, we expected 0%, 100% and 100% achievement of the predefined revenue and ROIC targets associated with the awards of PUs made in 2014, 2015 and 2016, respectively.

The fair value of earned PUs that vested during the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Fair value of earned PUs that vested	$44	$1,174	$2,107	$5,255

A summary of PU activity for the six months ended June 30, 2016 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	520,764	(86,959)	433,805	$ 34.11
Granted	221,662	—	221,662	35.11
Vested	(148,403)	—	(148,403)	35.41
Forfeited/Performance or Market Conditions Not Achieved	(2,106)	(34,079)	(36,185)	44.36
Non-vested at June 30, 2016	591,917	(121,038)	470,879	$ 33.38

(1) Represents an increase or decrease in the number of original PUs awarded based on either the final performance criteria or market condition achievement at the end of the performance period of such PUs or a change in estimated awards based on the forecasted performance against the predefined targets.

Employee Stock Purchase Plan

We offer an ESPP in which participation is available to substantially all United States and Canadian employees who meet certain service eligibility requirements. The price for shares purchased under the ESPP is 95% of the market price of our common stock at the end of the offering period, without a look-back feature. As a result, we do not recognize compensation expense for the ESPP shares purchased. For the six months ended June 30, 2015 and 2016, there were 59,569 shares and 56,662 shares, respectively, purchased under the ESPP. As of June 30, 2016, we had 781,767 shares available under the ESPP.

As of June 30, 2016, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was $47,863 and is expected to be recognized over a weighted-average period of 2.1 years.

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We generally issue shares of our common stock for the exercises of stock options, RSUs, PUs and shares of our common stock under our ESPP from unissued reserved shares.

d. Income (Loss) Per Share—Basic and Diluted

Basic income (loss) per common share is calculated by dividing income (loss) by the weighted average number of common shares outstanding. The calculation of diluted income (loss) per share is consistent with that of basic income (loss) per share but gives effect to all potential common shares (that is, securities such as stock options, warrants or convertible securities) that were outstanding during the period, unless the effect is antidilutive.

The calculation of basic and diluted income (loss) per share for the three and six months ended June 30, 2015 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Income (loss) from continuing operations	$54,007	$ (14,720)	$95,746	$ 48,321
Total income (loss) from discontinued operations	$—	$ 1,587	$—	$ 1,587
Net income (loss) attributable to Iron Mountain Incorporated	$53,330	$ (13,968)	$94,426	$ 48,806
Weighted-average shares—basic	210,699,000	246,387,000	210,468,000	228,957,000
Effect of dilutive potential stock options	958,714	—	1,091,022	622,293
Effect of dilutive potential RSUs and PUs	419,002	—	603,880	450,100
Weighted-average shares—diluted	212,076,716	246,387,000	212,162,902	230,029,393
Earnings (losses) per share—basic:				
Income (loss) from continuing operations	$0.26	$ (0.06)	$0.45	$ 0.21
Total income (loss) from discontinued operations	$—	$ 0.01	$—	$ 0.01
Net income (loss) attributable to Iron Mountain Incorporated	$0.25	$ (0.06)	$0.45	$ 0.21
Earnings (losses) per share—diluted:				
Income (loss) from continuing operations	$0.25	$ (0.06)	$0.45	$ 0.21
Total income (loss) from discontinued operations	$—	$ 0.01	$—	$ 0.01
Net income (loss) attributable to Iron Mountain Incorporated	$0.25	$ (0.06)	$0.45	$ 0.21
Antidilutive stock options, RSUs and PUs, excluded from the calculation	1,335,373	1,594,475	846,803	2,208,135

e. Income Taxes

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. Our effective tax rate is subject to variability in the future due to, among other items: (1) changes in the mix of income between our qualified REIT subsidiaries and our domestic taxable REIT subsidiaries ("TRSs"), as well as among the jurisdictions in which we operate; (2) tax law changes; (3) volatility in foreign exchange gains and losses; (4) the timing of the establishment and reversal of tax reserves; and (5) our ability to utilize net operating losses that we generate.

Our effective tax rates for the three and six months ended June 30, 2015 were 12.1% and 19.6%, respectively. For the three months ended June 30, 2016, we had a net loss from continuing operations before provision of income taxes of $3,881 and a provision for income taxes of $10,839; as such our effective tax rate for the three months ended June 30, 2016 is not meaningful. Our effective tax rate for the six months ended June 30, 2016 was 32.0%. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and six months ended June 30, 2015 were the benefit derived from the dividends paid deduction, differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates, and state income taxes. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and six months ended June 30, 2016 were the benefit derived from the dividends paid deduction and differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates.

f. Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents (including money market funds and time deposits) and accounts receivable. The only significant concentrations of liquid investments as of December 31, 2015 and June 30, 2016 relate to cash and cash equivalents. At December 31, 2015, we had time deposits with four global banks. At June 30, 2016, we had time deposits with five global banks. We consider the global banks to be large, highly-rated investment-grade institutions. As of December 31, 2015 and June 30, 2016, our cash and cash equivalents were $128,381 and $236,989, respectively, including time deposits amounting to $18,645 and $18,743, respectively.

g. Fair Value Measurements

Our financial assets or liabilities that are carried at fair value are required to be measured using inputs from the three levels of the fair value hierarchy. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The three levels of the fair value hierarchy are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

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The assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2015 and June 30, 2016, respectively, are as follows:

Description	Total Carrying Value at December 31, 2015	Fair Value Measurements at December 31, 2015 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Time Deposits(1)	$ 18,645	$—	$ 18,645	$ —
Trading Securities	10,371	9,514 (2)	857 (1)	—
Available-for-Sale Securities	624	624 (2)	—	—

Description	Total Carrying Value at June 30, 2016	Fair Value Measurements at June 30, 2016 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Time Deposits(1)	$ 18,743	$—	$ 18,743	$ —
Trading Securities	10,357	9,877 (2)	480 (1)	—

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(1) Time deposits and certain trading securities are measured based on quoted prices for similar assets and/or subsequent transactions.

(2) Available-for-sale securities and certain trading securities are measured at fair value using quoted market prices.

Disclosures are required in the financial statements for items measured at fair value on a non-recurring basis. We did not have any material items that are measured at fair value on a non-recurring basis at December 31, 2015 and June 30, 2016, except goodwill calculated based on Level 3 inputs, as more fully disclosed in Note 2.b., and the assets and liabilities acquired through acquisitions, as more fully disclosed in Note 4.

The fair value of our long-term debt, which was determined based on either Level 1 inputs or Level 3 inputs, is disclosed in Note 5. Long-term debt is measured at cost in our Consolidated Balance Sheets as of December 31, 2015 and June 30, 2016.

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h. Accumulated Other Comprehensive Items, Net
The changes in accumulated other comprehensive items, net for the three months ended June 30, 2015 and 2016, respectively, are as follows:

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of March 31, 2015	$(132,084)	$ 1,002	$(131,082)
Other comprehensive income (loss):			
Foreign currency translation adjustments	1,332	—	1,332
Total other comprehensive income (loss)	1,332	—	1,332
Balance as of June 30, 2015	$(130,752)	$ 1,002	$(129,750)

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of March 31, 2016	$(152,160)	$ —	$(152,160)
Other comprehensive income (loss):			
Foreign currency translation adjustments	2,871	—	2,871
Total other comprehensive income (loss)	2,871	—	2,871
Balance as of June 30, 2016	$(149,289)	$ —	$(149,289)

The changes in accumulated other comprehensive items, net for the six months ended June 30, 2015 and 2016, respectively, are as follows:

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2014	$(76,010)	$ 979	$(75,031)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(54,742)	—	(54,742)
Market value adjustment for securities	—	23	23
Total other comprehensive (loss) income	(54,742)	23	(54,719)
Balance as of June 30, 2015	$(130,752)	$ 1,002	$(129,750)

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2015	$(175,651)	$ 734	$(174,917)
Other comprehensive income (loss):			
Foreign currency translation adjustments	26,362	—	26,362

Market value adjustment for securities	—	(734)	(734)
Total other comprehensive income (loss)	26,362	(734)	25,628
Balance as of June 30, 2016	$(149,289)	$ —	$(149,289)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
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(2) Summary of Significant Accounting Policies (Continued)

i. Other Expense (Income), Net
Other expense (income), net for the three and six months ended June 30, 2015 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Foreign currency transaction losses (gains), net	$1,656	$17,193	$23,922	$4,651
Debt extinguishment expense	—	9,283	—	9,283
Other, net	348	(835)	431	(230)
	$2,004	$25,641	$24,353	$13,704

j. Property, Plant and Equipment and Long-Lived Assets
During the three and six months ended June 30, 2015, we capitalized $6,395 and $12,435 of costs, respectively, associated with the development of internal use computer software projects. During the three and six months ended June 30, 2016, we capitalized $5,135 and $8,538 of costs, respectively, associated with the development of internal use computer software projects.
Consolidated loss on disposal/write-down of property, plant and equipment (excluding real estate), net for the three and six months ended June 30, 2015 was $515 and $848, respectively, which was primarily associated with the write-off of certain property associated with our North American Records and Information Management Business segment. Consolidated gain on disposal/write-down of property, plant and equipment (excluding real estate), net for the three and six months ended June 30, 2016 was $626 and $1,077, respectively, which was primarily associated with the retirement of leased vehicles accounted for as capital lease assets within our North American Records and Information Management Business segment.
k. New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 provides guidance for management to reassess revenue recognition as it relates to: (1) transfer of control, (2) variable consideration, (3) allocation of transaction price based on relative standalone selling price, (4) licenses, (5) time value of money, and (6) contract costs. Further disclosures will be required to provide a better understanding of revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"). ASU 2015-14 deferred the effective date of ASU 2014-09 for one year, making it effective for us on January 1, 2018, with early adoption permitted as of January 1, 2017. We will adopt ASU 2014-09 as of January 1, 2018. We are currently evaluating the impact ASU 2014-09 will have on our consolidated financial statements.
In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles of current United States auditing standards. Specifically, the amendments (1) provide a definition of the term "substantial doubt", (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for us on January 1, 2017, with early adoption permitted. We will adopt ASU 2014-15 as of January 1, 2017. We do not believe that the adoption of ASU 2014-15 will have an impact on our

consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015 02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. We adopted ASU 2015-02 on January 1, 2016. The adoption of ASU 2015-02 did not impact our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU No. 2015-17 eliminates the requirement for reporting entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, reporting entities will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments in ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. ASU 2015-17 is effective for us on January 1, 2017, with early adoption permitted. We are currently evaluating the impact ASU 2015-17 will have on our consolidated financial statements.
In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The pronouncement also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for us on January 1, 2018. We do not believe that the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 also will require certain qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for us on January 1, 2019, with early adoption permitted. We are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). ASU 2016-07 eliminates the requirement for a reporting entity to apply the equity method of accounting retrospectively when they obtain significant influence over a previously held investment. Furthermore, under ASU 2016-07, for any available-for-sale securities that become eligible for the equity method of accounting, the unrealized gain or loss recorded within other comprehensive income (loss) associated with the securities should be recognized in earnings at the date the investment initially qualifies for the use of the equity method. We adopted ASU 2016-07 on April 1, 2016. The adoption of ASU 2016-07 did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU 2016-09, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits should be classified along with other income tax cash flows as an operating activity. ASU 2016-09 will be effective for us on January 1, 2017, with early adoption permitted. We are currently evaluating the impact ASU 2016-09 will have on our consolidated financial statements.

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(3) Derivative Instruments and Hedging Activities

Historically, we have entered into separate forward contracts to hedge our exposures in Euros, British pounds sterling and Australian dollars. As of December 31, 2015 and June 30, 2016, however, we had no forward contracts outstanding.

Net cash payments included in cash from operating activities related to settlements associated with foreign currency forward contracts for the three and six months ended June 30, 2015 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Net cash payments	$12,368	$ —	$29,188	$ —

(Gains) losses for our derivative instruments for the three and six months ended June 30, 2015 and 2016 are as follows:

		Amount of (Gain) Loss Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Income on Derivative	2015	2016	2015	2016
Foreign exchange contracts	Other expense (income), net	$(8,119)	$ —	$20,414	$ —

We have designated a portion of our previously outstanding $6^{3}/_{4}$% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility (discussed more fully in Note 5) as a hedge of net investment of certain of our Euro denominated subsidiaries. For the six months ended June 30, 2015 and 2016, we designated, on average, 35,786 and 30,102 Euros, respectively, of the previously outstanding $6^{3}/_{4}$% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded the following foreign exchange (losses) gains, net of tax, related to the change in fair value of such debt due to currency translation adjustments, which is a component of accumulated other comprehensive items, net:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Foreign exchange (losses) gains	$(1,464)	$754	$3,466	$(588)

Less: Tax (benefit) expense on foreign exchange (losses) gains	—	—	—	—
Foreign exchange (losses) gains, net of tax	$(1,464)	$754	$3,466	$(588)

As of June 30, 2016, cumulative net gains of $16,508, net of tax are recorded in accumulated other comprehensive items, net associated with this net investment hedge.

(4) Acquisitions

We account for acquisitions using the acquisition method of accounting, and, accordingly, the assets and liabilities acquired are recorded at their estimated fair values and the results of operations for each acquisition have been included in our consolidated results from their respective acquisition dates. Cash consideration for our various acquisitions in 2016 was primarily provided through borrowings under our Revolving Credit Facility and Bridge Facility (each as defined in Note 5) as well as cash and cash equivalents on-hand.

a. Acquisition of Recall

On May 2, 2016 (Sydney, Australia time), we completed the Recall Transaction. At the closing of the Recall Transaction, we paid approximately $331,800 and issued 50,233,412 shares of our common stock which, based on the closing price of our common stock as of April 29, 2016 (the last day of trading on the NYSE prior to the closing of the Recall Transaction) of $36.53 per share, resulted in a total purchase price to Recall shareholders of approximately $2,166,900.

Regulatory Approvals

In connection with the acquisition of Recall, we sought regulatory approval of the Recall Transaction from the United States Department of Justice (the “DOJ”), the Australian Competition and Consumer Commission (the “ACCC”), the Canada Competition Bureau (the “CCB”), and the United Kingdom Competition and Markets Authority (the “CMA”). As part of the regulatory approval process, we agreed to make certain divestments, which are described below in greater detail, in order to address competition concerns raised by the DOJ, the ACCC, the CCB and the CMA in respect of the Recall Transaction (the “Divestments”).

See Note 10 for additional information regarding the Divestments, including the presentation of the Divestments in our Consolidated Balance Sheet as of June 30, 2016, our Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2016, respectively, and our Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2016, respectively.

Divestments and Management Pending Sales

i. United States

The DOJ’s approval of the Recall Transaction was subject to the following divestments being made by us following the closing of the Recall Transaction:

- Recall’s records and information management facilities, including all associated tangible and intangible assets, in the following 13 United States cities: Buffalo, New York; Charlotte, North Carolina; Detroit, Michigan; Durham, North Carolina; Greenville/Spartanburg, South Carolina; Kansas City, Kansas/Missouri; Nashville, Tennessee; Pittsburgh, Pennsylvania; Raleigh, North Carolina; Richmond, Virginia; San Antonio, Texas; Tulsa, Oklahoma; and San Diego, California (the “Initial United States Divestments”); and
- Recall’s records and information management facility in Seattle, Washington and certain of Recall’s records and information management facilities in Atlanta, Georgia, including in each case associated tangible and intangible assets (the “Seattle/Atlanta Divestments”).

On May 4, 2016, we completed the sale of the Initial United States Divestments to Access CIG, LLC, a privately held provider of information management services throughout the United States (“Access CIG”), for total consideration of approximately $80,000, subject to adjustments (the “Access Sale”). Of the total consideration, we received $55,000 in cash proceeds upon closing of the Access Sale, and we are entitled to receive up to $25,000 of additional cash proceeds on the 27-month anniversary of the closing of the Access Sale. See Note 10 for additional information regarding the Access Sale.

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(4) Acquisitions (Continued)

The Seattle/Atlanta Divestments will be effected by way of a sale of the tangible and intangible assets associated with the relevant facilities, which include warehouse space as well as customer contracts. We are in discussions with potential buyers for the Seattle/Atlanta Divestments. We have agreed to place the assets and employees subject to the Seattle/Atlanta Divestments in a hold separate arrangement until the Seattle/Atlanta Divestments are completed.

ii. Australia
The ACCC approved the Recall Transaction after accepting an undertaking from us pursuant to section 87B of the Australian Competition and Consumer Act 2010 (Cth) (the “ACCC Undertaking”). Pursuant to the ACCC Undertaking, we will divest the majority of our Australian operations as they existed prior to the closing of the Recall Transaction by way of a share sale, which effectively involves the sale of our Australian business (as it existed prior to the closing of the Recall Transaction) other than our data management business throughout Australia and our records and information management business in the Northern Territory of Australia, except in relation to customers who have holdings in other Australian states or territories (the “Australia Divestment Business” and, with respect to the portion of our Australia business that is not subject to divestment, the “Australia Retained Business”). Pursuant to the ACCC Undertaking, we may only sell the Australia Divestment Business to a person who is independent of the combined company and has been approved by the ACCC (the “Approved Purchaser”).

The ACCC Undertaking provides that we will sell the Australia Divestment Business within a set period of time following the closing of the Recall Transaction. If the sale of the Australia Divestment Business is not completed within that period, we must appoint an independent sale agent approved by the ACCC to effect the sale of the Australia Divestment Business. There is no minimum price at which the independent sale agent must sell the Australia Divestment Business.

Until the Australia Divestment Business is sold to the Approved Purchaser, we are required to preserve the Australia Divestment Business as a separate and independently viable going concern. In addition, until the Australia Divestment Business is sold to the Approved Purchaser, the Australia Divestment Business is being managed by an independent manager selected by us and approved by the ACCC. We are in discussions with potential buyers for the Australia Divestment Business.

iii. Canada

The CCB approved the Recall Transaction on the basis of the registration of a consent agreement with us pursuant to sections 92 and 105 of the Competition Act (R.S.C., 1985, c. C-34) (the “CCB Consent Agreement”). The CCB Consent Agreement requires us to divest the following assets:

- Recall’s record and information management facilities, including associated tangible and intangible assets and employees, in Edmonton, Alberta and Montreal (Laval), Quebec and certain of Recall’s record and information management facilities, including all associated tangible and intangible assets and employees, in Calgary, Alberta and Toronto, Ontario, (the “Recall Canadian Divestments”); and
- One of our records and information management facilities in Vancouver (Burnaby), British Columbia and one of our records and information management facilities in Ottawa, Ontario, including associated tangible and intangible assets and employees (the “Iron Mountain Canadian Divestments”).

The Recall Canadian Divestments and the Iron Mountain Canadian Divestments (or collectively, the "Canadian Divestments") will be affected by way of a sale of only the tangible and intangible assets associated with the relevant facilities, which include warehouse space as well as customer contracts. Under the CCB Consent Agreement, the assets subject of the Canadian Divestments will be acquired by a single buyer to be approved by the Commissioner of Competition (the "Commissioner").

Pursuant to the terms of the CCB Consent Agreement, in order to preserve the businesses of the Canadian Divestments, pending completion of a sale of the Canadian Divestments, we must maintain the economic viability and marketability of the businesses of the Canadian Divestments, and we are required to hold the Recall Canadian Divestments separate from those of our other operations. In addition, the business of the Recall Canadian Divestments is being managed by an independent manager selected by us and approved by the Commissioner. We are in discussions with potential buyers for the Canadian Divestments.

iv. United Kingdom

In January 2016, the CMA referred the Recall Transaction for further investigation and report by a group of CMA panel members who were responsible for determining whether the Recall Transaction would result in a substantial lessening of competition within the relevant United Kingdom markets (the “CMA Review”). On March 30, 2016, the CMA announced its conditional consent for the Recall Transaction prior to the CMA’s issuance of its final decision following the CMA Review (the “CMA Consent”). On June 16, 2016, the CMA completed the CMA Review and published its findings. The findings concluded that the Recall Transaction is not expected to result in any substantial lessening of competition outside of North East Scotland, but that the Recall Transaction may result in a substantial lessening of competition in the supply of records management and information management services (including records management and physical offsite data protection services) in the Aberdeen and Dundee areas of Scotland (the “Scotland Affected Areas”). As a result of the CMA’s decision, we will divest Recall’s record and information management facilities, including associated tangible and intangible assets and employees, in the Scotland Affected Areas (the “UK Divestments”).

Pursuant to the CMA Consent, in order to preserve the business of the UK Divestments, pending completion of the sale of the UK Divestments, we must maintain the economic viability and marketability of the business of the UK Divestments, and we are required to hold the UK Divestments separate from those of our other operations. In addition, the CMA concluded that a monitoring trustee should be appointed, at our sole expense and subject to CMA approval, to monitor compliance with the CMA’s findings and to ensure a prompt sale of the UK Divestments. We are in discussions with potential buyers for the UK Divestments. Aside from the CMA’s eventual approval of the purchaser of the UK Divestments, this decision marks the completion of the CMA Review.

The unaudited consolidated pro forma financial information (the "Pro Forma Financial Information") below summarizes the combined results of us and Recall on a pro forma basis as if the Recall Transaction had occurred on January 1, 2015. The Pro Forma Financial Information is presented for informational purposes and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2015. The Pro Forma Financial Information, for all periods presented, includes adjustments to convert Recall's historical results from International Financial Reporting Standards to GAAP, purchase accounting adjustments (including amortization expenses from acquired intangible assets, depreciation of acquired property, plant and equipment and amortization of favorable and unfavorable leases), stock-based compensation and related tax effects. Through June 30, 2016, we and Recall have collectively incurred $133,791 of operating expenditures to complete the Recall Transaction (including advisory and professional fees and costs to complete the Divestments required in connection with receipt of regulatory approval and to provide transitional services required to support the divested businesses during a transition period). These operating expenditures have been reflected within the results of operations in the Pro Forma Financial Information as if they were incurred on January 1, 2015. The costs we have incurred to integrate Recall with our existing operations, including moving, severance, facility upgrade, REIT conversion and system upgrade costs are reflected in the Pro Forma Financial Information in the period in which they were incurred.

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(4) Acquisitions (Continued)

The Pro Forma Financial Information, for all periods presented, exclude from results from continuing operations the results of operations of the Initial United States Divestments, the Seattle/Atlanta Divestments, the Recall Canadian Divestments and the UK Divestments, as these businesses are presented as discontinued operations. The Australia Divestment Business and the Iron Mountain Canadian Divestments are included within the results from continuing operations in the Pro Forma Financial Information for all periods presented, as these businesses do not qualify for discontinued operations. The Australia Divestment Business and the Iron Mountain Canadian Divestments, collectively, represent $13,995 and $27,442 of total revenues and $557 and $1,551 of total income from continuing operations for the three and six months ended June 30, 2015, respectively, and $14,126 and $27,151 of total revenues and $218 and $755 of total income from continuing operations for the three and six months ended June 30, 2016, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Total Revenues	$951,707	$948,494	$1,883,588	$1,885,211
Income (Loss) from Continuing Operations	$64,920	$21,062	$(28,291)	$78,145
Per Share Income (Loss) from Continuing Operations - Basic	$0.25	$0.08	$(0.11)	$0.30
Per Share Income (Loss) from Continuing Operations - Diluted	$0.25	$0.08	$(0.11)	$0.30

The revenues included in our Consolidated Statements of Operations for the three and six months ended June 30, 2016 related to Recall are as follows:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Storage Rental	$68,650	$68,650
Service	52,140	52,140
Total Revenues	$120,790	$120,790

The amount of earnings in our Consolidated Statements of Operations for the three and six months ended June 30, 2016 related to Recall is impracticable for us to determine. Subsequent to the closing of the Recall Transaction, we began integrating Recall and our existing operations in order to achieve operational synergies. As a result, the underlying costs of sales and selling, general and administrative expenses to support Recall's business are now integrated with the costs of sales and selling, general and administrative expenses that supported our business prior to the acquisition of Recall.

In addition to our acquisition of Recall, we completed certain other acquisitions during 2016. The unaudited pro forma results of operations (including revenue and earnings) for the current and prior periods reflecting these acquisitions and certain acquisitions in 2015 are not presented due to the insignificant impact of these acquisitions on our consolidated results of operations.

b. Other 2016 Acquisitions

In March 2016, we acquired a controlling interest in Docufile Holdings Proprietary Limited ("Docufile"), a storage and records management company with operations in South Africa, for approximately $15,000. The acquisition of Docufile represents our entrance into Africa.

In March 2016, in order to expand our presence in the Baltic region, we acquired the stock of Archyvu Sistemos, a storage and records management company with operations in Lithuania, Latvia and Estonia, for approximately $5,100.

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(4) Acquisitions (Continued)

A summary of the cumulative consideration paid and the preliminary allocation of the purchase price paid for all of our 2016 acquisitions is as follows:

	Recall	Other Fiscal 2016 Year Acquisitions (excluding Recall)	Total
Cash Paid (gross of cash acquired)(1)	$331,834	$ 22,241	$354,075
Fair Value of Common Stock Issued	1,835,026	—	1,835,026
Fair Value of Noncontrolling Interests	—	3,506	3,506
Total Consideration	2,166,860	25,747	2,192,607
Fair Value of Identifiable Assets Acquired:			
Cash	76,773	567	77,340
Accounts Receivable and Prepaid Expenses	207,516	2,677	210,193
Fair Value of Divestments(2)	127,111	—	127,111
Other Assets	45,139	541	45,680
Property, Plant and Equipment(3)	708,439	8,565	717,004
Customer Relationship Intangible Assets(4)	730,056	10,614	740,670
Debt Assumed	(789,567)	—	(789,567)
Accounts Payable, Accrued Expenses and Other Liabilities	(257,698)	(8,338)	(266,036)
Deferred Income Taxes	(192,515)	(2,860)	(195,375)
Total Fair Value of Identifiable Net Assets Acquired	655,254	11,766	667,020
Goodwill Initially Recorded(5)	$1,511,606	$ 13,981	$1,525,587

(1) Included in cash paid for acquisitions in the Consolidated Statement of Cash Flows for the six months ended June 30, 2016 is net cash acquired of $77,340 and cash received of $182 related to acquisitions made in previous years.

(2) Represents the fair value, less costs to sell, of the Initial United States Divestments, the Seattle/Atlanta Divestments, the Recall Canadian Divestments and the UK Divestments.

(3) Consists primarily of buildings, racking structures, leasehold improvements and computer hardware and software. These assets are depreciated using the straight-line method with the useful lives as noted in Note 2.f. to Notes to Consolidated Financial Statements included in our Annual Report.

(4) The weighted average lives of customer relationship intangible assets associated with acquisitions in 2016 was 14 years, primarily related to the customer relationship intangible assets associated with the Recall Transaction.

(5) The goodwill associated with Recall is primarily attributable to the assembled workforce, expanded market opportunities and costs and other operating synergies anticipated upon the integration of the operations of us and Recall.

Allocations of the purchase price paid for acquisitions made in 2016 were based on estimates of the fair value of net assets acquired and are subject to adjustment as additional information becomes available to us. The purchase price allocations of these 2016 acquisitions are subject to finalization of the assessment of the fair value of intangible assets (primarily customer relationship intangible assets and trademarks), property, plant and equipment (primarily building and racking structures), operating leases, contingent consideration related to the Initial United States Divestments, contingencies and income taxes (primarily deferred income taxes).

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(5) Debt

Long-term debt is as follows:

	December 31, 2015			
	Debt	Unamortized Deferred Financing Costs	Carrying Amount	Fair Value
Revolving Credit Facility(1)	$784,438	$ (9,410)	$775,028	$784,438
Term Loan(1)	243,750	—	243,750	243,750
6% Senior Notes due 2020 (the "6% Notes due 2020")(2)(3)(4)	1,000,000	(16,124)	983,876	1,052,500
$6^1/_8$% CAD Senior Notes due 2021 (the "CAD Notes")(2)(5)	144,190	(1,924)	142,266	147,074
$6^1/_8$% GBP Senior Notes due 2022 (the "GBP Notes")(2)(4)(6)	592,140	(8,757)	583,383	606,944
6% Senior Notes due 2023 (the "6% Notes due 2023")(2)(3)	600,000	(8,420)	591,580	618,000
$5^3/_4$% Senior Subordinated Notes due 2024 (the "$5^3/_4$% Notes")(2)(3)	1,000,000	(11,902)	988,098	961,200
Real Estate Mortgages, Capital Leases and Other(7)	333,559	(1,070)	332,489	333,559
Accounts Receivable Securitization Program(8)	205,900	(692)	205,208	205,900
Total Long-term Debt	4,903,977	(58,299)	4,845,678	
Less Current Portion	(88,068)	—	(88,068)	
Long-term Debt, Net of Current Portion	$4,815,909	$ (58,299)	$4,757,610	

	June 30, 2016			
	Debt	Unamortized Deferred Financing Costs	Carrying Amount	Fair Value
Revolving Credit Facility(1)	$1,350,534	$ (9,122)	$1,341,412	$1,350,534
Term Loan(1)	237,500	—	237,500	237,500
6% Notes due 2020(2)(3)(4)	1,000,000	(14,427)	985,573	1,052,500
CAD Notes(2)(5)	154,353	(1,878)	152,475	158,598
$4^3/_8$% Senior Notes due 2021 (the "$4^3/_8$% Notes")(2)(3)(4)	500,000	(7,897)	492,103	501,875
GBP Notes(2)(4)(6)	535,664	(7,332)	528,332	535,664
6% Notes due 2023(2)(3)	600,000	(7,871)	592,129	632,250
$5^3/_4$% Notes(2)(3)	1,000,000	(11,216)	988,784	1,006,250
$5^3/_8$% Senior Notes due 2026 (the "$5^3/_8$% Notes")(2)(4)(9)	250,000	(3,978)	246,022	243,125
Real Estate Mortgages, Capital Leases and Other(7)	435,775	(1,300)	434,475	435,775
Accounts Receivable Securitization Program(8)	217,300	(538)	216,762	217,300
Total Long-term Debt	6,281,126	(65,559)	6,215,567	
Less Current Portion	(112,509)	—	(112,509)	
Long-term Debt, Net of Current Portion	$6,168,617	$ (65,559)	$6,103,058	

IRON MOUNTAIN INCORPORATED
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(Unaudited)
(5) Debt (Continued)

(1) The capital stock or other equity interests of most of our United States subsidiaries, and up to 66% of the capital stock or other equity interests of most of our first-tier foreign subsidiaries, are pledged to secure these debt instruments, together with all intercompany obligations (including promissory notes) of subsidiaries owed to us or to one of our United States subsidiary guarantors. In addition, Iron Mountain Canada Operations ULC ("Canada Company") has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it, to secure the Canadian dollar subfacility under the Revolving Credit Facility (defined below). The fair value (Level 3 of fair value hierarchy described at Note 2.g.) of these debt instruments approximates the carrying value (as borrowings under these debt instruments are based on current variable market interest rates (plus a margin that is subject to change based on our consolidated leverage ratio)), as of December 31, 2015 and June 30, 2016, respectively.

(2) The fair values (Level 1 of fair value hierarchy described at Note 2.g.) of these debt instruments are based on quoted market prices for these notes on December 31, 2015 and June 30, 2016, respectively.

(3) Collectively, the "Parent Notes." IMI is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior or senior subordinated basis, as the case may be, by its direct and indirect 100% owned United States subsidiaries that represent the substantial majority of our United States operations (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Canada Company, Iron Mountain Europe PLC ("IME"), the Special Purpose Subsidiaries (as defined below) and the remainder of our subsidiaries do not guarantee the Parent Notes. See Note 6.

(4) The 6% Notes due 2020, the $4^3/_8$% Notes, the GBP Notes and the $5^3/_8$% Notes (collectively, the "Unregistered Notes") have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any other jurisdiction. Unless they are registered, the Unregistered Notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction.

(5) Canada Company is the direct obligor on the CAD Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6.

(6) IME is the direct obligor on the GBP Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6.

(7) We believe the fair value (Level 3 of fair value hierarchy described at Note 2.g.) of this debt approximates its carrying value.

(8) The Special Purpose Subsidiaries are the obligors under this program. We believe the fair value (Level 3 of fair value hierarchy described at Note 2.g.) of this debt approximates its carrying value.

(9) Iron Mountain US Holdings, Inc. ("IM US Holdings"), a 100% owned subsidiary of IMI and one of the Guarantors, is the direct obligor on the $5^3/_8$% Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the other Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6.

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a. Credit Agreement
On July 2, 2015, we entered into a new credit agreement (the "Credit Agreement") to refinance our then existing credit agreement which consisted of a revolving credit facility (the "Former Revolving Credit Facility") and a term loan and was scheduled to terminate on June 27, 2016. The Credit Agreement consists of a revolving credit facility (the "Revolving Credit Facility") and a term loan (the "Term Loan").
On June 24, 2016, Iron Mountain Information Management, LLC (“IMIM”) entered into a commitment increase supplement (the “Commitment Increase Supplement”), pursuant to which we increased the maximum amount permitted to be borrowed under the Revolving Credit Facility from $1,500,000 to $1,750,000. After entering into the Commitment Increase Supplement, the maximum amount available for borrowing under the Credit Agreement is $2,000,000 (consisting of a Revolving Credit Facility of $1,750,000 and a Term Loan of $250,000). We continue to have the option to request additional commitments of up to $250,000, in the form of term loans or through increased commitments under the Revolving Credit Facility, subject to the conditions specified in the Credit Agreement.
The Revolving Credit Facility is supported by a group of 25 banks and enables IMI and certain of its United States and foreign subsidiaries to borrow in United States dollars and (subject to sublimits) a variety of other currencies (including Canadian dollars, British pounds sterling, Euros and Australian dollars, among other currencies) in an aggregate outstanding amount not to exceed $1,750,000. The Term Loan is to be paid in quarterly installments in an amount equal to $3,125 per quarter, with the remaining balance due on July 3, 2019. The Credit Agreement terminates on July 6, 2019, at which point all obligations become due, but may be extended by one year at our option, subject to the conditions set forth in the Credit Agreement. Borrowings under the Credit Agreement may be prepaid without penalty or premium, in whole or in part, at any time.
IMI and the Guarantors guarantee all obligations under the Credit Agreement. The interest rate on borrowings under the Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin, which varies based on our consolidated leverage ratio. Additionally, the Credit Agreement requires the payment of a commitment fee on the unused portion of the Revolving Credit Facility, which fee ranges from between 0.25% to 0.4% based on our consolidated leverage ratio and fees associated with outstanding letters of credit. As of June 30, 2016, we had $1,350,534 and $237,500 of outstanding borrowings under the Revolving Credit Facility and the Term Loan, respectively. Of the $1,350,534 of outstanding borrowings under the Revolving Credit Facility, $671,200 was denominated in United States dollars, 166,000 was denominated in Canadian dollars, 263,850 was denominated in Euros and 347,000 was denominated in Australian dollars. In addition, we also had various outstanding letters of credit totaling $58,163. The remaining amount available for borrowing under the Revolving Credit Facility as of June 30, 2016, based on IMI's leverage ratio, the last 12 months' earnings before interest, taxes, depreciation and amortization and rent expense ("EBITDAR"), other adjustments as defined in the Credit Agreement and current external debt, was $341,303 (which amount represents the maximum availability as of such date). The average interest rate in effect under the Credit Agreement was 2.7% as of June 30, 2016. The average interest rate in effect under the Revolving Credit Facility was 3.0% and ranged from 2.3% to 4.8% as of June 30, 2016 and the interest rate in effect under the Term Loan as of June 30, 2016 was 2.7%.
The Credit Agreement, our indentures and other agreements governing our indebtedness contain certain restrictive financial and operating covenants, including covenants that restrict our ability to complete acquisitions, pay cash dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions. The covenants do not contain a rating trigger. Therefore, a change in our debt rating would not trigger a default under the Credit Agreement, our indentures or other agreements governing our indebtedness. The Credit Agreement uses EBITDAR-based calculations as the primary measures of financial performance, including leverage and fixed charge coverage ratios.

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Our leverage and fixed charge coverage ratios under the Credit Agreement as of December 31, 2015 and June 30, 2016, respectively, and our leverage ratio under our indentures as of December 31, 2015 and June 30, 2016, respectively, are as follows:

	December 31, 2015	June 30, 2016	Maximum/Minimum Allowable
Net total lease adjusted leverage ratio	5.6	5.8	Maximum allowable of 6.5
Net secured debt lease adjusted leverage ratio	2.6	2.9	Maximum allowable of 4.0
Bond leverage ratio (not lease adjusted)	5.5	5.4	Maximum allowable of 6.5
Fixed charge coverage ratio	2.4	2.6	Minimum allowable of 1.5

As noted in the table above, our maximum allowable net total lease adjusted leverage ratio under the Credit Agreement is 6.5. The Credit Agreement also contains a provision which limits, in certain circumstances, our dividends in any four consecutive fiscal quarters to 95% of Funds From Operations (as defined in the Credit Agreement) for such four fiscal quarters or, if greater, the amount that we would be required to pay in order to continue to be qualified for taxation as a REIT or to avoid the imposition of income or excise taxes on IMI. This limitation only is applicable when our net total lease adjusted leverage ratio exceeds 6.0 as measured as of the end of the most recently completed fiscal quarter.

Noncompliance with these leverage and fixed charge coverage ratios would have a material adverse effect on our financial condition and liquidity.

Commitment fees and letters of credit fees, which are based on the unused balances under the Former Revolving Credit Facility, the Revolving Credit Facility and the Accounts Receivable Securitization Program (as defined below) for the three and six months ended June 30, 2015 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Commitment fees and letters of credit fees	$991	$344	$1,858	$1,029

b. Bridge Facility

On April 19, 2016, in order to provide a portion of the financing necessary to close the Recall Transaction, we entered into a commitment letter with JPMorgan Chase Bank, N.A., as a lender and administrative agent, and the other lenders party thereto (the "Lenders"), pursuant to which the Lenders committed to provide us an unsecured bridge term loan facility of up to $850,000 (the "Bridge Facility"). On April 29, 2016, we entered into a bridge credit agreement (the “Bridge Credit Agreement”) with the Lenders and borrowed the full amount of the Bridge Facility. We used the proceeds from the Bridge Facility, together with borrowings under the Revolving Credit Facility, to finance a portion of the cost of the Recall Transaction, including refinancing Recall’s existing indebtedness and to pay costs we incurred in connection with the Recall Transaction.

On May 31, 2016, we used the proceeds from the issuance of the 4 % Notes and the 5 % Notes, together with cash on hand and borrowings under the Revolving Credit Facility, to repay the Bridge Facility, and effective May 31, 2016, we terminated the commitments of the lenders under the Bridge Credit Agreement. We recorded a charge to other expense (income), net of $9,283 during the second quarter of 2016 related to the early extinguishment of the Bridge Credit Agreement. This charge primarily consisted of the write-off of unamortized deferred financing costs.

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c. Issuance of $4^3/_8$% Notes and $5^3/_8$% Notes
In May 2016, IMI completed a private offering of $500,000 in aggregate principal amount of the $4^3/_8$% Notes and IM US Holdings completed a private offering of $250,000 in aggregate principal amount of the $5^3/_8$% Notes. The $4^3/_8$% Notes and $5^3/_8$% Notes were issued at par. The aggregate net proceeds of $738,750 from the $4^3/_8$% Notes and $5^3/_8$% Notes, after paying the initial purchasers' commissions, were used, together with cash on hand and borrowings under the Revolving Credit Facility, for the repayment of all outstanding borrowings under the Bridge Credit Agreement.
d. Accounts Receivable Securitization Program
In March 2015, we entered into a $250,000 accounts receivable securitization program (the "Accounts Receivable Securitization Program") involving several of our wholly owned subsidiaries and certain financial institutions. Under the Accounts Receivable Securitization Program, certain of our subsidiaries sell substantially all of their United States accounts receivable balances to our wholly owned special purpose entities, Iron Mountain Receivables QRS, LLC and Iron Mountain Receivables TRS, LLC (the "Special Purpose Subsidiaries"). The Special Purpose Subsidiaries use the accounts receivable balances to collateralize loans obtained from certain financial institutions. The Special Purpose Subsidiaries are consolidated subsidiaries of IMI. The Accounts Receivable Securitization Program is accounted for as a collateralized financing activity, rather than a sale of assets, and therefore: (i) accounts receivable balances pledged as collateral are presented as assets and borrowings are presented as liabilities on our Consolidated Balance Sheets, (ii) our Consolidated Statements of Operations reflect the associated charges for bad debt expense related to pledged accounts receivable (a component of selling, general and administrative expenses) and reductions to revenue due to billing and service related credit memos issued to customers and related reserves, as well as interest expense associated with the collateralized borrowings, and (iii) receipts from customers related to the underlying accounts receivable are reflected as operating cash flows and borrowings and repayments under the collateralized loans are reflected as financing cash flows within our Consolidated Statements of Cash Flows. IMIM retains the responsibility of servicing the accounts receivable balances pledged as collateral in this transaction and IMI provides a performance guaranty. The Accounts Receivable Securitization Program terminates on March 6, 2018, at which point all obligations become due. The maximum availability allowed is limited by eligible accounts receivable, as defined under the terms of the Accounts Receivable Securitization Program. As of June 30, 2016, the maximum availability allowed and amount outstanding under the Accounts Receivable Securitization Program was $217,300. The interest rate in effect under the Accounts Receivable Securitization Program was 1.4% as of June 30, 2016. Commitment fees at a rate of 40 basis points are charged on amounts made available but not borrowed under the Accounts Receivable Securitization Program.
e. Cash Pooling
Subsequent to the closing of the Recall Transaction, certain of our international subsidiaries began participating in a cash pooling arrangement (the “Cash Pool”) with Bank Mendes Gans (“BMG”) in order to help manage global liquidity requirements. The Cash Pool allows participating subsidiaries to borrow funds from BMG against amounts held on deposit with BMG by other participating subsidiaries. The Cash Pool has a legal right of offset and, therefore, amounts are presented in our Consolidated Balance Sheet on a net basis. Each subsidiary receives interest on the cash balances held on deposit or pays interest on the amounts owed based on an applicable rate as defined in the Cash Pool agreement. At June 30, 2016, we had a net cash position of approximately $6,500 (consisting of a gross cash position of approximately $46,400 less outstanding borrowings of approximately $39,900 by participating subsidiaries), which is reflected as cash and cash equivalents in the Consolidated Balance Sheet.

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The following data summarizes the consolidating results of IMI on the equity method of accounting as of December 31, 2015 and June 30, 2016 and for the three and six months ended June 30, 2015 and 2016 and are prepared on the same basis as the consolidated financial statements.

The Parent Notes, CAD Notes, GBP Notes and $5^3/_8$% Notes are guaranteed by the subsidiaries referred to below as the Guarantors. These subsidiaries are 100% owned by IMI. The guarantees are full and unconditional, as well as joint and several.

Additionally, IMI guarantees the CAD Notes, which were issued by Canada Company, the GBP Notes, which were issued by IME, and the $5^3/_8$% Notes, which were issued by IM US Holdings. Canada Company and IME do not guarantee the Parent Notes. The subsidiaries that do not guarantee the Parent Notes, the CAD Notes, the GBP Notes and the $5^3/_8$% Notes, including IME and the Special Purpose Subsidiaries but excluding Canada Company, are referred to below as the Non-Guarantors.

In the normal course of business, we periodically change the ownership structure of our subsidiaries to meet the requirements of our business. In the event of such changes, we recast the prior period financial information within this footnote to conform to the current period presentation in the period such changes occur. Generally, these changes do not alter the designation of the underlying subsidiaries as Guarantors or Non-Guarantors. However, they may change whether the underlying subsidiary is owned by the Parent, a Guarantor, Canada Company or a Non-Guarantor. If such a change occurs, the amount of investment in subsidiaries in the below Consolidated Balance Sheets and equity in the earnings (losses) of subsidiaries, net of tax in the below Consolidated Statements of Operations and Comprehensive (Loss) Income with respect to the relevant Parent, Guarantors, Canada Company, Non-Guarantors and Eliminations columns also would change.

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CONSOLIDATED BALANCE SHEETS

	December 31, 2015					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and cash equivalents	$151	$6,472	$13,182	$108,576	$—	$128,381
Accounts receivable	—	14,069	30,428	519,904	—	564,401
Intercompany receivable	—	1,038,141	—	—	(1,038,141)	—
Other current assets	898	106,670	2,305	55,286	(29)	165,130
Total Current Assets	1,049	1,165,352	45,915	683,766	(1,038,170)	857,912
Property, Plant and Equipment, Net	661	1,600,886	137,100	758,511	—	2,497,158
Other Assets, Net:						
Long-term notes receivable from affiliates and intercompany receivable	3,255,049	1,869	—	—	(3,256,918)	—
Investment in subsidiaries	797,666	459,429	27,731	2,862	(1,287,688)	—
Goodwill	—	1,618,593	152,975	589,410	—	2,360,978
Other	623	392,987	22,637	218,292	—	634,539
Total Other Assets, Net	4,053,338	2,472,878	203,343	810,564	(4,544,606)	2,995,517
Total Assets	$4,055,048	$5,239,116	$386,358	$2,252,841	$(5,582,776)	$6,350,587
Liabilities and Equity						
Intercompany Payable	$879,649	$—	$5,892	$152,600	$(1,038,141)	$—
Current Portion of Long-Term Debt	—	41,159	—	46,938	(29)	88,068
Total Other Current Liabilities	56,740	454,924	26,804	215,295	—	753,763
Long-Term Debt, Net of Current Portion	2,608,818	674,190	284,798	1,189,804	—	4,757,610
Long-Term Notes Payable to Affiliates and Intercompany Payable	1,000	3,255,049	869	—	(3,256,918)	—
Other Long-term Liabilities	—	115,950	37,402	69,187	—	222,539
Commitments and Contingencies (See Note 8)						
Total Iron Mountain Incorporated Stockholders' Equity	508,841	697,844	30,593	559,251	(1,287,688)	508,841
Noncontrolling Interests	—	—	—	19,766	—	19,766
Total Equity	508,841	697,844	30,593	579,017	(1,287,688)	528,607
Total Liabilities and Equity	$4,055,048	$5,239,116	$386,358	$2,252,841	$(5,582,776)	$6,350,587

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CONSOLIDATED BALANCE SHEETS (Continued)

	June 30, 2016					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and cash equivalents	$402	$11,026	$3,316	$222,245	$—	$236,989
Accounts receivable	—	62,157	37,479	610,890	—	710,526
Intercompany receivable	878,096	351,042	—	—	(1,229,138)	—
Other current assets	—	168,098	5,952	23,866	(29)	197,887
Assets held for sale (see Note 10)	—	23,118	25,294	95,556	—	143,968
Total Current Assets	878,498	615,441	72,041	952,557	(1,229,167)	1,289,370
Property, Plant and Equipment, Net	572	1,785,370	159,880	1,250,426	—	3,196,248
Other Assets, Net:						
Long-term notes receivable from affiliates and intercompany receivable	3,609,376	1,000	—	—	(3,610,376)	—
Investment in subsidiaries	882,989	554,230	34,442	141,392	(1,613,053)	—
Goodwill	—	2,445,469	235,715	1,158,906	—	3,840,090
Other	—	787,825	55,886	571,635	—	1,415,346
Total Other Assets, Net	4,492,365	3,788,524	326,043	1,871,933	(5,223,429)	5,255,436
Total Assets	$5,371,435	$6,189,335	$557,964	$4,074,916	$(6,452,596)	$9,741,054
Liabilities and Equity						
Intercompany Payable	$—	$—	$1,389	$1,227,749	$(1,229,138)	$—
Current Portion of Long-Term Debt	—	45,458	—	67,080	(29)	112,509
Total Other Current Liabilities	57,457	461,102	33,895	295,432	—	847,886
Liabilities held for sale (see Note 10)	—	—	—	21,634	—	21,634
Long-Term Debt, Net of Current Portion	3,091,903	1,119,548	286,547	1,605,060	—	6,103,058
Long-Term Notes Payable to Affiliates and Intercompany Payable	1,000	3,609,376	—	—	(3,610,376)	—
Other Long-term Liabilities	—	162,073	60,299	187,565	—	409,937
Commitments and Contingencies (See Note 8)						
Total Iron Mountain Incorporated Stockholders' Equity	2,221,075	791,778	175,834	645,441	(1,613,053)	2,221,075
Noncontrolling Interests	—	—	—	24,955	—	24,955
Total Equity	2,221,075	791,778	175,834	670,396	(1,613,053)	2,246,030
Total Liabilities and Equity	$5,371,435	$6,189,335	$557,964	$4,074,916	$(6,452,596)	$9,741,054

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30, 2015					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage rental	$—	$305,913	$30,804	$124,492	$—	$ 461,209
Service	—	189,268	16,108	93,149	—	298,525
Intercompany service	—	1,055	—	22,126	(23,181)	—
Total Revenues	—	496,236	46,912	239,767	(23,181)	759,734
Operating Expenses:						
Cost of sales (excluding depreciation and amortization)	—	196,080	6,642	123,561	—	326,283
Selling, general and administrative	24	149,051	3,795	63,015	—	215,885
Intercompany service charges	—	6,400	15,726	1,055	(23,181)	—
Depreciation and amortization	45	56,360	3,165	27,979	—	87,549
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	—	440	—	75	—	515
Total Operating Expenses	69	408,331	29,328	215,685	(23,181)	630,232
Operating (Loss) Income	(69)	87,905	17,584	24,082	—	129,502
Interest Expense (Income), Net	39,222	(6,415)	8,342	24,938	—	66,087
Other Expense (Income), Net	1,127	3,139	(10)	(2,252)	—	2,004
(Loss) Income from Continuing Operations Before (Benefit) Provision for Income Taxes	(40,418)	91,181	9,252	1,396	—	61,411
(Benefit) Provision for Income Taxes	—	(1,037)	4,796	3,645	—	7,404
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(93,748)	(643)	(874)	(4,456)	99,721	—
Net Income (Loss)	53,330	92,861	5,330	2,207	(99,721)	54,007
Less: Net Income (Loss) Attributable to Noncontrolling Interests	—	—	—	677	—	677
Net Income (Loss) Attributable to Iron Mountain Incorporated	$53,330	$92,861	$5,330	$1,530	$(99,721)	$ 53,330
Net Income (Loss)	$53,330	$92,861	$5,330	$2,207	$(99,721)	$ 54,007
Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	(1,464)	—	1,037	1,427	—	1,000
Equity in Other Comprehensive Income (Loss) of Subsidiaries	2,796	2,907	1,542	1,037	(8,282)	—
Total Other Comprehensive Income (Loss)	1,332	2,907	2,579	2,464	(8,282)	1,000
Comprehensive Income (Loss)	54,662	95,768	7,909	4,671	(108,003)	55,007
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	—	—	—	345	—	345
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	$54,662	$95,768	$7,909	$4,326	$(108,003)	$ 54,662

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Continued)

	Three Months Ended June 30, 2016					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage rental	$—	$329,672	$32,331	$176,679	$—	$538,682
Service	—	199,349	16,907	128,810	—	345,066
Intercompany service	—	1,013	—	19,903	(20,916)	—
Total Revenues	—	530,034	49,238	325,392	(20,916)	883,748
Operating Expenses:						
Cost of sales (excluding depreciation and amortization)	—	216,871	6,929	171,849	—	395,649
Selling, general and administrative	521	191,193	4,595	80,768	—	277,077
Intercompany service charges	—	3,809	16,094	1,013	(20,916)	—
Depreciation and amortization	44	67,666	3,962	43,350	—	115,022
(Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	—	(839)	—	213	—	(626)
Total Operating Expenses	565	478,700	31,580	297,193	(20,916)	787,122
Operating (Loss) Income	(565)	51,334	17,658	28,199	—	96,626
Interest Expense (Income), Net	28,069	(6,064)	11,348	41,513	—	74,866
Other Expense (Income), Net	50,845	761	64	(26,029)	—	25,641
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(79,479)	56,637	6,246	12,715	—	(3,881)
Provision (Benefit) for Income Taxes	—	7,813	2,174	852	—	10,839
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(65,511)	(31,766)	(1,315)	(4,707)	103,299	—
(Loss) Income from Continuing Operations	(13,968)	80,590	5,387	16,570	(103,299)	(14,720)
Income (Loss) from Discontinued Operations	—	890	635	62	—	1,587
Net (Loss) Income	(13,968)	81,480	6,022	16,632	(103,299)	(13,133)
Less: Net Income (Loss) Attributable to Noncontrolling Interests	—	—	—	835	—	835
Net (Loss) Income Attributable to Iron Mountain Incorporated	$(13,968)	$81,480	$6,022	$15,797	$(103,299)	$(13,968)
Net (Loss) Income	$(13,968)	$81,480	$6,022	$16,632	$(103,299)	$(13,133)
Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	754	—	(4,894)	6,929	—	2,789
Equity in Other Comprehensive Income (Loss) of Subsidiaries	2,117	(2,569)	(48)	(4,894)	5,394	—
Total Other Comprehensive Income (Loss)	2,871	(2,569)	(4,942)	2,035	5,394	2,789
Comprehensive (Loss) Income	(11,097)	78,911	1,080	18,667	(97,905)	(10,344)
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	—	—	—	753	—	753

Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated	$(11,097)	$78,911	$1,080	$17,914	$(97,905)	$(11,097)

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(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Continued)

	Six Months Ended June 30, 2015					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage rental	$—	$610,505	$61,672	$247,904	$—	$920,081
Service	—	370,133	32,665	186,141	—	588,939
Intercompany service	—	1,407	—	38,545	(39,952)	—
Total Revenues	—	982,045	94,337	472,590	(39,952)	1,509,020
Operating Expenses:						
Cost of sales (excluding depreciation and amortization)	—	392,741	13,807	241,389	—	647,937
Selling, general and administrative	97	281,243	7,962	122,997	—	412,299
Intercompany service charges	—	6,400	32,145	1,407	(39,952)	—
Depreciation and amortization	91	111,763	6,217	55,429	—	173,500
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	—	762	—	86	—	848
Total Operating Expenses	188	792,909	60,131	421,308	(39,952)	1,234,584
Operating (Loss) Income	(188)	189,136	34,206	51,282	—	274,436
Interest Expense (Income), Net	78,392	(13,092)	16,545	49,140	—	130,985
Other (Income) Expense, Net	(911)	4,522	(137)	20,879	—	24,353
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(77,669)	197,706	17,798	(18,737)	—	119,098
Provision (Benefit) for Income Taxes	—	8,665	7,859	6,828	—	23,352
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(172,095)	18,097	(1,933)	(9,939)	165,870	—
Net Income (Loss)	94,426	170,944	11,872	(15,626)	(165,870)	95,746
Less: Net Income (Loss) Attributable to Noncontrolling Interests	—	—	—	1,320	—	1,320
Net Income (Loss) Attributable to Iron Mountain Incorporated	$94,426	$170,944	$11,872	$(16,946)	$(165,870)	$94,426
Net Income (Loss)	$94,426	$170,944	$11,872	$(15,626)	$(165,870)	$95,746
Other Comprehensive (Loss) Income:						
Foreign Currency Translation Adjustments	3,466	—	(6,903)	(51,738)	—	(55,175)
Market Value Adjustments for Securities	—	23	—	—	—	23
Equity in Other Comprehensive (Loss) Income of Subsidiaries	(58,185)	(57,989)	(1,465)	(6,903)	124,542	—
Total Other Comprehensive (Loss) Income	(54,719)	(57,966)	(8,368)	(58,641)	124,542	(55,152)
Comprehensive Income (Loss)	39,707	112,978	3,504	(74,267)	(41,328)	40,594
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	—	—	—	887	—	887
	$39,707	$112,978	$3,504	$(75,154)	$(41,328)	$39,707

Comprehensive Income (Loss) Attributable to
Iron Mountain Incorporated

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Continued)

	Six Months Ended June 30, 2016					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage rental	$—	$638,669	$59,936	$301,288	$—	$999,893
Service	—	384,656	31,549	218,340	—	634,545
Intercompany service	—	2,026	—	37,248	(39,274)	—
Total Revenues	—	1,025,351	91,485	556,876	(39,274)	1,634,438
Operating Expenses:						
Cost of sales (excluding depreciation and amortization)	—	419,409	13,719	288,626	—	721,754
Selling, general and administrative	593	339,826	7,968	136,456	—	484,843
Intercompany service charges	—	7,163	30,085	2,026	(39,274)	—
Depreciation and amortization	89	123,919	7,041	71,177	—	202,226
(Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	—	(1,409)	6	326	—	(1,077)
Total Operating Expenses	682	888,908	58,819	498,611	(39,274)	1,407,746
Operating (Loss) Income	(682)	136,443	32,666	58,265	—	226,692
Interest Expense (Income), Net	68,053	(14,594)	21,382	67,087	—	141,928
Other Expense (Income), Net	51,731	4,243	44	(42,314)	—	13,704
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(120,466)	146,794	11,240	33,492	—	71,060
Provision (Benefit) for Income Taxes	—	16,673	4,040	2,026	—	22,739
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(169,272)	(54,696)	(2,686)	(7,835)	234,489	—
Income (Loss) from Continuing Operations	48,806	184,817	9,886	39,301	(234,489)	48,321
Income (Loss) from Discontinued Operations	—	890	635	62	—	1,587
Net Income (Loss)	48,806	185,707	10,521	39,363	(234,489)	49,908
Less: Net Income (Loss) Attributable to Noncontrolling Interests	—	—	—	1,102	—	1,102
Net Income (Loss) Attributable to Iron Mountain Incorporated	$48,806	$185,707	$10,521	$38,261	$(234,489)	$48,806
Net Income (Loss)	$48,806	$185,707	$10,521	$39,363	$(234,489)	$49,908
Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	(588)	—	(3,105)	30,460	—	26,767
Market Value Adjustments for Securities	—	(734)	—	—	—	(734)
Equity in Other Comprehensive Income (Loss) of Subsidiaries	26,216	21,530	613	(3,105)	(45,254)	—
Total Other Comprehensive Income (Loss)	25,628	20,796	(2,492)	27,355	(45,254)	26,033
Comprehensive Income (Loss)	74,434	206,503	8,029	66,718	(279,743)	75,941
	—	—	—	1,507	—	1,507

Comprehensive Income (Loss) Attributable to Noncontrolling Interests						
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	$74,434	$206,503	$8,029	$65,211	$(279,743)	$74,434

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2015					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Cash Flows from Operating Activities	$(77,187)	$203,751	$13,218	$39,956	$ —	$179,738
Cash Flows from Investing Activities:						
Capital expenditures	—	(86,883)	(8,914)	(43,559)	—	(139,356)
Cash paid for acquisitions, net of cash acquired	—	(5,736)	(5,399)	(10,579)	—	(21,714)
Intercompany loans to subsidiaries	245,945	172,666	—	—	(418,611)	—
Investment in subsidiaries	(10,000)	(10,000)	—	—	20,000	—
Decrease in restricted cash	33,860	—	—	—	—	33,860
Acquisitions of customer relationships and customer inducements	—	(20,247)	(690)	(3,270)	—	(24,207)
Proceeds from sales of property and equipment and other, net (including real estate)	—	327	6	472	—	805
Cash Flows from Investing Activities	269,805	50,127	(14,997)	(56,936)	(398,611)	(150,612)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt	—	(3,640,841)	(331,819)	(942,385)	—	(4,915,045)
Proceeds from revolving credit and term loan facilities and other debt	—	3,616,000	334,633	1,124,402	—	5,075,035
Debt (repayment to) financing from and equity (distribution to) contribution from noncontrolling interests, net	—	—	—	(830)	—	(830)
Intercompany loans from parent	—	(240,118)	877	(179,370)	418,611	—
Equity contribution from parent	—	10,000	—	10,000	(20,000)	—
Parent cash dividends	(203,229)	—	—	—	—	(203,229)
Net proceeds (payments) associated with employee stock-based awards	9,454	—	—	—	—	9,454
Excess tax benefit (deficiency) from stock-based compensation	260	—	—	—	—	260
Payment of debt financing and stock issuance costs	(29)	(110)	—	(975)	—	(1,114)
Cash Flows from Financing Activities	(193,544)	(255,069)	3,691	10,842	398,611	(35,469)
Effect of exchange rates on cash and cash equivalents	—	(67)	(14)	(2,411)	—	(2,492)
(Decrease) Increase in cash and cash equivalents	(926)	(1,258)	1,898	(8,549)	—	(8,835)
Cash and cash equivalents, beginning of period	2,399	4,713	4,979	113,842	—	125,933
Cash and cash equivalents, end of period	$1,473	$3,455	$6,877	$105,293	$ —	$117,098

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Six Months Ended June 30, 2016					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Cash Flows from Operating Activities—Continuing Operations	$(107,370)	$203,070	$23,827	$86,078	$ —	$205,605
Cash Flows from Operating Activities—Discontinued Operations	—	393	690	62	—	1,145
Cash Flows from Operating Activities	(107,370)	203,463	24,517	86,140	—	206,750
Cash Flows from Investing Activities:						
Capital expenditures	—	(97,647)	(1,048)	(64,970)	—	(163,665)
Cash paid for acquisitions, net of cash acquired	—	4,074	(2,381)	(278,246)	—	(276,553)
Intercompany loans to subsidiaries	(148,811)	(265,060)	—	—	413,871	—
Investment in subsidiaries	(1,585)	(1,585)	—	—	3,170	—
Acquisitions of customer relationships and customer inducements	—	(13,492)	—	(3,254)	—	(16,746)
Net proceeds from divestments (see Note 10)	—	53,950	—	—	—	53,950
Proceeds from sales of property and equipment and other, net (including real estate)	—	92	—	279	—	371
Cash Flows from Investing Activities—Continuing Operations	(150,396)	(319,668)	(3,429)	(346,191)	417,041	(402,643)
Cash Flows from Investing Activities—Discontinued Operations	—	—	90	—	—	90
Cash Flows from Investing Activities	(150,396)	(319,668)	(3,339)	(346,191)	417,041	(402,553)
Cash Flows from Financing Activities:						
Repayment of revolving credit, term loan and bridge facilities and other debt	(1,096,706)	(3,554,881)	(861,740)	(1,873,787)	—	(7,387,114)
Proceeds from revolving credit, term loan and bridge facilities and other debt	1,083,681	3,285,396	843,281	1,974,447	—	7,186,805
Net proceeds from sales of senior notes	492,500	246,250	—	—	—	738,750
Debt financing from (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	—	—	—	456	—	456
Intercompany loans from parent	—	146,909	(14,427)	281,389	(413,871)	—
Equity contribution from parent	—	1,585	—	1,585	(3,170)	—
Parent cash dividends	(232,596)	—	—	—	—	(232,596)
Net proceeds (payments) associated with employee stock-based awards	18,641	—	—	—	—	18,641
Excess tax benefit (deficiency) from stock-based compensation	29	—	—	—	—	29
Payment of debt financing and stock issuance costs	(7,532)	(4,500)	—	—	—	(12,032)

Cash Flows from Financing Activities—Continuing Operations	258,017	120,759	(32,886)	384,090	(417,041)	312,939
Cash Flows from Financing Activities—Discontinued Operations	—	—	—	—	—	—
Cash Flows from Financing Activities	258,017	120,759	(32,886)	384,090	(417,041)	312,939
Effect of exchange rates on cash and cash equivalents	—	—	1,842	(10,370)	—	(8,528)
Increase (Decrease) in cash and cash equivalents	251	4,554	(9,866)	113,669	—	108,608
Cash and cash equivalents, beginning of period	151	6,472	13,182	108,576	—	128,381
Cash and cash equivalents, end of period	$402	$11,026	$3,316	$222,245	$ —	$236,989

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(7) Segment Information

During the fourth quarter of 2015, as a result of changes in the senior management of our business in Norway, we determined that our Norway operations are now being managed as a component of our Other International Business segment rather than as a component of our Western European Business segment. As a result of this change, previously reported segment information has been restated to conform to the current presentation. There were no changes to our operating segments or our reportable operating segments as a result of the Recall Transaction.

Our five reportable operating segments are described as follows:

- North American Records and Information Management Business—provides records and information management services, including the storage of physical records, including media such as microfilm and microfiche, master audio and videotapes, film, X-rays and blueprints, including healthcare information services, vital records services, service and courier operations, and the collection, handling and disposal of sensitive documents for corporate customers ("Records Management"); information destruction services ("Destruction"); and DMS throughout the United States and Canada; as well as fulfillment services and technology escrow services in the United States.
- North American Data Management Business—provides storage and rotation of backup computer media as part of corporate disaster recovery plans, including service and courier operations ("Data Protection & Recovery"); server and computer backup services; digital content repository systems to house, distribute, and archive key media assets; and storage, safeguarding and electronic or physical delivery of physical media of all types, primarily for entertainment and media industry clients, throughout the United States and Canada.
- Western European Business—provides records and information management services, including Records Management, Data Protection & Recovery and DMS throughout the United Kingdom, Austria, Belgium, France, Germany, Ireland, Netherlands, Spain and Switzerland, as well as DMS in Sweden.
- Other International Business—provides records and information management services throughout the remaining European countries in which we operate, Latin America, Asia Pacific and Africa, including Records Management, Data Protection & Recovery and DMS. Our European operations provide records and information management services, including Records Management, Data Protection & Recovery and DMS throughout the Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Norway, Poland, Romania, Russia, Serbia, Slovakia, Turkey and Ukraine as well as Records Management in Sweden. Our Latin America operations provide records and information management services, including Records Management, Data Protection & Recovery, Destruction and DMS throughout Argentina, Brazil, Chile, Colombia, Mexico and Peru. Our Asia Pacific operations provide records and information management services, including Records Management, Data Protection & Recovery and DMS throughout Australia and New Zealand, with Records Management and Data Protection & Recovery also provided in certain markets in China, Hong Kong-SAR, India, Malaysia, Singapore, Taiwan and Thailand. Our African operations provide Records Management and DMS in South Africa.
- Corporate and Other Business—primarily consists of our data center and fine art storage businesses in the United States, the primary product offerings of our Adjacent Businesses operating segment, as well as costs related to executive and staff functions, including finance, human resources and information technology, which benefit the enterprise as a whole. These costs are primarily related to the general management of these functions on a corporate level and the design and development of programs, policies and procedures that are then implemented in the individual segments, with each segment bearing its own cost of implementation. Our Corporate and Other Business segment also includes stock-based employee compensation expense associated with all Employee Stock-Based Awards.

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(7) Segment Information (Continued)

An analysis of our business segment information and reconciliation to the accompanying Consolidated Financial Statements is as follows:

	North American Records and Information Management Business	North American Data Management Business	Western European Business	Other International Business	Corporate and Other Business	Total Consolidated
For the Three Months Ended June 30, 2015						
Total Revenues	$ 448,887	$ 99,600	$ 98,269	$ 108,313	$ 4,665	$ 759,734
Depreciation and Amortization	46,293	5,498	11,615	14,731	9,412	87,549
Depreciation	41,335	5,300	10,131	10,141	9,317	76,224
Amortization	4,958	198	1,484	4,590	95	11,325
Adjusted OIBDA	176,787	50,622	27,325	20,620	(52,126)	223,228
Expenditures for Segment Assets	44,467	9,039	4,950	20,754	15,617	94,827
Capital Expenditures	30,929	2,039	4,140	14,254	13,218	64,580
Cash Paid (Received) for Acquisitions, Net of Cash Acquired	8,178	—	(309)	5,015	2,399	15,283
Acquisitions of Customer Relationships and Customer Inducements	5,360	7,000	1,119	1,485	—	14,964
For the Three Months Ended June 30, 2016						
Total Revenues	481,470	103,270	118,198	165,669	15,141	883,748
Depreciation and Amortization	57,465	6,077	15,069	25,897	10,514	115,022
Depreciation	47,867	5,832	11,698	18,323	9,810	93,530
Amortization	9,598	245	3,371	7,574	704	21,492
Adjusted OIBDA	189,138	57,081	33,273	41,931	(59,989)	261,434
Expenditures for Segment Assets	19,872	3,750	(1,158)	281,589	45,461	349,514
Capital Expenditures	14,734	2,302	5,978	15,380	44,419	82,813
Cash (Received) Paid for Acquisitions, Net of Cash Acquired	(2,546)	(59)	(7,103)	265,879	1,042	257,213
Acquisitions of Customer Relationships and Customer Inducements	7,684	1,507	(33)	330	—	9,488
As of and for the Six Months Ended June 30, 2015						
Total Revenues	891,574	196,835	197,334	214,051	9,226	1,509,020
Depreciation and Amortization	91,596	10,842	22,896	29,154	19,012	173,500
Depreciation	81,671	10,584	19,959	19,931	18,870	151,015
Amortization	9,925	258	2,937	9,223	142	22,485
Adjusted OIBDA	358,267	101,910	56,357	41,876	(103,964)	454,446
Total Assets (1)(2)	3,632,747	652,212	913,199	952,146	228,446	6,378,750
Expenditures for Segment Assets	86,842	13,988	12,538	43,302	28,607	185,277
Capital Expenditures	64,109	6,946	8,550	33,543	26,208	139,356
Cash Paid (Received) for Acquisitions, Net of Cash Acquired	8,778	(21)	2,510	8,048	2,399	21,714

Acquisitions of Customer Relationships and Customer Inducements	13,955	7,063	1,478	1,711	—	24,207
As of and for the Six Months Ended June 30, 2016						
Total Revenues	926,151	199,613	212,074	267,010	29,590	1,634,438
Depreciation and Amortization	102,815	11,747	26,320	40,183	21,161	202,226
Depreciation	88,122	11,254	20,369	29,225	19,950	168,920
Amortization	14,693	493	5,951	10,958	1,211	33,306
Adjusted OIBDA	365,695	110,541	65,219	63,507	(108,382)	496,580
Total Assets (1)	5,202,917	786,019	1,172,297	2,085,246	494,575	9,741,054
Expenditures for Segment Assets	66,538	8,577	4,902	313,745	63,202	456,964
Capital Expenditures	56,822	7,129	10,037	27,542	62,135	163,665
Cash (Received) Paid for Acquisitions, Net of Cash Acquired	(2,676)	(59)	(7,103)	285,349	1,042	276,553
Acquisitions of Customer Relationships and Customer Inducements	12,392	1,507	1,968	854	25	16,746

(1) Excludes all intercompany receivables or payables and investment in subsidiary balances.

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(7) Segment Information (Continued)

(2) During the fourth quarter of 2015, we adopted ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than an asset. Total assets as of June 30, 2015 for the Western European Business, Other International Business and Corporate and Other Business segments have been reduced by $9,907, $788, and $33,132, respectively, to reflect the adoption of ASU 2015-03.

The accounting policies of the reportable segments are the same as those described in Note 2 in Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and in our Annual Report. Adjusted OIBDA for each segment is defined as operating income before depreciation, amortization, intangible impairments, (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net, costs associated with our conversion to a REIT, excluding REIT compliance costs beginning January 1, 2014 which we expect to recur in future periods ("REIT Costs") and Recall Costs (as defined below) directly attributable to the segment. Internally, we use Adjusted OIBDA as the basis for evaluating the performance of, and allocating resources to, our operating segments.

A reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Adjusted OIBDA	$223,228	$261,434	$454,446	$496,580
Less: Depreciation and Amortization	87,549	115,022	173,500	202,226
Loss (Gain) on Disposal/Write-Down of Property, Plant and Equipment (Excluding Real Estate), Net	515	(626)	848	(1,077)
Recall Costs(1)	5,662	50,412	5,662	68,739
Interest Expense, Net	66,087	74,866	130,985	141,928
Other Expense (Income), Net	2,004	25,641	24,353	13,704
Income (Loss) from Continuing Operations before Provision (Benefit) for Income Taxes	$61,411	$(3,881)	$119,098	$71,060

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(1) Includes operating expenditures associated with our acquisition of Recall, including operating expenditures to complete the Recall Transaction, including advisory and professional fees and costs to complete the Divestments required in connection with receipt of regulatory approval and to provide transitional services required to support the divested businesses during a transition period ("Recall Deal Close & Divestment Costs"), as well as operating expenditures to integrate Recall with our existing operations, including moving, severance, facility upgrade, REIT conversion and system upgrade costs ("Recall Integration Costs" and, collectively with Recall Deal Close & Divestment Costs, "Recall Costs").

(8) Commitments and Contingencies

a. Litigation—General

We are involved in litigation from time to time in the ordinary course of business. A portion of the defense and/or settlement costs associated with such litigation is covered by various commercial liability insurance policies purchased by us and, in limited cases, indemnification from third parties. The matters described below represent our significant loss contingencies. We have evaluated each matter and, if both probable and estimable, accrued an amount that represents our estimate of any probable loss associated with such matter. In addition, we have estimated a reasonably possible range for all loss contingencies including those described below. We believe it is reasonably possible that we could incur aggregate losses in addition to amounts currently accrued for all matters up to an additional $21,000 over the next several years, of which certain amounts would be covered by insurance or indemnity arrangements.

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(8) Commitments and Contingencies (Continued)

b. Italy Fire
On November 4, 2011, we experienced a fire at a facility we leased in Aprilia, Italy. The facility primarily stored archival and inactive business records for local area businesses. Despite quick response by local fire authorities, damage to the building was extensive, and the building and its contents were a total loss. We have been sued by five customers. Four of those lawsuits have been settled and one, a claim asserted by Azienda per i Transporti Autoferrotranviari del Comune di Roma, S.p.A, seeking 42,600 Euros for the loss of its current and historical archives, remains pending. We have also received correspondence from other affected customers, including certain customers demanding payment under various theories of liability. Although our warehouse legal liability insurer has reserved its rights to contest coverage related to certain types of potential claims, we believe we carry adequate insurance. We deny any liability with respect to the fire and we have referred these claims to our warehouse legal liability insurer for an appropriate response. We do not expect that this event will have a material impact on our consolidated financial condition, results of operations or cash flows. We sold our Italian operations on April 27, 2012, and we indemnified the buyers related to certain obligations and contingencies associated with the fire. As a result of the sale of the Italian operations, any future statement of operations and cash flow impacts related to the fire will be reflected as discontinued operations.
c. Argentina Fire
On February 5, 2014, we experienced a fire at a facility we own in Buenos Aires, Argentina. As a result of the quick response by local fire authorities, the fire was contained before the entire facility was destroyed, and all employees were safely evacuated; however, a number of first responders lost their lives, or in some cases, were severely injured. The cause of the fire is currently being investigated. We believe we carry adequate insurance and do not expect that this event will have a material impact to our consolidated financial condition, results of operations or cash flows. Revenues from our operations at this facility represent less than 0.5% of our consolidated revenues.
d. Brooklyn Fire (Recall)
On January 31, 2015, a former Recall leased facility located in Brooklyn, New York was completely destroyed by a fire. Approximately 900,000 cartons were lost impacting approximately 1,200 customers. No one was injured as a result of the fire. We believe we carry adequate insurance to cover any losses resulting from the fire. There are two pending customer-related lawsuits stemming from the fire, both of which are being defended by our warehouse legal liability insurer. We have also received correspondence from other customers, under various theories of liability. We deny any liability with respect to the fire and we have referred these claims to our insurer for an appropriate response. We do not expect that this event will have a material impact on our consolidated financial condition, results of operations or cash flows.
(9) Stockholders' Equity Matters
Our board of directors has adopted a dividend policy under which we have paid, and in the future intend to pay, quarterly cash dividends on our common stock. The amount and timing of future dividends will continue to be subject to the approval of our board of directors, in its sole discretion, and to applicable legal requirements.
In fiscal year 2015 and in the first six months of 2016, our board of directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
February 19, 2015	$ 0.4750	March 6, 2015	$99,795	March 20, 2015
May 28, 2015	0.4750	June 12, 2015	100,119	June 26, 2015
August 27, 2015	0.4750	September 11, 2015	100,213	September 30, 2015
October 29, 2015	0.4850	December 1, 2015	102,438	December 15, 2015
February 18, 2016	0.4850	March 7, 2016	102,651	March 21, 2016

May 25, 2016	0.4850	June 6, 2016	127,469	June 24, 2016

(10) Divestments

As disclosed in Note 4, in connection with the acquisition of Recall, we sought regulatory approval of the Recall Transaction from the DOJ, ACCC, CCB and CMA and, as part of the regulatory approval process, we agreed to make the Divestments.

The assets and liabilities related to the Seattle/Atlanta Divestments, the Australia Divestment Business, the Canadian Divestments and the UK Divestments are included in our Consolidated Balance Sheet as of June 30, 2016. The assets and liabilities related to the Initial United States Divestments were sold to Access CIG in the Access Sale on May 4, 2016.

The following provides additional information regarding (a) the Access Sale; (b) the assets and liabilities related to the Seattle/Atlanta Divestments, the Australia Divestment Business, the Canadian Divestments and the UK Divestments (collectively, the "Divestments Held for Sale"), each of which are classified as held for sale on our Consolidated Balance Sheet as of June 30, 2016; and (c) the presentation of the Divestments in our Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2016, respectively, and our Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2016, respectively.

a. Access Sale

On May 4, 2016, we completed the Access Sale for total consideration of approximately $80,000, subject to adjustments. Of the total consideration, we received $55,000 in cash proceeds upon the closing of the Access Sale, and we are entitled to receive up to $25,000 of additional cash proceeds on the 27 month anniversary of the closing of the Access Sale (the "Access Contingent Consideration"). Our estimate of the fair value of the Access Contingent Consideration is $25,000 and, accordingly, we have recognized a non-trade receivable included in other, a component of other assets, net in our Consolidated Balance Sheet as of June 30, 2016 for this amount. The assets subject to the Access Sale were acquired in the Recall Transaction and, therefore, the preliminary estimated fair value of the Access Contingent Consideration has been reflected in the allocation of the purchase price for Recall (as presented in Note 4) as a component of "Fair Value of Divestments". We will reassess our initial estimate of the Access Contingent Consideration as additional information becomes available to us. We are not aware of any information that would indicate that the final fair value of the Access Contingent Consideration will differ meaningfully from our initial estimate. Our policy related to the recognition of contingent consideration (from a seller's perspective) is to recognize contingent consideration at its estimated fair value upon closing of the transaction. Our policy related to the subsequent measurement of contingent consideration (from a seller's perspective) is (i) to recognize contingent consideration in excess of our original estimate of fair value upon cash receipt of such consideration and (ii) to recognize any impairment of the contingent consideration compared to our original estimate in the period in which we determine such an impairment exists.

(In Thousands, Except Share and Per Share Data)

b. Assets and Liabilities Held for Sale

We have concluded that, as of June 30, 2016, the assets and liabilities related to the Divestments Held for Sale meet the criteria to be reported as held for sale on our Consolidated Balance Sheet as of June 30, 2016.
Our assets and liabilities held for sale as of June 30, 2016 are comprised of the following:

Description	Seattle/Atlanta Divestments	Australia Divestment Business	Recall Canadian Divestments	Iron Mountain Canadian Divestments	UK Divestments	Total
Assets held for sale:						
Accounts receivable	$ —	$ 8,957	$ —	$ —	$ —	$8,957
Deferred income taxes	—	1,388	—	—	—	1,388
Prepaid expenses and other	—	582	—	—	—	582
Property, plant and equipment, net	—	23,952	—	1,666	—	25,618
Goodwill	—	40,089	—	3,332	—	43,421
Estimated fair value of assets held for sale, less costs to sell	23,118	—	20,333	—	5,433	48,884
Customer relationships and customer inducements	—	14,627	—	—	—	14,627
Other	—	491	—	—	—	491
	$ 23,118	$ 90,086	$ 20,333	$ 4,998	$ 5,433	$143,968
Liabilities held for sale:						
Accounts payable	$ —	$ 1,484	$ —	$ —	$ —	$1,484
Accrued expenses	—	5,318	—	—	—	5,318
Deferred revenue	—	1,712	—	—	—	1,712
Other long-term liabilities	—	8,726	—	—	—	8,726
Deferred rent	—	2,621	—	—	—	2,621
Other	—	—	—	—	1,773	1,773
	$ —	$ 19,861	$ —	$ —	$ 1,773	$21,634

The assets and liabilities associated with the Seattle/Atlanta Divestments and the Canadian Divestments are included in our North American Records and Information Management Business segment. The assets and liabilities associated with the Australia Divestment Business are included in our Other International Business segment. The assets and liabilities associated with the UK Divestments are included in our Western European Business segment.

c. Presentation of Divestments in Consolidated Statements of Operations and Consolidated Statements of Cash Flows

We have concluded that the Australian Divestment Business and the Iron Mountain Canadian Divestments (collectively, the "Iron Mountain Divestments") do not meet the criteria to be reported as discontinued operations in our Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2016, respectively, and in our Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2016, respectively, as our decision to divest these businesses does not represent a strategic shift that will have a major effect on our operations and financial results. Accordingly, the revenues and expenses associated with the Iron Mountain Divestments are included as a component of income (loss) from continuing operations in our Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2016, respectively, and the cash flows associated with these businesses are included as a component of cash flows from continuing operations in our Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2016, respectively.

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(10) Divestments (Continued)

We have concluded that the Initial United States Divestments, the Seattle/Atlanta Divestments, the Recall Canadian Divestments, and the UK Divestments (collectively, the “Recall Divestments”) meet the criteria to be reported as discontinued operations in our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and in our Consolidated Statements of Cash Flows for the six months ended June 30, 2016, respectively, as the Recall Divestments met the criteria to be reported as assets and liabilities held for sale at, or within a short period of time following, the closing of the Recall Transaction.
The table below summarizes certain results of operations of the Recall Divestments:

	Three Months Ended June 30, 2016				
Description	Initial United States Divestments(1)	Seattle/Atlanta Divestments	Recall Canadian Divestments	UK Divestments	Total
Total Revenues	$—	$ 1,810	$ 1,888	$ 311	$4,009
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	—	934	867	75	1,876
Provision (Benefit) for Income Taxes	—	44	232	13	289
Income (Loss) from Discontinued Operations, Net of Tax	$—	$ 890	$ 635	$ 62	$1,587

	Six Months Ended June 30, 2016				
Description	Initial United States Divestments(1)	Seattle/Atlanta Divestments	Recall Canadian Divestments	UK Divestments	Total
Total Revenues	$—	$ 1,810	$ 1,888	$ 311	$4,009
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	—	934	867	75	1,876
Provision (Benefit) for Income Taxes	—	44	232	13	289
Income (Loss) from Discontinued Operations, Net of Tax	$—	$ 890	$ 635	$ 62	$1,587

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(1) The Access Sale occurred nearly simultaneously with the closing of the Recall Transaction. Accordingly, the revenue and expenses associated with the Initial United States Divestments are not included in our Consolidated Statements of Operations for the three and six months ended June 30, 2016, respectively, and the cash flows associated with the Initial United States Divestments are not included in our Consolidated Statement of Cash Flows for the six months ended June 30, 2016, due to the immaterial nature of the revenues, expenses and cash flows related to the Initial United States Divestments for the period of time we owned these businesses (May 2, 2016 through May 4, 2016).

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(11) Transformation Initiative

During the third quarter of 2015, we implemented a plan that calls for certain organizational realignments to reduce our overhead costs, particularly in our developed markets, in order to optimize our selling, general and administrative cost structure and to support investments to advance our growth strategy (the "Transformation Initiative"), which is expected to be completed by the end of 2017. As a result of the Transformation Initiative, we recorded a charge of $76 and $5,819 for the three and six months ended June 30, 2016, respectively, primarily related to employee severance and associated benefits. Costs included in the accompanying Consolidated Statements of Operations associated with the Transformation Initiative are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cost of sales (excluding depreciation and amortization)	$ —	$ —	$ —	$ —
Selling, general and administrative expenses	—	76	—	5,819
Total	$ —	$ 76	$ —	$ 5,819

Costs recorded by segment associated with the Transformation Initiative are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
North American Records and Information Management Business	$ —	$ —	$ —	$ 2,289
North American Data Management Business	—	—	—	395
Western European Business	—	—	—	204
Other International Business	—	—	—	—
Corporate and Other Business	—	76	—	2,931
Total	$ —	$ 76	$ —	$ 5,819

Through June 30, 2016, we have recorded cumulative charges to our Consolidated Statements of Operations associated with the Transformation Initiative of $15,986. As of June 30, 2016, we had accrued $1,588 related to the Transformation Initiative. We expect that this liability will be paid throughout the second half of 2016.

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(12) Recall Costs

We expect to incur approximately $300,000 of Recall Costs, including approximately $80,000 of Recall Deal Close & Divestment Costs, as well as approximately $220,000 of Recall Integration Costs.
Recall Costs included in the accompanying Consolidated Statements of Operations are as follows:

	Recall Deal Close & Divestment Costs			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cost of sales (excluding depreciation and amortization)	$—	$—	$—	$—
Selling, general and administrative expenses	5,662	24,716	5,662	32,077
Total Recall Deal Close & Divestment Costs	$5,662	$24,716	$5,662	$32,077
	Recall Integration Costs			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cost of sales (excluding depreciation and amortization)	$—	$331	$—	$331
Selling, general and administrative expenses	—	25,365	—	36,331
Total Recall Integration Costs	$—	$25,696	$—	$36,662
Total Recall Costs	$5,662	$50,412	$5,662	$68,739

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IRON MOUNTAIN INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In Thousands, Except Share and Per Share Data)
(Unaudited)
(12) Recall Costs (Continued)

Recall Costs included in the accompanying Consolidated Statements of Operations by segment are as follows:

	Recall Deal Close & Divestment Costs			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
North American Records and Information Management Business	$—	$—	$—	$—
North American Data Management Business	—	—	—	—
Western European Business	—	—	—	—
Other International Business	—	—	—	—
Corporate and Other Business	5,662	24,716	5,662	32,077
Total Recall Deal Close & Divestment Costs	$5,662	$24,716	$5,662	$32,077
	Recall Integration Costs			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
North American Records and Information Management Business	$—	$2,794	$—	$2,833
North American Data Management Business	—	517	—	517
Western European Business	—	3,913	—	4,130
Other International Business	—	5,517	—	5,948
Corporate and Other Business	—	12,955	—	23,234
Total Recall Integration Costs	$—	$25,696	$—	$36,662
Total Recall Costs	`$5,662	$50,412	$5,662	$68,739

As of June 30, 2016, we had accrued approximately $14,100 of Recall Integration Costs, primarily related to employee severance costs. We expect that this liability will be paid through the first half of 2017.

(13) Subsequent Event

In August 2016, we reached an agreement in principle under a non-binding memorandum of understanding to acquire the information management operations of Santa Fe Group A/S (“Santa Fe”) in ten regions within Europe and Asia for approximately 27,000 Euro, or approximately $30,200 (the “Santa Fe Transaction”), based upon the exchange rate between the United States dollar and the Euro as of August 2, 2016. Santa Fe operates its information management business in Spain, India, Hong Kong, Macau, Indonesia, the Philippines, Singapore, Malaysia, South Korea and Taiwan. The Santa Fe Transaction is expected to close by the end of 2016. The memorandum of understanding between us and Santa Fe is non-binding and any binding agreement we enter into with Santa Fe will be subject to closing conditions; accordingly, we can provide no assurance that we will complete this acquisition, that the acquisition will not be delayed or that the terms of the acquisition will not change.

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IRON MOUNTAIN INCORPORATED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2016 should be read in conjunction with our Consolidated Financial Statements and Notes thereto for the three and six months ended June 30, 2016, included herein, and for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the United States Securities and Exchange Commission ("SEC") on February 26, 2016 (our "Annual Report").

FORWARD-LOOKING STATEMENTS

We have made statements in this Quarterly Report on Form 10-Q ("Quarterly Report") that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 and other securities laws. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, investment objectives, plans and current expectations, such as our (1) commitment to future dividend payments, (2) expected 2016 consolidated internal revenue growth rate and capital expenditures, (3) statements made in relation to our acquisition of Recall Holdings Limited ("Recall") pursuant to the Scheme Implementation Deed, as amended, with Recall (the "Recall Transaction") including (i) the total cost to integrate the combined companies and (ii) the proceeds we will receive in relation to the Divestments (as defined in Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report) associated with the Recall Transaction and (4) expected cost savings associated with the Transformation Initiative (as defined below). These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements. Although we believe that our forward-looking statements are based on reasonable assumptions, our expected results may not be achieved, and actual results may differ materially from our expectations. In addition, important factors that could cause actual results to differ from expectations include, among others:

- our ability to remain qualified for taxation as a real estate investment trust for United States federal income tax purposes ("REIT");
- the adoption of alternative technologies and shifts by our customers to storage of data through non-paper based technologies;
- changes in customer preferences and demand for our storage and information management services;
- the cost to comply with current and future laws, regulations and customer demands relating to privacy issues, as well as fire and safety standards;
- the impact of litigation or disputes that may arise in connection with incidents in which we fail to protect our customers' information;
- changes in the price for our storage and information management services relative to the cost of providing such storage and information management services;
- changes in the political and economic environments in the countries in which our international subsidiaries operate;
- our ability or inability to complete acquisitions on satisfactory terms and to integrate acquired companies efficiently;
- changes in the amount of our capital expenditures;
- changes in the cost of our debt;
- the impact of alternative, more attractive investments on dividends;
- the cost or potential liabilities associated with real estate necessary for our business;
- the performance of business partners upon whom we depend for technical assistance or management expertise outside the United States;
- changes in the valuation of records and information businesses which could impact the proceeds we will receive from the Divestments; and
- other trends in competitive or economic conditions affecting our financial condition or results of operations not presently contemplated.

You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations, which may or may not occur. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures we have made in this Quarterly Report, as well as our other periodic reports filed with the SEC including under "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on April 28, 2016 and in our Annual Report.

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Overview
The following discussions set forth, for the periods indicated, management's discussion and analysis of financial condition and results of operations. Significant trends and changes are discussed for the three and six month periods ended June 30, 2016 within each section. Trends and changes that are consistent with the three and six month periods are not repeated and are discussed on a year to date basis.
Recall Acquisition
On May 2, 2016 (Sydney, Australia time), we completed the Recall Transaction. At the closing of the Recall Transaction, we paid approximately $331.8 million and issued approximately 50.2 million shares of our common stock which, based upon the closing price of our common stock as of April 29, 2016 (the last day of trading on the New York Stock Exchange (the "NYSE") prior to the closing of the Recall Transaction) of $36.53 per share, resulted in a total purchase price to Recall shareholders of approximately $2,166.9 million.
We account for acquisitions using the acquisition method of accounting, and, accordingly, the assets and liabilities acquired are recorded at their estimated fair values and the results of operations are included in our consolidated results from their respective acquisition dates. With respect to the acquisition of Recall, the results of operations of Recall have been included in our consolidated results from May 2, 2016. See Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report for unaudited pro forma results of operations for us and Recall, as if the Recall Transaction was completed on January 1, 2015, for the three and six months ended June 30, 2015 and 2016, respectively.
We currently estimate total operating and capital expenditures associated with the Recall Transaction to be approximately $380.0 million, the majority of which is expected to be incurred by the end of 2018. This amount consists of (i) approximately $80.0 million of operating expenditures, including advisory and professional fees and costs to complete the Divestments required in connection with receipt of regulatory approval and to provide transitional services required to support the divested businesses during a transition period (“Recall Deal Close & Divestment Costs”), (ii) approximately $220.0 million of operating expenditures to integrate Recall with our existing operations, including moving, severance, facility upgrade, REIT conversion and system upgrade costs (“Recall Integration Costs” and, collectively with Recall Deal Close & Divestment Costs, “Recall Costs”) and (iii) approximately $80.0 million of capital expenditures to integrate Recall with our existing operations. From January 1, 2015 through June 30, 2016, we have incurred cumulative operating and capital expenditures associated with the Recall Transaction of $117.9 million, including $115.8 million of Recall Costs and $2.1 million of capital expenditures.
See Note 12 to Notes to Consolidated Financial Statements included in this Quarterly Report for more information on Recall Costs, including costs recorded by segment as well as recorded between costs of sales and selling, general and administrative expenses.
Transformation Initiative
During the third quarter of 2015, we implemented a plan that calls for certain organizational realignments to reduce our overhead costs, particularly in our developed markets, in order to optimize our selling, general and administrative cost structure and to support investments to advance our growth strategy (the "Transformation Initiative"), which is expected to be completed by the end of 2017. As a result of the Transformation Initiative, we recorded a charge of $0.1 million and $5.8 million for the three and six months ended June 30, 2016, respectively, primarily related to employee severance and associated benefits. See Note 11 to Notes to Consolidated Financial Statements included in this Quarterly Report for more information on costs related to the Transformation Initiative, including costs recorded by segment.
As we quantify incremental costs associated with future Transformation Initiative actions to achieve our $125.0 million cost reduction goal, we will disclose the relevant cost estimates and charges in the period that such actions are approved.
General
During the fourth quarter of 2015, as a result of changes in the senior management of our business in Norway, we determined that our Norway operations are now being managed as a component of our Other International Business segment rather than as a component of our Western European Business segment. As a result of this change, previously reported segment information has been restated to conform to the current presentation. There were no changes to our

operating segments or reportable operating segments as a result of the Recall Transaction.

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Our revenues consist of storage rental revenues as well as service revenues and are reflected net of sales and value added taxes. Storage rental revenues, which are considered a key driver of financial performance for the storage and information management services industry, consist primarily of recurring periodic rental charges related to the storage of materials or data (generally on a per unit basis) that are typically retained by customers for many years and technology escrow services that protect and manage source code. Service revenues include charges for related service activities, which include: (1) the handling of records, including the addition of new records, temporary removal of records from storage, refiling of removed records and the destruction of records; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents and the related sale of recycled paper, the price of which can fluctuate from period to period; (4) other services, including document management solutions, which relate to physical and digital records, and project revenues; (5) customer termination and permanent removal fees; (6) data restoration projects; (7) special project work; (8) the storage, assembly and detailed reporting of customer marketing literature and delivery to sales offices, trade shows and prospective customers' sites based on current and prospective customer orders; (9) consulting services; and (10) technology services and product sales (including specially designed storage containers and related supplies). Our service revenue growth has been negatively impacted by declining activity rates as stored records are becoming less active. While customers continue to store their records with us, they are less likely than they have been in the past to retrieve records for research purposes, thereby reducing service activity levels.
Cost of sales (excluding depreciation and amortization) consists primarily of wages and benefits for field personnel, facility occupancy costs (including rent and utilities), transportation expenses (including vehicle leases and fuel), other product cost of sales and other equipment costs and supplies. Of these, wages and benefits and facility occupancy costs are the most significant. Selling, general and administrative expenses consist primarily of wages and benefits for management, administrative, information technology, sales, account management and marketing personnel, as well as expenses related to communications and data processing, travel, professional fees, bad debts, training, office equipment and supplies. Trends in facility occupancy costs are impacted by the total number of facilities we occupy, the mix of properties we own versus properties we occupy under operating leases, fluctuations in per square foot occupancy costs, and the levels of utilization of these properties. Trends in total wages and benefits in dollars and as a percentage of total consolidated revenue are influenced by changes in headcount and compensation levels, achievement of incentive compensation targets, workforce productivity and variability in costs associated with medical insurance and workers' compensation.

The expansion of our international businesses has impacted the major cost of sales components and selling, general and administrative expenses. Our international operations are more labor intensive than our operations in North America and, therefore, labor costs are a higher percentage of international segment revenue. In addition, the overhead structure of our expanding international operations has not achieved the same level of overhead leverage as our North American segments, which may result in an increase in selling, general and administrative expenses, as a percentage of consolidated revenue, as our international operations become a more meaningful percentage of our consolidated results.

Our depreciation and amortization charges result primarily from the capital-intensive nature of our business. The principal components of depreciation relate to storage systems, which include racking structures, building and leasehold improvements, computer systems hardware and software and buildings. Amortization relates primarily to customer relationship intangible assets. Both depreciation and amortization are impacted by the timing of acquisitions.

Our consolidated revenues and expenses are subject to variations caused by the net effect of foreign currency translation on revenues and expenses incurred by our entities outside the United States. It is difficult to predict the future fluctuations of foreign currency exchange rates and how those fluctuations will impact our Consolidated Statements of Operations. As a result of the relative size of our international operations, these fluctuations may be material on individual balances. Our revenues and expenses from our international operations are generally denominated in the local currency of the country in which they are derived or incurred. Therefore, the impact of currency fluctuations on our operating income and operating margin is partially mitigated. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percentage change in the results from one period to another period in this report using constant currency presentation. The constant currency growth rates are calculated by translating the 2015 results at the 2016 average exchange rates. Constant currency growth rates are a non-GAAP measure.

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The following table is a comparison of underlying average exchange rates of the foreign currencies that had the most significant impact on our United States dollar-reported revenues and expenses:

	Average Exchange Rates for the Three Months Ended June 30,		Percentage Strengthening / (Weakening) of Foreign Currency
	2015	2016	
Australian dollar	$0.777	$0.746	(4.0)%
Brazilian real	$0.325	$0.285	(12.3)%
British pound sterling	$1.532	$1.434	(6.4)%
Canadian dollar	$0.813	$0.776	(4.6)%
Euro	$1.106	$1.129	2.1 %

	Average Exchange Rates for the Six Months Ended June 30,		Percentage Strengthening / (Weakening) of Foreign Currency
	2015	2016	
Australian dollar	$0.782	$0.734	(6.1)%
Brazilian real	$0.338	$0.271	(19.8)%
British pound sterling	$1.524	$1.433	(6.0)%
Canadian dollar	$0.810	$0.752	(7.2)%
Euro	$1.117	$1.116	(0.1)%

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Non-GAAP Measures

Adjusted OIBDA

Adjusted OIBDA is defined as operating income before depreciation, amortization, intangible impairments, (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net, Recall Costs and REIT Costs (as defined in Note 7 to Notes to Consolidated Financial Statements included in this Quarterly Report). Adjusted OIBDA Margin is calculated by dividing Adjusted OIBDA by total revenues. We use multiples of current or projected Adjusted OIBDA in conjunction with our discounted cash flow models to determine our estimated overall enterprise valuation and to evaluate acquisition targets. We believe Adjusted OIBDA and Adjusted OIBDA Margin provide our current and potential investors with relevant and useful information regarding our ability to generate cash flow to support business investment. These measures are an integral part of the internal reporting system we use to assess and evaluate the operating performance of our business. Adjusted OIBDA does not include certain items that we believe are not indicative of our core operating results, specifically: (1) (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net; (2) gain on sale of real estate, net of tax; (3) intangible impairments; (4) Recall Costs; (5) REIT Costs; (6) other expense (income), net; (7) income (loss) from discontinued operations, net of tax; (8) gain (loss) on sale of discontinued operations, net of tax; and (9) net income (loss) attributable to noncontrolling interests.

Adjusted OIBDA also does not include interest expense, net and the provision (benefit) for income taxes. These expenses are associated with our capitalization and tax structures, which we do not consider when evaluating the operating profitability of our core operations. Finally, Adjusted OIBDA does not include depreciation and amortization expenses, in order to eliminate the impact of capital investments, which we evaluate by comparing capital expenditures to incremental revenue generated and as a percentage of total revenues. Adjusted OIBDA and Adjusted OIBDA Margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America ("GAAP"), such as operating or net income (loss) or cash flows from operating activities (as determined in accordance with GAAP).

Reconciliation of Operating Income to Adjusted OIBDA (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Operating Income	$129,502	$96,626	$274,436	$226,692
Add: Depreciation and Amortization	87,549	115,022	173,500	202,226
Loss (Gain) on Disposal/Write-Down of Property, Plant and Equipment (Excluding Real Estate), Net	515	(626)	848	(1,077)
Recall Costs	5,662	50,412	5,662	68,739
Adjusted OIBDA	$223,228	$261,434	$454,446	$496,580

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Adjusted EPS

Adjusted EPS is defined as reported earnings per share from continuing operations excluding: (1) (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net; (2) gain on sale of real estate, net of tax; (3) intangible impairments; (4) other expense (income), net; (5) Recall Costs; (6) REIT Costs; and (7) the tax impact of reconciling items and discrete tax items. We do not believe these excluded items to be indicative of our ongoing operating results, and they are not considered when we are forecasting our future results. We believe Adjusted EPS is of value to our current and potential investors when comparing our results from past, present and future periods.

Reconciliation of Reported EPS—Fully Diluted from Continuing Operations to Adjusted EPS—Fully Diluted from Continuing Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Reported EPS—Fully Diluted from Continuing Operations	$0.25	$(0.06)	$0.45	$0.21
Add: Loss (Gain) on Disposal/Write-Down of Property, Plant and Equipment (Excluding Real Estate), Net	—	—	—	—
Other Expense (Income), Net	0.01	0.10	0.11	0.06
Recall Costs	0.03	0.20	0.03	0.30
Tax Impact of Reconciling Items and Discrete Tax Items(1)	(0.01)	(0.01)	0.01	(0.02)
Adjusted EPS—Fully Diluted from Continuing Operations(2)	$0.28	$0.24	$0.60	$0.55

(1) The difference between our effective tax rate and our structural tax rate (or adjusted effective tax rate) for the three and six months ended June 30, 2015 and 2016, respectively, is primarily due to (i) the reconciling items above, which impact our reported income (loss) from continuing operations before provision (benefit) for income taxes but have an insignificant impact on our reported provision (benefit) for income taxes and (ii) other discrete tax items. Our structural tax rate for purposes of the calculation of Adjusted EPS for the three and six months ended June 30, 2015 and 2016 was 13.9% and 17.2%, respectively.

(2) Columns may not foot due to rounding.

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FFO (NAREIT) and FFO (Normalized)

Funds from operations ("FFO") is defined by the National Association of Real Estate Investment Trusts ("NAREIT") and us as net income excluding depreciation on real estate assets and gain on sale of real estate, net of tax ("FFO (NAREIT)"). FFO (NAREIT) does not give effect to real estate depreciation because these amounts are computed, under GAAP, to allocate the cost of a property over its useful life. Because values for well-maintained real estate assets have historically increased or decreased based upon prevailing market conditions, we believe that FFO (NAREIT) provides investors with a clearer view of our operating performance. Our most directly comparable GAAP measure to FFO (NAREIT) is net income. Although NAREIT has published a definition of FFO, modifications to FFO (NAREIT) are common among REITs as companies seek to provide financial measures that most meaningfully reflect their particular business. Our definition of FFO (Normalized) excludes certain items included in FFO (NAREIT) that we believe are not indicative of our core operating results, specifically: (1) (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net; (2) intangible impairments; (3) other expense (income), net; (4) deferred income taxes and REIT tax adjustments; (5) Recall Costs; (6) REIT Costs; (7) income (loss) from discontinued operations, net of tax; and (8) gain (loss) on sale of discontinued operations, net of tax.

Reconciliation of Net Income to FFO (NAREIT) and FFO (Normalized) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Net Income (Loss)	$54,007	$(13,133)	$95,746	$49,908
Add: Real Estate Depreciation(1)	45,249	58,319	89,558	103,382
FFO (NAREIT)	99,256	45,186	185,304	153,290
Add: Loss (Gain) on Disposal/Write-Down of Property, Plant and Equipment (Excluding Real Estate), Net	515	(626)	848	(1,077)
Other Expense, Net(2)	2,004	25,641	24,353	13,704
Deferred Income Taxes and REIT Tax Adjustments(3)	(4,516)	(2,458)	(6,490)	(8,059)
Recall Costs	5,662	50,412	5,662	68,739
Income from Discontinued Operations, Net of Tax(4)	—	(1,587)	—	(1,587)
FFO (Normalized)	$102,921	$116,568	$209,677	$225,010

(1) Includes depreciation expense related to real estate assets (land improvements, buildings, building improvements, leasehold improvements and racking).

(2) Includes foreign currency transaction losses, net of $17.2 million and $4.7 million in the three and six months ended June 30, 2016, respectively, and $1.7 million and $23.9 million in the three and six months ended June 30, 2015, respectively.

(3) REIT tax adjustments primarily include the impact of the repatriation of foreign earnings and accounting method changes related to the REIT conversion (including the impact of amended tax returns).

(4) Net of tax provision of $0.3 million for each of the three and six months ended June 30, 2016.

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Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. On an ongoing basis, we evaluate the estimates used. We base our estimates on historical experience, actuarial estimates, current conditions and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities and are not readily apparent from other sources. Actual results may differ from these estimates.

Our critical accounting policies include the following, which are listed in no particular order:

- Revenue Recognition
- Accounting for Acquisitions
- Impairment of Tangible and Intangible Assets
- Income Taxes

Further detail regarding our critical accounting policies can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report, and the Consolidated Financial Statements and the Notes included therein. We have determined that no material changes concerning our critical accounting policies have occurred since December 31, 2015.

Recent Accounting Pronouncements

See Note 2.k. to Notes to Consolidated Financial Statements included in this Quarterly Report for a description of recently issued accounting pronouncements.

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Results of Operations

Comparison of three and six months ended June 30, 2016 to three and six months ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		Dollar	Percentage
	2015	2016	Change	Change
Revenues	$759,734	$883,748	$124,014	16.3 %
Operating Expenses	630,232	787,122	156,890	24.9 %
Operating Income	129,502	96,626	(32,876)	(25.4)%
Other Expenses, Net	75,495	111,346	35,851	47.5 %
Income (Loss) from Continuing Operations	54,007	(14,720)	(68,727)	(127.3)%
Income from Discontinued Operations, Net of Tax	—	1,587	1,587	100.0 %
Net Income (Loss)	54,007	(13,133)	(67,140)	(124.3)%
Net Income Attributable to Noncontrolling Interests	677	835	158	23.3 %
Net Income (Loss) Attributable to Iron Mountain Incorporated	$53,330	$(13,968)	$(67,298)	(126.2)%
Adjusted OIBDA(1)	$223,228	$261,434	$38,206	17.1 %
Adjusted OIBDA Margin(1)	29.4 %	29.6 %		

	Six Months Ended June 30,		Dollar	Percentage
	2015	2016	Change	Change
Revenues	$1,509,020	$1,634,438	$125,418	8.3 %
Operating Expenses	1,234,584	1,407,746	173,162	14.0 %
Operating Income	274,436	226,692	(47,744)	(17.4)%
Other Expenses, Net	178,690	178,371	(319)	(0.2)%
Income from Continuing Operations	95,746	48,321	(47,425)	(49.5)%
Income from Discontinued Operations, Net of Tax	—	1,587	1,587	100.0 %
Net Income	95,746	49,908	(45,838)	(47.9)%
Net Income Attributable to Noncontrolling Interests	1,320	1,102	(218)	(16.5)%
Net Income Attributable to Iron Mountain Incorporated	$94,426	$48,806	$(45,620)	(48.3)%
Adjusted OIBDA(1)	$454,446	$496,580	$42,134	9.3 %
Adjusted OIBDA Margin(1)	30.1 %	30.4 %		

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(1) See "Non-GAAP Measures—Adjusted OIBDA" in this Quarterly Report for the definition, reconciliation and a discussion of why we believe these measures provide relevant and useful information to our current and potential investors.

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REVENUES

Consolidated revenues consists of the following (in thousands):

	Three Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency(1)	Internal Growth(2)
Storage Rental	$461,209	$538,682	$77,473	16.8%	19.3 %	2.1 %
Service	298,525	345,066	46,541	15.6%	18.5 %	(2.1)%
Total Revenues	$759,734	$883,748	$124,014	16.3%	19.0 %	0.4 %

	Six Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency(1)	Internal Growth(2)
Storage Rental	$920,081	$999,893	$79,812	8.7%	11.7 %	2.2 %
Service	588,939	634,545	45,606	7.7%	11.3 %	(0.3)%
Total Revenues	$1,509,020	$1,634,438	$125,418	8.3%	11.5 %	1.2 %

(1) Constant currency growth rates are calculated by translating the 2015 results at the 2016 average exchange rates.

(2) Our internal revenue growth rate, which is a non-GAAP measure, represents the weighted average year-over-year growth rate of our revenues excluding the impact of business acquisitions, divestitures and foreign currency exchange rate fluctuations. Our internal revenue growth rate includes the impact of acquisitions of customer relationships.

Consolidated storage rental revenues increased $77.5 million, or 16.8%, to $538.7 million and $79.8 million, or 8.7%, to $999.9 million for the three and six months ended June 30, 2016, respectively, from $461.2 million and $920.1 million for the three and six months ended June 30, 2015, respectively. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures and consolidated internal storage rental revenue growth were partially offset by unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 17.2% and 9.5% to the reported storage rental revenue growth rates for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven primarily by our acquisition of Recall. Storage rental revenues attributable to Recall were $68.7 million for both the three and six months ended June 30, 2016. Internal storage rental revenue growth of 2.2% in the six months ended June 30, 2016 compared to the same prior year period was driven by sustained internal storage rental revenue growth of 0.4%, 1.6%, 1.1% and 9.1% in our North American Records and Information Management Business, North American Data Management Business, Western European Business and Other International Business segments, respectively. These increases were partially offset by the impact of foreign currency exchange rate fluctuations, which decreased our reported storage rental revenue growth rates for the three and six months ended June 30, 2016 by 2.5% and 3.0%, respectively, compared to the same prior year periods. Global records management net volumes as of June 30, 2016 increased by 27.6% over the ending volume at June 30, 2015, supported by volume increases across each of our reportable operating segments, primarily associated with the acquisition of Recall.

Consolidated service revenues increased $46.5 million, or 15.6%, to $345.1 million and $45.6 million, or 7.7%, to $634.5 million for the three and six months ended June 30, 2016, respectively, from $298.5 million and $588.9 million for the three and six months ended June 30, 2015, respectively. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures was partially offset by negative consolidated internal service revenue growth and unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 20.6% and 11.6% to the reported service revenue growth rates for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven primarily by our acquisition of Recall. Service revenues attributable to Recall were $52.1 million for both the three and six months ended June 30, 2016. Internal service revenue growth was negative 2.1% and 0.3% for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods. The negative internal service revenue growth for the six months ended June 30, 2016 reflects reduced retrieval/re-file activity and a related decrease in transportation revenues within our North American Records and Information Management Business and Western European Business segments, as well as continued declines in service revenue activity levels in our North American Data Management Business segment as the storage business becomes more archival in nature. In the North American Records and Information Management Business segment, the decline in service activities has begun to stabilize in recent periods, while service revenue declines in the Western European Business and the North American Data Management Business segments are reflecting more recent reductions in service activity levels. Foreign currency exchange rate fluctuations decreased our reported total service revenues by 2.9% and 3.6% for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods.

For the reasons stated above, our consolidated revenues increased $124.0 million, or 16.3%, to $883.7 million and $125.4 million, or 8.3%, to $1,634.4 million for the three and six months ended June 30, 2016, respectively, from $759.7 million and $1,509.0 million for the three and six months ended June 30, 2015, respectively. The net impact of acquisitions/divestitures contributed 18.6% and 10.3% to the reported consolidated revenue growth rates for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven primarily by our acquisition of Recall. Total revenues attributable to Recall were $120.8 million for both the three and six months ended June 30, 2016. Consolidated internal revenue growth was 0.4% and 1.2% in the three and six months ended June 30, 2016, respectively, compared to the same prior year periods. These increases were partially offset by the impact of foreign currency exchange rate fluctuations, which decreased our reported consolidated revenues by 2.7% and 3.2% in the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, primarily due to the weakening of the Australian dollar, Brazilian real, British pound sterling and the Canadian dollar against the United States dollar, based on an analysis of weighted average rates for the comparable periods.

Internal Growth—Eight-Quarter Trend

	2014		2015				2016	
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Storage Rental Revenue	2.2 %	3.5 %	3.0 %	2.7 %	2.8 %	2.2 %	2.2%	2.1 %
Service Revenue	(2.7)%	2.3 %	(1.0)%	— %	(0.9)%	0.3 %	1.6%	(2.1)%
Total Revenue	0.2 %	3.0 %	1.4 %	1.6 %	1.3 %	1.4 %	2.0%	0.4 %

We expect our consolidated internal revenue growth rate for 2016 to be approximately 1.5% to 2.5%. During the past eight quarters, our internal storage rental revenue growth rate has ranged between 2.1% and 3.5%. Our internal storage rental revenue growth rates have been relatively stable over the past two fiscal years, as internal storage rental revenue growth for full year 2014 and 2015 were 2.2% and 2.7%, respectively. At various points in the economic cycle, internal storage rental revenue growth may be influenced by changes in pricing and volume. Within our international portfolio, the Western European Business segment is generating consistent low single-digit internal storage rental revenue growth, while the Other International Business segment is producing high single-digit internal storage rental revenue growth by capturing the first-time outsourcing trends for physical records storage and management in those markets. The internal growth rate for service revenue is inherently more volatile than the internal growth rate for storage rental revenues due to the more discretionary nature of certain services we offer, such as large special projects, and, as a commodity, the volatility of pricing for recycled paper. These revenues, which are often event-driven and impacted to a greater extent by economic downturns as customers defer or cancel the purchase of certain services as a way to reduce their short-term costs, may be difficult to replicate in future periods. The internal growth rate for total service revenues over the past eight quarters reflects reduced retrieval/re-file activity and a related decrease in transportation revenues within our North American Records and Information Management Business and Western European Business segments, as well as continued service declines in service revenue activity levels in our North American Data Management Business segment as the storage business becomes more archival in nature.

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OPERATING EXPENSES

Cost of Sales

Consolidated cost of sales (excluding depreciation and amortization) consists of the following expenses (in thousands):

	Three Months Ended June 30, 2015	2016	Dollar Change	Percentage Change Actual	Constant Currency	% of Consolidated Revenues 2015	2016	Percentage Change (Favorable)/ Unfavorable
Labor	$167,840	$192,569	$24,729	14.7 %	18.3 %	22.1%	21.8%	(0.3)%
Facilities	103,584	132,920	29,336	28.3 %	31.9 %	13.6%	15.0%	1.4 %
Transportation	25,676	33,226	7,550	29.4 %	32.3 %	3.4 %	3.8 %	0.4 %
Product Cost of Sales and Other	29,183	36,603	7,420	25.4 %	29.0 %	3.8 %	4.1 %	0.3 %
Recall Costs	—	331	331	100.0%	100.0 %	— %	0.0 %	0.0 %
	$326,283	$395,649	$69,366	21.3 %	24.8 %	42.9%	44.8%	1.9 %

	Six Months Ended June 30, 2015	2016	Dollar Change	Percentage Change Actual	Constant Currency	% of Consolidated Revenues 2015	2016	Percentage Change (Favorable)/ Unfavorable
Labor	$325,484	$361,597	$36,113	11.1 %	15.5 %	21.6%	22.1%	0.5 %
Facilities	214,809	237,114	22,305	10.4 %	14.2 %	14.2%	14.5%	0.3 %
Transportation	50,352	58,475	8,123	16.1 %	19.6 %	3.3 %	3.6 %	0.3 %
Product Cost of Sales and Other	57,292	64,237	6,945	12.1 %	16.5 %	3.8 %	3.9 %	0.1 %
Recall Costs	—	331	331	100.0%	100.0 %	— %	0.0 %	0.0 %
	$647,937	$721,754	$73,817	11.4 %	15.5 %	42.9%	44.2%	1.3 %

Labor

Labor expenses decreased to 21.8% of consolidated revenues in the three months ended June 30, 2016 compared to 22.1% in the three months ended June 30, 2015. The decrease in labor expenses as a percentage of consolidated revenue was driven by a 125 basis point decrease in labor expenses associated with our North American Records and Information Business segment as a percentage of consolidated revenue (11.77% in the three months ended June 30, 2016 compared to 13.02% in the comparable prior year period), primarily associated with wages and benefits growing at a lower rate than revenue, partially offset by a 43 basis point increase in labor expenses associated with our Western European Business segment as a percentage of consolidated revenue (3.09% for the three months ended June 30, 2016 compared to 2.66% in the comparable prior year period) and a 39 basis point increase in labor expenses associated with our Other International Business segment as a percentage of consolidated revenue (4.69% for the three months ended June 30, 2016 compared to 4.30% in the comparable prior year period), each of which were primarily due to higher wages and benefits. Labor expenses for the three months ended June 30, 2016 increased by $29.8 million, or 18.3%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Labor expenses were favorably impacted by 3.6 percentage points due to currency rate changes during the three months ended June 30, 2016 compared to the same prior year period.

Labor expenses increased to 22.1% of consolidated revenues in the six months ended June 30, 2016 compared to 21.6% in the six months ended June 30, 2015. The increase in labor expenses as a percentage of consolidated revenue was driven by a 33 basis point increase in labor expenses associated with our Corporate and Other Business segment as a percentage of consolidated revenue (0.46% in the six months ended June 30, 2016 compared to 0.13% in the comparable prior year period), primarily associated with recent acquisitions, as well as a 17 basis point increase in labor expenses associated with our Western European Business segment as a percentage of consolidated revenue (2.87% in the six months ended June 30, 2016 compared to 2.70% in the comparable prior year period), primarily associated with increased wages and benefits. Labor expenses for the six months ended June 30, 2016 increased by $48.5 million, or 15.5%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Labor expenses were favorably impacted by 4.4 percentage points due to currency rate changes during the six months ended June 30, 2016 compared to the same prior year period.

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Facilities

Facilities expenses increased to 14.5% of consolidated revenues in the six months ended June 30, 2016 compared to 14.2% in the six months ended June 30, 2015. The increase in facilities expenses as a percentage of consolidated revenues was driven by a 74 basis point increase in rent expense as a percentage of consolidated revenues (7.55% in the six months ended June 30, 2016 compared to 6.81% in the comparable prior year period), partially offset by a 47 basis point decrease in other facilities costs as a percentage of consolidated revenues (6.96% in the six months ended June 30, 2016 compared to 7.43% in the comparable prior year period). The increase in rent expense was primarily driven by the acquisition of Recall, as Recall's real estate portfolio contains a more significant proportion of leased facilities than our real estate portfolio as it existed prior to the closing of the Recall Transaction. We expect this trend in rent expense to continue through the first quarter of 2017. The decrease in other facilities costs was primarily driven by lower utilities and building maintenance costs associated with our North American Records and Information Management Business segment, as well as lower property taxes associated with our Western European Business segment. Facilities expenses for the six months ended June 30, 2016 increased by $29.5 million, or 14.2%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Facilities expenses were favorably impacted by 3.8 percentage points due to currency rate changes during the six months ended June 30, 2016 compared to the same prior year period.

Transportation

Transportation expenses increased to 3.6% of consolidated revenues in the six months ended June 30, 2016 compared to 3.3% in the six months ended June 30, 2015. The increase in transportation expenses as a percentage of consolidated revenues was driven by a 13 basis point increase in vehicle lease and insurance costs (0.44% in the six months ended June 30, 2016 compared to 0.31% in the comparable prior year period), primarily associated with our Western European Business segment. Transportation expenses for the six months ended June 30, 2016 increased by $9.6 million, or 19.6%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Transportation expenses were favorably impacted by 3.5 percentage points due to currency rate changes during the six months ended June 30, 2016 compared to the same prior year period.

Product Cost of Sales and Other

Product cost of sales and other, which includes cartons, media and other service, storage and supply costs, is highly correlated to service revenue streams, particularly project revenues, increased to 3.9% of consolidated revenues for the six months ended June 30, 2016 compared to 3.8% in the six months ended June 30, 2015. The increase in product cost of sales and other was driven by a 26 basis point increase in product cost of sales and other associated with our Other International Business segment (1.05% for the six months ended June 30, 2016 compared to 0.79% in the comparable prior year period) driven by project costs. Product cost of sales and other increased by $9.1 million, or 16.5%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Product cost of sales and other were favorably impacted by 4.4 percentage points due to currency rate changes during the six months ended June 30, 2016.

Recall Costs

Recall Costs included in cost of sales were $0.3 million in the six months ended June 30, 2016, and primarily consisted of employee severance costs.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses consists of the following expenses (in thousands):

	Three Months Ended June 30,		Dollar Change	Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2015	2016		Actual	Constant Currency	2015	2016	
General and Administrative	$121,729	$131,416	$9,687	8.0 %	10.5 %	16.0%	14.9%	(1.1)%
Sales, Marketing & Account Management	54,548	61,538	6,990	12.8 %	15.1 %	7.2 %	7.0 %	(0.2)%
Information Technology	25,353	31,014	5,661	22.3 %	25.1 %	3.3 %	3.5 %	0.2 %
Bad Debt Expense	8,593	3,028	(5,565)	(64.8)%	(64.5)%	1.1 %	0.3 %	(0.8)%
Recall Costs	5,662	50,081	44,419	784.5 %	784.5 %	0.7 %	5.7 %	5.0 %
	$215,885	$277,077	$61,192	28.3 %	31.1 %	28.4%	31.4%	3.0 %

	Six Months Ended June 30,		Dollar Change	Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2015	2016		Actual	Constant Currency	2015	2016	
General and Administrative	$239,274	$243,404	$4,130	1.7 %	4.7 %	15.9%	14.9%	(1.0)%
Sales, Marketing & Account Management	106,880	114,760	7,880	7.4 %	9.9 %	7.1 %	7.0 %	(0.1)%
Information Technology	50,060	55,105	5,045	10.1 %	13.1 %	3.3 %	3.4 %	0.1 %
Bad Debt Expense	10,423	3,166	(7,257)	(69.6)%	(69.1)%	0.7 %	0.2 %	(0.5)%
Recall Costs	5,662	68,408	62,746	1,108.2 %	1,108.2 %	0.4 %	4.2 %	3.8 %
	$412,299	$484,843	$72,544	17.6 %	20.8 %	27.3%	29.7%	2.4 %

General and Administrative

General and administrative expenses decreased to 14.9% of consolidated revenues during the six months ended June 30, 2016 compared to 15.9% in the six months ended June 30, 2015. The decrease in general and administrative expenses as a percentage of consolidated revenues was driven by a 46 basis point decrease in professional fees (1.29% in the six months ended June 30, 2016 compared to 1.75% in the comparable prior year period), primarily associated with our North American Records and Information Management, Western European and Corporate and Other Business segments and a 36 basis point decrease in employee related expenses (1.12% in the six months ended June 30, 2016 compared to 1.48% in the comparable prior year period), primarily due to decreased travel and entertainment expenses across all business segments. General and administrative expenses for the six months ended June 30, 2016 increased by $11.0 million, or 4.7%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. General and administrative expenses were favorably impacted by 3.0 percentage points due to currency rate changes during the six months ended June 30, 2016.

Sales, Marketing & Account Management

Sales, marketing and account management expenses decreased to 7.0% of consolidated revenues during the six months ended June 30, 2016 compared to 7.1% in the six months ended June 30, 2015. The decrease in sales, marketing and account management expenses as a percentage of consolidated revenues was driven by a 12 basis point decrease in sales, marketing and account management expenses associated with our North American Records and Information Management Business segment (3.43% in the six months ended June 30, 2016 compared to 3.55% in the comparable prior year period), primarily associated with decreased professional fees. Sales, marketing and account management expenses for the six months ended June 30, 2016 increased by $10.4 million, or 9.9%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Sales, marketing and account management expenses were favorably impacted by 2.5 percentage points due to currency rate changes during the six months ended June 30, 2016.

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Information Technology

Information technology expenses increased to 3.4% of consolidated revenues during the six months ended June 30, 2016 compared to 3.3% in the six months ended June 30, 2015. The increase in information technology expenses as a percentage of consolidated revenues was driven by a 13 basis point increase in information technology expenses associated with our Corporate and Other Business segment as a percentage of consolidated revenues (2.14% in the six months ended June 30, 2016 compared to 2.01%, in the comparable prior year period), primarily associated with increased software maintenance and license fees. Information technology expenses for the six months ended June 30, 2016 increased by $6.4 million, or 13.1%, on a constant dollar basis compared to the same prior year period, primarily driven by our acquisition of Recall. Information technology expenses were favorably impacted by 3.0 percentage points due to currency rate changes during the six months ended June 30, 2016.

Bad Debt Expense

Consolidated bad debt expense for the six months ended June 30, 2016 decreased to 0.2% of consolidated revenues during the six months ended June 30, 2016 compared to 0.7% in the six months ended June 30, 2015. Bad debt expenses for the six months ended June 30, 2016 decreased by $7.1 million, or 69.1%, on a constant dollar basis compared to the same prior year period. This decrease in bad debt expense was primarily driven by lower bad debt expense associated with our North American Records and Information Management Business segment. We maintain an allowance for doubtful accounts that is calculated based on our past loss experience, current and prior trends in our aged receivables, current economic conditions, and specific circumstances of individual receivable balances. We continue to monitor our customers' payment activity and make adjustments based on their financial condition and in light of historical and expected trends.

Recall Costs

Recall Costs included in selling, general and administrative expenses were $68.4 million in the six months ended June 30, 2016, and primarily consisted of advisory and professional fees, as well as severance and REIT conversion costs. Recall Costs included in selling, general and administrative expenses were $5.7 million in the six months ended June 30, 2015, and primarily consisted of advisory and professional fees.

Depreciation, Amortization, and (Gain) Loss on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), Net

Depreciation expense increased $17.9 million on a reported dollar basis ($21.7 million on a constant dollar basis) for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to the increased depreciation of property, plant and equipment acquired in the Recall Transaction. In particular, the increase in depreciation expense was driven by (i) the depreciation of leasehold improvements acquired in the Recall Transaction, which are depreciated using the straight-line method over a period of the useful life of the leasehold improvements, 10 years or the life of the lease (whichever is shorter) and (ii) the depreciation of racking structures included in leased facilities acquired in the Recall Transaction, which are depreciated using the straight-line method over a period of the useful life of the racking structures, 20 years or the life of the lease (whichever is shorter). See Note 2.f. to Notes to Consolidated Financial Statements in our Annual Report for additional information regarding the useful lives over which our property, plant and equipment is depreciated.

Amortization expense increased $10.8 million on a reported dollar basis ($11.9 million on a constant dollar basis) for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to the increased amortization of customer relationship intangible assets acquired in the Recall Transaction.

Consolidated gain on disposal/write-down of property, plant and equipment (excluding real estate), net was $1.1 million for the six months ended June 30, 2016 and consisted primarily of gains associated with the retirement of leased vehicles accounted for as capital lease assets within our North American Records and Information Management Business segment. Consolidated loss on disposal/write-down of property, plant and equipment (excluding real estate), net was $0.8 million for the six months ended June 30, 2015 and consisted primarily of the write-off of certain property associated with our North American Records and Information Management Business segment.

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OPERATING INCOME AND ADJUSTED OIBDA (in thousands)

The following table reflects the effect of the foregoing factors on our consolidated operating income and Adjusted OIBDA:

	Three Months Ended June 30, 2015	2016	Dollar Change	Percentage Change
Operating Income	$129,502	$96,626	$(32,876)	(25.4)%
Operating Income as a Percentage of Consolidated Revenue	17.0 %	10.9 %		
Adjusted OIBDA	223,228	261,434	38,206	17.1 %
Adjusted OIBDA Margin	29.4 %	29.6 %		

	Six Months Ended June 30, 2015	2016	Dollar Change	Percentage Change
Operating Income	$274,436	$226,692	$(47,744)	(17.4)%
Operating Income as a Percentage of Consolidated Revenue	18.2 %	13.9 %		
Adjusted OIBDA	454,446	496,580	42,134	9.3 %
Adjusted OIBDA Margin	30.1 %	30.4 %		

OTHER EXPENSES, NET

Interest Expense, Net

Consolidated interest expense, net increased $8.8 million to $74.9 million (8.5% of consolidated revenues) and $10.9 million to $141.9 million (8.7% of consolidated revenues for the three and six months ended June 30, 2016, respectively, from $66.1 million (8.7% of consolidated revenues) and $131.0 million (8.7% of consolidated revenues) for the three and six months ended June 30, 2015, respectively, primarily due to (i) the issuance of $1,000.0 million in aggregate principal amount of 6% Senior Notes due 2020 (the "6% Notes due 2020") by Iron Mountain Incorporated ("IMI") in September 2015, (ii) $850.0 million of borrowings under the Bridge Facility (as defined below) during the second quarter of 2016, (iii) the issuance of $500.0 million in aggregate principal amount of $4^3/_8$% Senior Notes due 2021 (the "$4^3/_8$% Notes") by IMI in May 2016, (iv) the issuance of $250.0 million in aggregate principal amount of $5^3/_8$% Senior Notes due 2026 (the "$5^3/_8$% Notes") by Iron Mountain US Holdings, Inc. ("IM US Holdings") in May 2016, and (v) higher borrowings (on a weighted average basis) under the Credit Agreement (as defined below) during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This increase was partially offset by the redemption in October 2015 of (i) 255.0 million Euro aggregate principal outstanding of the $6^3/_4$% Euro Senior Subordinated Notes due 2018, (ii) $400.0 million aggregate principal outstanding of the $7^3/_4$% Senior Subordinated Notes due 2019 and (iii) the remaining $106.0 million aggregate principal outstanding of the $8^3/_8$% Senior Subordinated Notes due 2021. Our weighted average interest rate was 5.1% and 5.4% at June 30, 2016 and 2015, respectively.

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Other Expense (Income), Net (in thousands)

	Three Months Ended June 30,		Dollar Change	Six Months Ended June 30,		Dollar Change
	2015	2016		2015	2016	
Foreign currency transaction losses (gains), net	$1,656	$17,193	$15,537	$23,922	$4,651	$(19,271)
Debt extinguishment expense	—	9,283	9,283	—	9,283	9,283
Other, net	348	(835)	(1,183)	431	(230)	(661)
	$2,004	$25,641	$23,637	$24,353	$13,704	$(10,649)

We recorded net foreign currency transaction losses of $4.7 million in the six months ended June 30, 2016, based on period-end exchange rates. These losses resulted primarily from changes in the exchange rate of each of the Argentine peso and British pound sterling against the United States dollar compared to December 31, 2015, as these currencies relate to our intercompany balances with and between our Latin American and European subsidiaries, as well as Euro denominated borrowings by IMI under our Revolving Credit Facility (as defined below). These losses were partially offset by gains primarily from changes in the exchange rate of each of the Brazilian real, Euro and Russian ruble against the United States dollar compared to December 31, 2015, as these currencies relate to our intercompany balances with and between our Latin American and European subsidiaries.

We recorded net foreign currency transaction losses of $23.9 million in the six months ended June 30, 2015, based on period-end exchange rates. These losses resulted primarily from changes in the exchange rate of each of the Argentine peso, Brazilian real, Ukrainian hryvnia and Euro against the United States dollar compared to December 31, 2014, as these currencies relate to our intercompany balances with and between our Latin American and European subsidiaries, as well as Euro forward contracts. These losses were partially offset by gains primarily from changes in the exchange rate of the Russian ruble as it relates to our intercompany balances with and between our European subsidiaries, and Euro denominated bonds issued by IMI.

We recorded a charge of approximately $9.3 million in the second quarter of 2016 related to the termination of the Bridge Facility (as defined below), which primarily consists of the write-off of unamortized deferred financing costs.

Provision for Income Taxes

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. Our effective tax rate is subject to variability in the future due to, among other items: (1) changes in the mix of income between our qualified REIT subsidiaries and our domestic taxable REIT subsidiaries ("TRSs"), as well as among the jurisdictions in which we operate; (2) tax law changes; (3) volatility in foreign exchange gains and losses; (4) the timing of the establishment and reversal of tax reserves; and (5) our ability to utilize net operating losses that we generate.

Our effective tax rates for the three and six months ended June 30, 2015 were 12.1% and 19.6%, respectively. For the three months ended June 30, 2016, we had a net loss from continuing operations before provision of income taxes of $3.9 million and a provision for income taxes of $10.8 million; as such our effective tax rate for the three months ended June 30, 2016 is not meaningful. Our effective tax rate for the six months ended June 30, 2016 was 32.0%. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and six months ended June 30, 2015 were the benefit derived from the dividends paid deduction, differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates, and state income taxes. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and six months ended June 30, 2016 were the benefit derived from the dividends paid deduction and differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates.

As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial reduction of federal income tax expense, and substantially all of our income tax expense will be incurred based on the earnings generated by our foreign subsidiaries and our domestic TRSs.

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INCOME (LOSS) FROM CONTINUING OPERATIONS (in thousands)

The following table reflects the effect of the foregoing factors on our consolidated income (loss) from continuing operations:

	Three Months Ended June 30, 2015	2016	Dollar Change	Percentage Change
Income (Loss) from Continuing Operations	$54,007	$(14,720)	$(68,727)	(127.3)%
Income (Loss) from Continuing Operations as a Percentage of Consolidated Revenue	7.1 %	(1.7)%		

	Six Months Ended June 30, 2015	2016	Dollar Change	Percentage Change
Income from Continuing Operations	$95,746	$48,321	$(47,425)	(49.5)%
Income from Continuing Operations as a Percentage of Consolidated Revenue	6.3 %	3.0 %		

INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX

Income from discontinued operations, net of tax was $1.6 million for the six months ended June 30, 2016, primarily related to the operations of the Recall Divestments (as defined in Note 10 to Notes to Consolidated Financial Statements included in this Quarterly Report).

NONCONTROLLING INTERESTS

For the three and six months ended June 30, 2016, net income attributable to noncontrolling interests resulted in a decrease in net income attributable to IMI of $0.8 million and $1.1 million, respectively. For the three and six months ended June 30, 2015, net income attributable to noncontrolling interests resulted in a decrease in net income attributable to IMI of $0.7 million and $1.3 million, respectively. These amounts represent our noncontrolling partners' share of earnings/losses in our majority-owned international subsidiaries that are consolidated in our operating results.

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Segment Analysis (in thousands)
See Note 7 to Notes to Consolidated Financial Statements included in this Quarterly Report for a description of our reportable operating segments.
North American Records and Information Management Business

	Three Months Ended June 30,			Percentage Change		
	2015	2016	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	$270,174	$287,911	$17,737	6.6%	7.1 %	0.7 %
Service	178,713	193,559	14,846	8.3%	8.9 %	(1.2)%
Segment Revenue	$448,887	$481,470	$32,583	7.3%	7.8 %	— %
Segment Adjusted OIBDA(1)	$176,787	$189,138	$12,351			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	39.4 %	39.3 %				

	Six Months Ended June 30,			Percentage Change		
	2015	2016	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	$539,800	$555,134	$15,334	2.8%	3.6 %	0.4 %
Service	351,774	371,017	19,243	5.5%	6.5 %	1.3 %
Segment Revenue	$891,574	$926,151	$34,577	3.9%	4.7 %	0.8 %
Segment Adjusted OIBDA(1)	$358,267	$365,695	$7,428			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	40.2 %	39.5 %				

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(1) See Note 7 to Notes to the Consolidated Financial Statements included in this Quarterly Report for the definition of Adjusted OIBDA and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes.

For the three and six months ended June 30, 2016, reported revenue in our North American Records and Information Management Business segment increased 7.3% and 3.9%, respectively, compared to the three and six months ended June 30, 2015. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures and internal revenue growth were partially offset by unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 7.8% and 3.9% to the reported revenue growth rates in our North American Records and Information Management Business segment for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven by our acquisition of Recall. Reported revenues in our North American Records and Information Management Business segment attributable to Recall were $33.4 million for the three and six months ended June 30, 2016. The internal revenue growth in the six months ended June 30, 2016 was primarily the result of internal service revenue growth of 1.3% in the six months ended June 30, 2016 compared to the six months ended June 30, 2015, which was driven by special project revenue recognized in the first quarter of 2016 that did not repeat in the second quarter of 2016. The negative internal service revenue growth of 1.2% in the three months ended June 30, 2016 was primarily due to a decrease in special project revenue in the three months ended June 30, 2016 compared to the same prior year period. For the three and six months ended June 30, 2016, foreign currency exchange rate fluctuations decreased our reported revenues for the North American Records and Information Management Business segment by 0.5% and 0.8%, respectively, compared to the same prior year periods due to the weakening of the Canadian dollar against the United States dollar. Adjusted OIBDA as a percentage of segment revenue decreased 70 basis points during the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily driven by a 123 basis point increase in cost of sales as a percentage of segment revenue (44.78% in the six months ended June 30, 2016 compared to 43.55% in the comparable prior year period), primarily associated with increased wages and medical costs (primarily due to a higher number of significant medical claims in the six months ended June 30, 2016 compared to the same prior year period) partially offset by a 54 basis point decrease in selling, general and administrative expenses as a percentage of segment revenue (15.73% in the six months ended June 30, 2016 compared to 16.27% in the comparable prior year period), primarily associated with lower bad debt expense.

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North American Data Management Business

	Three Months Ended June 30,			Percentage Change		
	2015	2016	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	$64,068	$69,642	$5,574	8.7 %	9.0 %	1.3 %
Service	35,532	33,628	(1,904)	(5.4)%	(5.1)%	(13.5)%
Segment Revenue	$99,600	$103,270	$3,670	3.7 %	4.0 %	(4.0)%
Segment Adjusted OIBDA(1)	$50,622	$57,081	$6,459			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	50.8 %	55.3 %				

	Six Months Ended June 30,			Percentage Change		
	2015	2016	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	$127,920	$134,990	$7,070	5.5 %	6.0 %	1.6 %
Service	68,915	64,623	(4,292)	(6.2)%	(5.8)%	(10.3)%
Segment Revenue	$196,835	$199,613	$2,778	1.4 %	1.9 %	(2.6)%
Segment Adjusted OIBDA(1)	$101,910	$110,541	$8,631			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	51.8 %	55.4 %				

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(1) See Note 7 to Notes to the Consolidated Financial Statements included in this Quarterly Report for the definition of Adjusted OIBDA and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes.

For the three and six months ended June 30, 2016, reported revenue in our North American Data Management Business segment increased 3.7% and 1.4%, respectively, compared to the three and six months ended June 30, 2015. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures was partially offset by negative internal revenue growth and unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 8.0% and 4.5% to the reported revenue growth rates in our North American Data Management Business segment for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven by our acquisition of Recall. Reported revenues in our North American Data Management Business segment attributable to Recall were $6.6 million for the three and six months ended June 30, 2016. The negative internal revenue growth was primarily attributable to negative internal service revenue growth of 13.5% and 10.3% for the three and six months ended June 30, 2016, respectively, which was due to continued declines in service revenue activity levels as the business becomes more archival in nature, partially offset by internal storage rental revenue growth of 1.3% and 1.6% in the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2016, foreign currency exchange rate fluctuations decreased our reported revenues for the North American Data Management Business segment by 0.3% and 0.5%, respectively, compared to the same prior year periods due to the weakening of the Canadian dollar against the United States dollar. Adjusted OIBDA as a percentage of segment revenue increased 360 basis points during the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily driven by a 302 basis point decrease in overhead expenses as a percentage of segment revenue (17.51% in the six months ended June 30, 2016 compared to 20.53% in the comparable prior year period), primarily driven by lower selling, general and administrative expenses.

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Western European Business

	Three Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$59,915	$71,573	$11,658	19.5%	23.8 %	0.1 %
Service	38,354	46,625	8,271	21.6%	25.6 %	(4.6)%
Segment Revenue	$98,269	$118,198	$19,929	20.3%	24.5 %	(1.7)%
Segment Adjusted OIBDA(1)	$27,325	$33,273	$5,948			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	27.8 %	28.2 %				

	Six Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$118,983	$129,392	$10,409	8.7%	13.1 %	1.1 %
Service	78,351	82,682	4,331	5.5%	9.6 %	(6.7)%
Segment Revenue	$197,334	$212,074	$14,740	7.5%	11.7 %	(2.0)%
Segment Adjusted OIBDA(1)	$56,357	$65,219	$8,862			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	28.6 %	30.8 %				

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(1) See Note 7 to Notes to the Consolidated Financial Statements included in this Quarterly Report for the definition of Adjusted OIBDA and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes.

For the three and six months ended June 30, 2016, reported revenue in our Western European Business segment increased 20.3% and 7.5%, respectively, compared to the three and six months ended June 30, 2015. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures was partially offset by negative internal revenue growth and unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 26.2% and 13.7% to the reported revenue growth rates in our Western European Business segment for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven by our acquisition of Recall. Reported revenues in our Western European Business segment attributable to Recall were $22.3 million for the three and six months ended June 30, 2016. Internal revenue growth for the three and six months ended June 30, 2016 was negative 1.7% and 2.0%, respectively, primarily attributable to negative internal service revenue growth of 4.6% and 6.7% for the three and six months ended June 30, 2016, respectively, which was due to reduced retrieval/refile activity and a related decrease in transportation revenues, partially offset by 0.1% and 1.1% internal storage rental revenue growth in the three and six months ended June 30, 2016, respectively. For each of the three and six months ended June 30, 2016, foreign currency exchange rate fluctuations decreased our reported revenues for the Western European Business segment by 4.2% compared to the same prior year periods due to the weakening of the British pound sterling against the United States dollar. Adjusted OIBDA as a percentage of segment revenue increased 220 basis points during the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily driven by a 433 basis point decrease in selling, general and administrative expenses as a percentage of segment revenues (25.04% in the six months ended June 30, 2016 compared to 29.37% in the comparable prior year period), primarily associated with lower professional fees, partially offset by a 214 basis point increase in cost of sales as a percentage of segment revenues (44.21% in the six months ended June 30, 2016 compared to 42.07% in the comparable prior year period) primarily associated with higher wages and employee benefits.

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Other International Business

	Three Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$62,921	$98,610	$35,689	56.7%	73.3 %	8.7 %
Service	45,392	67,059	21,667	47.7%	65.6 %	5.3 %
Segment Revenue	$108,313	$165,669	$57,356	53.0%	70.1 %	7.3 %
Segment Adjusted OIBDA(1)	$20,620	$41,931	$21,311			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	19.0 %	25.3 %				

	Six Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$125,665	$159,026	$33,361	26.5%	44.4 %	9.1 %
Service	88,386	107,984	19,598	22.2%	41.1 %	8.2 %
Segment Revenue	$214,051	$267,010	$52,959	24.7%	43.0 %	8.8 %
Segment Adjusted OIBDA(1)	$41,876	$63,507	$21,631			
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	19.6 %	23.8 %				

(1) See Note 7 to Notes to the Consolidated Financial Statements included in this Quarterly Report for the definition of Adjusted OIBDA and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes.

For the three and six months ended June 30, 2016, reported revenue in our Other International Business segment increased 53.0% and 24.7%, respectively, compared to the three and six months ended June 30, 2015. In the three and six months ended June 30, 2016, the net impact of acquisitions/divestitures and internal revenue growth were partially offset by unfavorable fluctuations in foreign currency exchange rates compared to the three and six months ended June 30, 2015. The net impact of acquisitions/divestitures contributed 62.8% and 34.2% to the reported revenue growth rates in our Other International Business segment for the three and six months ended June 30, 2016, respectively, compared to the same prior year periods, driven by our acquisition of Recall. Reported revenues in our Other International Business segment attributable to Recall were $58.5 million for the three and six months ended June 30, 2016. Internal revenue growth for the three and six months ended June 30, 2016 was 7.3% and 8.8%, respectively, supported by 8.7% and 9.1% storage rental internal revenue growth for the three and six months ended June 30, 2016, respectively. Foreign currency fluctuations in the three and six months ended June 30, 2016 resulted in decreased revenue, as measured in United States dollars, of approximately 17.1% and 18.3%, respectively, as compared to the same prior year periods, primarily due to the weakening of the Australian dollar and Brazilian real against the United States dollar. Adjusted OIBDA as a percentage of segment revenue increased 420 basis points during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase in Adjusted OIBDA as a percentage of segment revenue during the six months ended June 30, 2016 was primarily a result of a 291 basis point decrease in selling, general and administrative expenses as a percentage of segment revenue (23.25% in the six months ended June 30, 2016 compared to 26.16% in the comparable prior year period) and a 131 basis point decrease in cost of sales as a percent of segment revenue (52.97% in the six months ended June 30, 2016 compared to 54.28% in the comparable prior year period), primarily associated with compensation expenses growing at a lower rate than revenue, as well as lower professional fees.

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Corporate and Other Business

	Three Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$4,131	$10,946	$6,815	165.0%	165.0 %	48.0 %
Service	534	4,195	3,661	685.6%	685.6 %	93.8 %
Segment Revenue	$4,665	$15,141	$10,476	224.6%	224.6 %	51.6 %
Segment Adjusted OIBDA(1)	$(52,126)	$(59,989)	$(7,863)			
Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue	(6.9)%	(6.8)%				

	Six Months Ended June 30,		Dollar Change	Percentage Change		
	2015	2016		Actual	Constant Currency	Internal Growth
Storage Rental	$7,713	$21,351	$13,638	176.8%	176.8 %	51.2 %
Service	1,513	8,239	6,726	444.5%	444.5 %	1.7 %
Segment Revenue	$9,226	$29,590	$20,364	220.7%	220.7 %	44.8 %
Segment Adjusted OIBDA(1)	$(103,964)	$(108,382)	$(4,418)			
Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue	(6.9)%	(6.6)%				

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(1) See Note 7 to Notes to the Consolidated Financial Statements included in this Quarterly Report for the definition of Adjusted OIBDA and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes.

During the six months ended June 30, 2016, Adjusted OIBDA in the Corporate and Other Business segment as a percentage of consolidated revenue improved 30 basis points compared to the six months June 30, 2015. Adjusted OIBDA in the Corporate and Other Business segment decreased $4.4 million in the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to the impact of the Recall Transaction, partially offset by profitability associated with recent acquisitions in our Adjacent Businesses operating segment. Adjusted OIBDA in our Corporate and Other Business segment includes approximately $8.4 million of incremental expenses associated with Recall for the three and six months ended June 30, 2016.

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Liquidity and Capital Resources

The following is a summary of our cash balances and cash flows (in thousands) as of and for the six months ended June 30,

	2015	2016
Cash flows from operating activities - continuing operations	$179,738	$205,605
Cash flows from investing activities - continuing operations	(150,612)	(402,643)
Cash flows from financing activities - continuing operations	(35,469)	312,939
Cash and cash equivalents at the end of period	117,098	236,989

Net cash provided by operating activities from continuing operations was $205.6 million for the six months ended June 30, 2016 compared to $179.7 million for the six months ended June 30, 2015. The $25.9 million period over period increase in cash flows from operating activities resulted from a decrease in cash used in working capital of $21.4 million, primarily related to the timing of prepaid expenses and accrued expenses and deferred revenue and an increase in net income (including non-cash charges and realized foreign exchange losses) of $4.5 million.

Our business requires capital expenditures to maintain our ongoing operations, support our expected revenue growth and new products and services, and increase our profitability. These expenditures are included in the cash flows from investing activities. The nature of our capital expenditures has evolved over time along with the nature of our business. Our capital goes to support business-line growth and our ongoing operations, but we also expend capital to support the development and improvement of products and services and projects designed to increase our profitability. These expenditures are generally discretionary in nature. Cash paid for our capital expenditures, acquisition of customer relationships and customer inducements during the six months ended June 30, 2016 amounted to $163.7 million, $10.3 million and $6.4 million, respectively. Cash paid for acquisitions (net of cash acquired) during the six months ended June 30, 2016 of $276.6 million consisted primarily of the cash portion of the purchase price associated with the Recall Transaction. For the six months ended June 30, 2016, these expenditures were primarily funded with cash flows from operations, as well as the financing activities described below. Net proceeds from divestments received during the six months ended June 30, 2016 of $54.0 million consisted of the net cash proceeds from the Access Sale (as defined in Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report).

Excluding capital expenditures associated with potential future acquisitions and opportunistic real estate investments, we expect our capital expenditures to be approximately $370.0 million to $410.0 million in the year ending December 31, 2016. We expect to spend up to $100.0 million of additional capital expenditures on opportunistic real estate investments in the year ending December 31, 2016.

Net cash provided by financing activities from continuing operations was $312.9 million for the six months ended June 30, 2016. During the six months ended June 30, 2016, we received net proceeds of $738.8 million associated with the issuance of the $4^3/_8$% Notes and the $5^3/_8$% Notes. We used the proceeds from this transaction, as well as cash flows provided by operating activities, for the net payment of $200.3 million associated with net payments under the Revolving Credit Facility and the Bridge Facility, as well as for the payment of dividends in the amount of $232.6 million on our common stock.

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Capital Expenditures

The following table presents our capital spend for the six months ended June 30, 2015 and 2016, respectively, organized by the type of the spending as described in the "Our Business Fundamentals" section of "Item 1. Business" of our Annual Report:

	Six Months Ended June 30,	
Nature of Capital Spend (in thousands)	2015	2016
Real Estate:		
Investment	$71,479	$109,163
Maintenance	15,843	20,099
Total Real Estate Capital Spend	87,322	129,262
Non-Real Estate:		
Investment	24,323	17,639
Maintenance	10,611	7,837
Total Non-Real Estate Capital Spend	34,934	25,476
Total Capital Spend (on accrual basis)	122,256	154,738
Net increase (decrease) in prepaid capital expenditures	687	(2,118)
Net decrease accrued capital expenditures	16,413	11,045
Total Capital Spend (on cash basis)	$139,356	$163,665

Dividends

See Note 9 to Notes to Consolidated Financial Statements included in this Quarterly Report for a listing of dividends that were declared in fiscal year 2015 and the first six months of 2016.

Financial Instruments and Debt

Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents (including time deposits) and accounts receivable. The only significant concentrations of liquid investments as of June 30, 2016 relate to cash and cash equivalents held in time deposits with five global banks, all of which we consider to be large, highly-rated investment-grade institutions. As of June 30, 2016, our cash and cash equivalents balance was $237.0 million, including time deposits amounting to $18.7 million.

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Our consolidated debt as of June 30, 2016 is as follows (in thousands):

	June 30, 2016		
	Debt	Unamortized Deferred Financing Costs	Carrying Amount
Revolving Credit Facility(1)	$1,350,534	$ (9,122)	$1,341,412
Term Loan(1)	237,500	—	237,500
6% Notes due 2020(2)(3)	1,000,000	(14,427)	985,573
$6^1/_8$% CAD Senior Notes due 2021 (the "CAD Notes")(4)	154,353	(1,878)	152,475
$4^3/_8$% Notes(2)(3)	500,000	(7,897)	492,103
$6^1/_8$% GBP Senior Notes due 2022 (the "GBP Notes")(3)(5)	535,664	(7,332)	528,332
6% Senior Notes due 2023(2)	600,000	(7,871)	592,129
$5^3/_4$% Senior Subordinated Notes due 2024(2)	1,000,000	(11,216)	988,784
$5^3/_8$% Notes(3)(6)	250,000	(3,978)	246,022
Real Estate Mortgages, Capital Leases and Other	435,775	(1,300)	434,475
Accounts Receivable Securitization Program(7)	217,300	(538)	216,762
Total Long-term Debt	6,281,126	(65,559)	6,215,567
Less Current Portion	(112,509)	—	(112,509)
Long-term Debt, Net of Current Portion	$6,168,617	$ (65,559)	$6,103,058

(1) The capital stock or other equity interests of most of our United States subsidiaries, and up to 66% of the capital stock or other equity interests of most of our first-tier foreign subsidiaries, are pledged to secure these debt instruments, together with all intercompany obligations (including promissory notes) of subsidiaries owed to us or to one of our United States subsidiary guarantors. In addition, Iron Mountain Canada Operations ULC ("Canada Company") has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it, to secure the Canadian dollar subfacility under the Revolving Credit Facility.

(2) Collectively, the "Parent Notes." IMI is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior or senior subordinated basis, as the case may be, by its direct and indirect 100% owned United States subsidiaries that represent the substantial majority of our United States operations (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Canada Company, Iron Mountain Europe PLC ("IME"), the Special Purpose Subsidiaries (as defined in Note 5 to Notes to Consolidated Financial Statements) and the remainder of our subsidiaries do not guarantee the Parent Notes. See Note 6 to Notes to Consolidated Financial Statements included in this Quarterly Report.

(3) The 6% Notes due 2020, the $4^3/_8$% Notes, the GBP Notes and the $5^3/_8$% Notes (collectively, the "Unregistered Notes") have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any other jurisdiction. Unless they are registered, the Unregistered Notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction.

(4) Canada Company is the direct obligor on the CAD Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements included in this Quarterly Report.

(5) IME is the direct obligor on the GBP Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6

to Notes to Consolidated Financial Statements included in this Quarterly Report.

(6) IM US Holdings, a 100% owned subsidiary of IMI and one of the Guarantors, is the direct obligor on the $5^{3}/_{8}$% Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the other Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements included in this Quarterly Report.

(7) The Special Purpose Subsidiaries (as defined in Note 5 to Notes to Consolidated Financial Statements included in this Quarterly Report) are the obligors under this program.

a. Credit Agreement

On July 2, 2015, we entered into a new credit agreement (the "Credit Agreement") to refinance our then existing credit agreement that was scheduled to terminate on June 27, 2016. The Credit Agreement consists of a revolving credit facility (the "Revolving Credit Facility") and a term loan (the "Term Loan").

On June 24, 2016, Iron Mountain Information Management, LLC (“IMIM”) entered into a commitment increase supplement (the “Commitment Increase Supplement”), pursuant to which we increased the maximum amount permitted to be borrowed under the Revolving Credit Facility from $1,500.0 million to $1,750.0 million. After entering into the Commitment Increase Supplement, the maximum amount available for borrowing under the Credit Agreement is $2,000.0 million (consisting of a Revolving Credit Facility of $1,750.0 million and a Term Loan of $250.0 million). We continue to have the option to request additional commitments of up to $250.0 million, in the form of term loans or through increased commitments under the Revolving Credit Facility, subject to the conditions specified in the Credit Agreement.

As of June 30, 2016, we had $1,350.5 million outstanding under the Revolving Credit Facility and $58.2 million of various letters of credit outstanding. The remaining amount available for borrowing thereunder, based on IMI's leverage ratio, the last 12 months' earnings before interest, taxes, depreciation and amortization and rent expense ("EBITDAR"), other adjustments as defined in the Credit Agreement and current external debt, was $341.3 million (which amount represents the maximum availability as of such date). The average interest rate in effect under the Credit Agreement was 2.7% as of June 30, 2016. The average interest rate in effect under the Revolving Credit Facility was 3.0% and ranged from 2.3% to 4.8% as of June 30, 2016 and the interest rate in effect under the Term Loan as of June 30, 2016 was 2.7%.
The Credit Agreement, our indentures and other agreements governing our indebtedness contain certain restrictive financial and operating covenants, including covenants that restrict our ability to complete acquisitions, pay cash dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions. The covenants do not contain a rating trigger. Therefore, a change in our debt rating would not trigger a default under the Credit Agreement, our indentures or other agreements governing our indebtedness. The Credit Agreement uses EBITDAR-based calculations as the primary measures of financial performance, including leverage and fixed charge coverage ratios.
Our leverage and fixed charge coverage ratios under the Credit Agreement as of December 31, 2015 and June 30, 2016, respectively, and our leverage ratio under our indentures as of December 31, 2015 and June 30, 2016, respectively, are as follows:

	December 31, 2015	June 30, 2016	Maximum/Minimum Allowable
Net total lease adjusted leverage ratio	5.6	5.8	Maximum allowable of 6.5
Net secured debt lease adjusted leverage ratio	2.6	2.9	Maximum allowable of 4.0
Bond leverage ratio (not lease adjusted)	5.5	5.4	Maximum allowable of 6.5
Fixed charge coverage ratio	2.4	2.6	Minimum allowable of 1.5

As noted in the table above, our maximum allowable net total lease adjusted leverage ratio under the Credit Agreement is 6.5. The Credit Agreement also contains a provision which limits, in certain circumstances, our dividends in any four consecutive fiscal quarters to 95% of Funds From Operations (as defined in the Credit Agreement) for such four fiscal quarters or, if greater, the amount that we would be required to pay in order to continue to be qualified for taxation as a REIT or to avoid the imposition of income or excise taxes on IMI. This limitation only is applicable when our net total lease adjusted leverage ratio exceeds 6.0 as measured as of the end of the most recently completed fiscal quarter.
Noncompliance with these leverage and fixed charge coverage ratios would have a material adverse effect on our financial condition and liquidity.

b. Bridge Facility

On April 19, 2016, in order to provide a portion of the financing necessary to close the Recall Transaction, we entered into a commitment letter with JPMorgan Chase Bank, N.A., as a lender and administrative agent, and the other lenders party thereto (the "Lenders"), pursuant to which the Lenders committed to provide us an unsecured bridge term loan facility of up to $850.0 million (the "Bridge Facility"). On April 29, 2016, we entered into a bridge credit agreement (the “Bridge Credit Agreement”) with the Lenders and borrowed the full amount of the Bridge Facility. We used the proceeds from the Bridge Facility, together with borrowings under the Revolving Credit Facility, to finance a portion of the cost of the Recall Transaction, including refinancing Recall’s existing indebtedness and to pay costs we incurred in connection with the Recall Transaction.

On May 31, 2016, we used the proceeds from the issuance of the 4 % Notes and the 5 % Notes, together with cash on hand and borrowings under the Revolving Credit Facility, to repay the Bridge Facility, and effective May 31, 2016, we terminated the commitments of the lenders under the Bridge Credit Agreement. We recorded a charge to other expense (income), net of $9.3 million during the second quarter of 2016 related to the early extinguishment of the Bridge Credit Agreement. This charge primarily consisted of the write-off of unamortized deferred financing costs.

c. Issuance of $4^{3}/_{8}$% Notes and $5^{3}/_{8}$% Notes

In May 2016, IMI completed a private offering of $500.0 million in aggregate principal amount of the $4^{3}/_{8}$% Notes and IM US Holdings completed a private offering of $250.0 million in aggregate principal amount of the $5^{3}/_{8}$% Notes. The $4^{3}/_{8}$% Notes and $5^{3}/_{8}$% Notes were issued at par. The aggregate net proceeds of $738.8 million from the $4^{3}/_{8}$% Notes and $5^{3}/_{8}$% Notes, after paying the initial purchasers' commissions, were used, together with cash on hand and borrowings under the Revolving Credit Facility, for the repayment of all outstanding borrowings under the Bridge Credit Agreement.

d. Cash Pooling

Subsequent to the closing of the Recall Transaction, certain of our international subsidiaries began participating in a cash pooling arrangement (the “Cash Pool”) with Bank Mendes Gans (“BMG”) in order to help manage global liquidity requirements. The Cash Pool allows participating subsidiaries to borrow funds from BMG against amounts held on deposit with BMG by other participating subsidiaries. The Cash Pool has a legal right of offset and, therefore, amounts are presented in our Consolidated Balance Sheet on a net basis. Each subsidiary receives interest on the cash balances held on deposit or pays interest on the amounts owed based on an applicable rate as defined in the Cash Pool agreement. At June 30, 2016, we had a net cash position of approximately $6.5 million (consisting of a gross cash position of approximately $46.4 million less outstanding borrowings of approximately $39.9 million by participating subsidiaries), which is reflected as cash and cash equivalents in the Consolidated Balance Sheet.

For more information on our Credit Agreement and the Accounts Receivable Securitization Program, see Note 5 to Notes to Consolidated Financial Statements included in this Quarterly Report.

Our ability to pay interest on or to refinance our indebtedness depends on our future performance, working capital levels and capital structure, which are subject to general economic, financial, competitive, legislative, regulatory and other factors which may be beyond our control. There can be no assurance that we will generate sufficient cash flow from our operations or that future financings will be available on acceptable terms or in amounts sufficient to enable us to service or refinance our indebtedness or to make necessary capital expenditures.

Acquisitions

On May 2, 2016 (Sydney, Australia time), we completed the Recall Transaction. At the closing of the Recall Transaction, we paid approximately $331.8 million and issued approximately 50.2 million shares of our common stock which, based upon the closing price of our common stock as of April 29, 2016 (the last day of trading on the NYSE prior to the closing of the Recall Transaction) of $36.53 per share, resulted in a total purchase price to Recall shareholders of approximately $2,166.9 million.

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We currently estimate total operating and capital expenditures associated with the Recall Transaction to be approximately $380.0 million, the majority of which is expected to be incurred by the end of 2018. This amount consists of (i) approximately $80.0 million of Recall Deal Close & Divestment Costs, (ii) approximately $220.0 million of Recall Integration Costs and (iii) approximately $80.0 million of capital expenditures to integrate Recall with our existing operations.

The following table presents the operating and capital expenditures associated with the Recall Transaction incurred for the twelve months ended December 31, 2015, the three and six months ended June 30, 2016 and the cumulative amount incurred through June 30, 2016 (in thousands):

	Twelve Months Ended December 31, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	Cumulative Total
Recall Deal Close & Divestment Costs	$ 24,671	$24,716	$32,077	$ 56,748
Recall Integration Costs	22,353	25,696	36,662	59,015
Recall Costs	47,024	50,412	68,739	115,763
Capital Expenditures	65	1,747	2,068	2,133
Total	$ 47,089	$52,159	$70,807	$ 117,896

As discussed in Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report, we are required to make the Divestments. The Access Sale (as defined in Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report) resulted in total consideration of $80.0 million (including cash proceeds of $55.0 million received at the closing of the transaction and an additional amount of contingent consideration of up to $25.0 million payable upon the 27-month anniversary of the closing of the Access Sale). Our estimate (which incorporates current market conditions) of the proceeds we will receive in relation to the Seattle/Atlanta Divestments, the Australia Divestment Business, the Canadian Divestments and the UK Divestments (each as defined in Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report) is approximately $140.0 million. Upon the successful completion of these divestments, we anticipate using the net proceeds to repay outstanding borrowings under our Revolving Credit Facility and ultimately to reinvest those proceeds in our business.

In March 2016, we acquired a controlling interest in Docufile Holdings Proprietary Limited ("Docufile"), a storage and records management company with operations in South Africa, for approximately $15.0 million. The acquisition of Docufile represents our entrance into Africa.

In March 2016, in order to expand our presence in the Baltic region, we acquired the stock of Archyvu Sistemos, a storage and records management company with operations in Lithuania, Latvia and Estonia, for approximately $5.1 million.

In August 2016, we reached an agreement in principle under a non-binding memorandum of understanding to acquire the information management operations of Santa Fe Group A/S (“Santa Fe”) in ten regions within Europe and Asia for approximately 27.0 million Euro, or approximately $30.2 million (the “Santa Fe Transaction”), based upon the exchange rate between the United States dollar and the Euro as of August 2, 2016. Santa Fe operates its information management business in Spain, India, Hong Kong, Macau, Indonesia, the Philippines, Singapore, Malaysia, South Korea and Taiwan. The Santa Fe Transaction is expected to close by the end of 2016. The memorandum of understanding between us and Santa Fe is non-binding and any binding agreement we enter into with Santa Fe will be subject to closing conditions; accordingly, we can provide no assurance that we will complete this acquisition, that the acquisition will not be delayed or that the terms of the acquisition will not change.

Contractual Obligations

We expect to meet our cash flow requirements for the next twelve months from cash generated from operations, existing cash, cash equivalents, borrowings under the Credit Agreement and other financings, which may include senior or senior subordinated notes, secured credit facilities, securitizations and mortgage or capital lease financings, and the issuance of equity. We expect to meet our long-term cash flow requirements using the same means described above. We are highly leveraged and expect to continue to be highly leveraged for the foreseeable future. As a REIT, we expect our long-term capital allocation strategy will naturally shift toward lower leverage, though our leverage has increased over the last several fiscal years to fund the costs of the REIT conversion and the Recall Transaction.

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Net Operating Losses

We have federal net operating loss carryforwards, which expire from 2021 through 2033, of $66.4 million at June 30, 2016 to reduce future federal taxable income, of which $1.5 million of federal tax benefit is expected to be realized. We can carry forward these net operating losses to the extent we do not utilize them in any given available year. We have state net operating loss carryforwards, which expire from 2016 through 2034, of which an insignificant state tax benefit is expected to be realized. We have assets for foreign net operating losses of $77.9 million, with various expiration dates (and in some cases no expiration date), subject to a valuation allowance of approximately 83%.

Inflation

Certain of our expenses, such as wages and benefits, insurance, occupancy costs and equipment repair and replacement, are subject to normal inflationary pressures. Although to date we have been able to offset inflationary cost increases through increased operating efficiencies, the negotiation of favorable long-term real estate leases and customer contracts which contain provisions for inflationary price escalators, we can give no assurance that we will be able to offset any future inflationary cost increases through similar efficiencies, leases or increased storage rental or service charges.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information is recorded, processed, accumulated, summarized, communicated and reported to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding what is required to be disclosed by a company in the reports that it files under the Exchange Act. As of June 30, 2016 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

On May 2, 2016, we completed the acquisition of Recall. See Note 4 to Notes to Consolidated Financial Statements included in this Quarterly Report for further details about the Recall Transaction. As a result of the Recall Transaction, we are currently in the process of assessing and integrating Recall’s internal controls over financial reporting into our financial reporting controls.

There have been no changes, other than associated with Recall discussed above, in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Act of 1934) during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

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

Other than the 50,233,412 shares of our common stock issued in connection with the closing of the Recall Transaction, as more fully disclosed in our Current Report on Form 8-K filed with the SEC on May 2, 2016, we did not sell any unregistered equity securities during the three months ended June 30, 2016, nor did we repurchase any shares of our common stock during the three months ended June 30, 2016.

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Item 6. Exhibits

(a) Exhibits

Certain exhibits indicated below are incorporated by reference to documents we have filed with the SEC.

Exhibit No.	Description
4.1	Senior Indenture, dated as of May 27, 2016, among the Company, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, with regard to the Company’s 4.375% Senior Notes due 2021. (Incorporated by reference to the Company’s Current Report on Form 8-K dated May 27, 2016.)
4.2	Senior Indenture, dated as of May 27, 2016, among Iron Mountain US Holdings, Inc., the Company, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee, with regard to Iron Mountain US Holdings, Inc.’s 5.375% Senior Notes due 2026. (Incorporated by reference to the Company’s Current Report on Form 8-K dated May 27, 2016.)
10.1	Bridge Credit Agreement, dated as of April 29, 2016, among the Company, Iron Mountain Information Management, LLC, the lenders and other financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to the Company’s Current Report on Form 8-K dated April 29, 2016.)
10.2	First Amendment, dated as of April 29, 2016, to Credit Agreement, dated as of June 27, 2011, as amended and restated as of July 2, 2015, among the Company, Iron Mountain Information Management, LLC, certain other subsidiaries of the Company party thereto, the lenders and other financial institutions party thereto, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Administrative Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to the Company’s Current Report on Form 8-K dated April 29, 2016.)
10.3	Commitment Increase Supplement, dated as of June 24, 2016, among Iron Mountain Information Management, LLC, the lenders and other financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to the Company’s Current Report on Form 8-K dated June 24, 2016.)
10.4	Second Amendment, dated as of June 24, 2016, to Credit Agreement, dated as of June 27, 2011, as amended and restated as of July 2, 2015, among the Company, Iron Mountain Information Management, LLC, certain other subsidiaries of the Company party thereto, the lenders and other financial institutions party thereto, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Administrative Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to the Company’s Current Report on Form 8-K dated June 24, 2016.)
10.5	Separation Agreement, dated July 1, 2016, between the Company and Roderick Day. (Filed herewith.)
12	Statement: re Computation of Ratios. (Filed herewith.)

31.1	Rule 13a-14(a) Certification of Chief Executive Officer. (Filed herewith.)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer. (Filed herewith.)
32.1	Section 1350 Certification of Chief Executive Officer. (Furnished herewith.)
32.2	Section 1350 Certification of Chief Financial Officer. (Furnished herewith.)
101.1	The following materials from Iron Mountain Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. (Filed herewith.)

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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.

IRON MOUNTAIN INCORPORATED
By:/s/ RODERICK DAY

Roderick Day
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: August 4, 2016