

IRON MOUNTAIN INC
Form 10-Q
October 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended September 30, 2015

OR

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

For the Transition Period from _____ to _____

Commission file number 1-13045

IRON MOUNTAIN INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)
Delaware
(State or other Jurisdiction of
Incorporation or Organization)
One Federal Street, Boston, Massachusetts 02110
(Address of Principal Executive Offices, Including Zip Code)

23-2588479
(I.R.S. Employer
Identification No.)

(617) 535-4766
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Number of shares of the registrant's Common Stock outstanding at October 23, 2015: 211,152,923

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Part I. Financial Information

Item 1. Unaudited Consolidated Financial Statements

IRON MOUNTAIN INCORPORATED

CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share and Per Share Data)

(Unaudited)

	December 31, 2014	September 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 125,933	\$ 492,899
Restricted cash	33,860	—
Accounts receivable (less allowances of \$32,141 and \$34,538 as of December 31, 2014 and September 30, 2015, respectively)	604,265	573,889
Deferred income taxes	14,192	22,353
Prepaid expenses and other	139,469	139,157
Total Current Assets	917,719	1,228,298
Property, Plant and Equipment:		
Property, plant and equipment	4,668,705	4,643,654
Less—Accumulated depreciation	(2,117,978)	(2,214,929)
Property, Plant and Equipment, net	2,550,727	2,428,725
Other Assets, net:		
Goodwill	2,423,783	2,347,064
Customer relationships and acquisition costs	607,837	575,287
Deferred financing costs	47,077	65,868
Other	23,199	24,580
Total Other Assets, net	3,101,896	3,012,799
Total Assets	\$ 6,570,342	\$ 6,669,822
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 52,095	\$ 253,726
Accounts payable	203,014	156,845
Accrued expenses	404,485	318,009
Deferred revenue	197,142	182,197
Total Current Liabilities	856,736	910,777
Long-term Debt, net of current portion	4,611,436	4,920,568
Other Long-term Liabilities	73,506	74,591
Deferred Rent	104,051	97,077
Deferred Income Taxes	54,658	47,032
Commitments and Contingencies (see Note 8)		
Equity:		
Iron Mountain Incorporated Stockholders' Equity:		
Preferred stock (par value \$0.01; authorized 10,000,000 shares; none issued and outstanding)	—	—
Common stock (par value \$0.01; authorized 400,000,000 shares; issued and outstanding 209,818,812 shares and 211,083,747 shares as of December 31, 2014 and September 30, 2015, respectively)	2,098	2,111
Additional paid-in capital	1,588,841	1,613,455
(Distributions in excess of earnings) Earnings in excess of distributions	(659,553)	(844,675)

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Accumulated other comprehensive items, net	(75,031) (163,687)
Total Iron Mountain Incorporated Stockholders' Equity	856,355	607,204	
Noncontrolling Interests	13,600	12,573	
Total Equity	869,955	619,777	
Total Liabilities and Equity	\$6,570,342	\$6,669,822	

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

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IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, except Per Share Data)
(Unaudited)

	Three Months Ended September 30,	
	2014	2015
Revenues:		
Storage rental	\$469,064	\$460,052
Service	313,633	286,477
Total Revenues	782,697	746,529
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	335,506	317,663
Selling, general and administrative	216,337	215,693
Depreciation and amortization	89,194	86,492
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	184	(141)
Total Operating Expenses	641,221	619,707
Operating Income (Loss)	141,476	126,822
Interest Expense, Net (includes Interest Income of \$1,158 and \$1,132 for the three months ended September 30, 2014 and 2015, respectively)	63,220	65,135
Other Expense (Income), Net	22,508	35,246
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate	55,748	26,441
Provision (Benefit) for Income Taxes	54,890	3,774
Gain on Sale of Real Estate, Net of Tax	—	(850)
Income (Loss) from Continuing Operations	858	23,517
(Loss) Income from Discontinued Operations, Net of Tax	—	—
Net Income (Loss)	858	23,517
Less: Net Income (Loss) Attributable to Noncontrolling Interests	792	407
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$66	\$23,110
Earnings (Losses) per Share—Basic:		
Income (Loss) from Continuing Operations	\$—	\$0.11
Total (Loss) Income from Discontinued Operations	\$—	\$—
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$—	\$0.11
Earnings (Losses) per Share—Diluted:		
Income (Loss) from Continuing Operations	\$—	\$0.11
Total (Loss) Income from Discontinued Operations	\$—	\$—
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$—	\$0.11
Weighted Average Common Shares Outstanding—Basic	193,360	210,912
Weighted Average Common Shares Outstanding—Diluted	194,905	211,917
Dividends Declared per Common Share	\$4.0960	\$0.4751

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

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IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
(In Thousands, except Per Share Data)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2015
Revenues:		
Storage rental	\$ 1,394,842	\$ 1,380,133
Service	944,873	875,416
Total Revenues	2,339,715	2,255,549
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	1,007,612	965,600
Selling, general and administrative	644,924	627,992
Depreciation and amortization	264,568	259,992
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	1,229	707
Total Operating Expenses	1,918,333	1,854,291
Operating Income (Loss)	421,382	401,258
Interest Expense, Net (includes Interest Income of \$4,062 and \$2,777 for the nine months ended September 30, 2014 and 2015, respectively)	187,733	196,120
Other Expense (Income), Net	22,987	59,599
Income (Loss) from Continuing Operations Before (Benefit) Provision for Income Taxes and Gain on Sale of Real Estate	210,662	145,539
(Benefit) Provision for Income Taxes	(98,151)	) 27,126
Gain on Sale of Real Estate, Net of Tax	(7,468)	) (850)
Income (Loss) from Continuing Operations	316,281	119,263
(Loss) Income from Discontinued Operations, Net of Tax	(938)) —
Net Income (Loss)	315,343	119,263
Less: Net Income (Loss) Attributable to Noncontrolling Interests	1,973	1,727
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 313,370	\$ 117,536
Earnings (Losses) per Share—Basic:		
Income (Loss) from Continuing Operations	\$ 1.64	\$ 0.57
Total (Loss) Income from Discontinued Operations	\$ —	\$ —
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 1.63	\$ 0.56
Earnings (Losses) per Share—Diluted:		
Income (Loss) from Continuing Operations	\$ 1.63	\$ 0.56
Total (Loss) Income from Discontinued Operations	\$ —	\$ —
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 1.62	\$ 0.55
Weighted Average Common Shares Outstanding—Basic	192,540	210,616
Weighted Average Common Shares Outstanding—Diluted	193,833	212,081
Dividends Declared per Common Share	\$ 4.6527	\$ 1.4250
The accompanying notes are an integral part of these consolidated financial statements.		

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IRON MOUNTAIN INCORPORATED
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In Thousands)
 (Unaudited)

	Three Months Ended September 30,	
	2014	2015
Net Income (Loss)	\$858	\$23,517
Other Comprehensive (Loss) Income:		
Foreign Currency Translation Adjustments	(45,423)	(34,594)
Market Value Adjustments for Securities	(291)	(134)
Total Other Comprehensive (Loss) Income	(45,714)	(34,728)
Comprehensive (Loss) Income	(44,856)	(11,211)
Comprehensive (Loss) Income Attributable to Noncontrolling Interests	(25)	(384)
Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated	\$(44,831)	\$(10,827)
	Nine Months Ended September 30,	
	2014	2015
Net Income (Loss)	\$315,343	\$119,263
Other Comprehensive (Loss) Income:		
Foreign Currency Translation Adjustments	(39,109)	(89,769)
Market Value Adjustments for Securities	257	(111)
Total Other Comprehensive (Loss) Income	(38,852)	(89,880)
Comprehensive Income (Loss)	276,491	29,383
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	1,693	503
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$274,798	\$28,880

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

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IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF EQUITY
(In Thousands, except Share Data)
(Unaudited)

	Iron Mountain Incorporated Stockholders' Equity						
	Total	Common Stock Shares	Amounts	Additional Paid-in Capital	(Distributions in Excess of Earnings) Earnings in Excess of Distributions	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2013	\$1,051,734	191,426,920	\$1,914	\$980,164	\$67,820	\$(8,660)	\$10,496
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$40	52,838	2,251,674	23	52,815	—	—	—
Parent cash dividends declared	(197,551)	—	—	—	(197,551)	—	—
Special distribution in connection with conversion to REIT (see Note 9)	(700,000)	—	—	—	(700,000)	—	—
Currency translation adjustment	(39,109)	—	—	—	—	(38,829)	(280)
Market value adjustments for securities	257	—	—	—	—	257	—
Net income (loss)	315,343	—	—	—	313,370	—	1,973
Noncontrolling interests dividends	(1,032)	—	—	—	—	—	(1,032)
Purchase of noncontrolling interests	(20,376)	—	—	(17,653)	—	—	(2,723)
Divestiture of noncontrolling interests	5,558	—	—	2,102	—	—	3,456
Balance, September 30, 2014	\$467,662	193,678,594	\$1,937	\$1,017,428	\$(516,361)	\$(47,232)	\$11,890
	Iron Mountain Incorporated Stockholders' Equity						
	Common Stock	Additional	(Distributions in Excess of Earnings)	Accumulated Other	Noncontrolling		

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	Total	Shares	Amounts	Paid-in Capital	Earnings in Excess of Distributions	Comprehensive Items, Net	Interests
Balance, December 31, 2014	\$869,955	209,818,812	\$2,098	\$1,588,841	\$(659,553)	\$(75,031)	\$13,600
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$323	24,627	1,264,935	13	24,614	—	—	—
Parent cash dividends declared	(302,658)	—	—	—	(302,658)	—	—
Currency translation adjustment	(89,769)	—	—	—	—	(88,545)	(1,224)
Market value adjustments for securities	(111)	—	—	—	—	(111)	—
Net income (loss)	119,263	—	—	—	117,536	—	1,727
Noncontrolling interests dividends	(1,530)	—	—	—	—	—	(1,530)
Balance, September 30, 2015	\$619,777	211,083,747	\$2,111	\$1,613,455	\$(844,675)	\$(163,687)	\$12,573

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2015
Cash Flows from Operating Activities:		
Net income (loss)	\$315,343	\$119,263
Loss (income) from discontinued operations	938	—
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	227,876	226,497
Amortization (includes deferred financing costs and bond discount of \$5,535 and \$6,443, for the nine months ended September 30, 2014 and 2015, respectively)	42,227	39,938
Stock-based compensation expense	23,129	20,936
(Benefit) Provision for deferred income taxes	(258,411)	(10,317)
Loss on early extinguishment of debt, net	—	2,156
(Gain) Loss on disposal/write-down of property, plant and equipment, net (including real estate)	(8,218)	(352)
Foreign currency transactions and other, net	37,292	39,006
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	(9,361)	11,096
Prepaid expenses and other	25,309	2,687
Accounts payable	(27,307)	(23,977)
Accrued expenses and deferred revenue	(77,102)	(105,538)
Other assets and long-term liabilities	10,137	(1,300)
Cash Flows from Operating Activities	301,852	320,095
Cash Flows from Investing Activities:		
Capital expenditures	(277,386)	(202,581)
Cash paid for acquisitions, net of cash acquired	(46,366)	(27,975)
Decrease (increase) in restricted cash	—	33,860
Additions to customer relationship and acquisition costs	(25,847)	(35,163)
Proceeds from sales of property and equipment and other, net (including real estate)	18,307	2,032
Cash Flows from Investing Activities	(331,292)	(229,827)
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(8,225,563)	(8,539,577)
Proceeds from revolving credit and term loan facilities and other debt	8,061,747	8,142,443
Early retirement of senior subordinated notes	(247,275)	—
Net proceeds from sales of senior notes	642,417	985,000
Debt (repayment to) financing from and equity (distribution to) contribution from noncontrolling interests, net	(14,715)	(1,260)
Parent cash dividends	(157,018)	(303,712)
Proceeds from exercise of stock options and employee stock purchase plan	37,356	13,988
Excess tax benefit (deficiency) from stock-based compensation	40	323
Payment of debt financing and stock issuance costs	(2,156)	(11,665)
Cash Flows from Financing Activities	94,833	285,540
Effect of Exchange Rates on Cash and Cash Equivalents	(1,931)	(8,842)

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Increase (Decrease) in Cash and Cash Equivalents	63,462	366,966
Cash and Cash Equivalents, Beginning of Period	120,526	125,933
Cash and Cash Equivalents, End of Period	\$ 183,988	\$ 492,899
Supplemental Information:		
Cash Paid for Interest	\$ 210,770	\$ 218,863
Cash Paid for Income Taxes	\$ 124,251	\$ 33,411
Non-Cash Investing and Financing Activities:		
Capital Leases	\$ 18,903	\$ 28,598
Accrued Capital Expenditures	\$ 30,484	\$ 29,626
Dividends Payable	\$ 795,671	\$ 5,123

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 paper documents and data backup media, and provide information management services in various locations throughout North America, Europe, Latin America and Asia Pacific. 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, 2014 included in our Current Report on Form 8-K filed with the SEC on May 7, 2015.

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

(2) Summary of Significant Accounting Policies

a. Principles of Consolidation

The accompanying financial statements reflect our financial position, results of operations, comprehensive income (loss), equity and cash flows on a consolidated basis. All intercompany transactions and account balances have been eliminated.

b. Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand and cash invested in highly liquid short-term securities, which have remaining maturities at the date of purchase of less than 90 days. Cash and cash equivalents are carried at cost, which approximates fair value.

At December 31, 2014, we had \$33,860 of restricted cash associated with a collateral trust agreement with our insurance carrier related to our workers' compensation self-insurance program included in current assets on our Consolidated Balance Sheet. The restricted cash consisted primarily of United States Treasuries. We had no restricted cash at September 30, 2015.

c. 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 Switzerland, 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 7¹/₄% GBP Senior Subordinated Notes due 2014 (the "7¹/₄% Notes"), (2) our 6³/₄% Euro Senior Subordinated Notes due 2018 (the "6³/₄% Notes"), (3) borrowings in certain foreign currencies under our revolving credit facility and (4) 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 (gain) on foreign currency transactions for the three and nine months ended September 30, 2014 and 2015 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2015	2014	2015
Total loss (gain) on foreign currency transactions	\$23,500	\$32,539	\$25,591	\$56,461

d. Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Other than goodwill, we currently have no intangible assets that have indefinite lives and which are not amortized. Separable intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. We annually, or more frequently if events or circumstances warrant, assess whether a change in the lives over which our intangible assets are amortized is necessary.

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, 2014 and concluded there was no impairment of goodwill at such date. As of December 31, 2014 and September 30, 2015, no factors were identified that would alter our October 1, 2014 goodwill assessment. 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.

Our reporting units at which level we performed our goodwill impairment analysis as of October 1, 2014 were as follows: (1) North American Records and Information Management; (2) technology escrow services that protect and manage source code ("Intellectual Property Management"); (3) 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 ("Fulfillment Services"); (4) North American Data Management; (5) Adjacent Businesses (which was formerly referred to as the "Emerging Businesses" reporting unit and primarily relates to our data center business in the United States and which is a component of our Corporate and Other Business segment); (6) the United Kingdom, Ireland, Norway, Austria, Belgium, France, Germany, Netherlands, Spain and Switzerland ("New Western Europe"); (7) the remaining countries in Europe in which we operate, excluding Russia, Ukraine and Denmark ("Emerging Markets - Eastern Europe" (formerly referred to as the "New Emerging Markets" reporting unit)); (8) Latin America; (9) Australia and Singapore; (10) China and Hong Kong ("Greater China"); (11) India; and (12) Russia, Ukraine and Denmark.

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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)

The carrying value of goodwill, net for each of our reporting units as of December 31, 2014 was as follows:

	Carrying Value as of December 31, 2014
North American Records and Information Management(1)	\$1,397,484
Intellectual Property Management(1)	38,491
Fulfillment Services(1)	3,247
North American Data Management(2)	375,957
Adjacent Businesses(3)	—
New Western Europe(4)	354,049
Emerging Markets - Eastern Europe(5)	87,408
Latin America(5)	107,240
Australia and Singapore(5)	55,779
Greater China(5)	3,500
India(5)	—
Russia, Ukraine and Denmark(5)	628
Total	\$2,423,783

(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.

Beginning January 1, 2015, as a result of the changes in our reportable operating segments associated with our reorganization (see Note 7 for a description of our reportable operating segments), we reassessed the composition of our reporting units. Our North American Records and Information Management Business segment now consists of two reporting units: (1) North American Records and Information Management (which includes Intellectual Property Management and Fulfillment Services) and (2) North American Secure Shredding. Our Western European Business segment now consists of two reporting units: (1) the United Kingdom, Ireland and Norway (“UKI”) and (2) Austria, Belgium, France, Germany, Netherlands, Spain and Switzerland (“Continental Western Europe”). We have reassigned goodwill associated with the reporting units impacted by the reorganization among the new reporting units on a relative fair value basis. The fair value of each of our new reporting units was determined based on the application of a combined weighted average approach of preliminary fair value multiples of revenue and earnings and discounted cash flow techniques. These fair values represent our best estimate and preliminary assessment of goodwill allocations to each of the new reporting units on a relative fair value basis.

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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)

The carrying value of goodwill, net for each of our reporting units as of September 30, 2015 is as follows:

	Carrying Value as of September 30, 2015
North American Records and Information Management(1)(2)	\$ 1,379,603
North American Secure Shredding(1)(2)	40,632
North American Data Management(3)	371,090
Adjacent Businesses(4)	4,636
UKI(1)(5)	263,477
Continental Western Europe(1)(5)	76,180
Emerging Markets - Eastern Europe(6)	80,245
Latin America(6)	78,560
Australia and Singapore(6)	48,207
Greater China(6)	3,387
India(6)	468
Russia, Ukraine and Denmark(6)	579
Total	\$2,347,064

-
- We will finalize our preliminary estimates of fair value for these new reporting units once we finalize multi-year cash flow forecasts of such reporting units and conclude on the fair value of each new reporting unit based on the combined weighting of both fair value multiples and discounted cash flow techniques. To the extent final fair values of our new reporting units differ from our preliminary estimates, we will reassign goodwill amongst the new reporting units in a future period in which the final information is available to complete the fair values and the corresponding allocation of goodwill amongst the new reporting units.
- (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 Secure Shredding Business segment.
- (3) This reporting unit is included in the North American Data Management Business segment.
- (4) This reporting unit is included in the Corporate and Other Business segment.
- (5) This reporting unit is included in the Western European Business segment.
- (6) This reporting unit is included in the Other International Business segment.

As a result of the change in the composition of our reporting units noted above, we concluded that we had an interim triggering event, and, therefore, during the first quarter of 2015, we performed an interim goodwill impairment test, as of January 1, 2015, for the North American Records and Information Management, North American Secure Shredding, UKI and Continental Western Europe reporting units. We concluded that the goodwill for each of our new reporting units was not impaired as of such date. While we continue to refine our preliminary estimates of fair value of certain of our new reporting units for purposes of reallocating goodwill, we do not believe that any such changes to preliminary fair value estimates will result in a change in our conclusion that there is no goodwill impairment as of January 1, 2015.

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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)

The changes in the carrying value of goodwill attributable to each reportable operating segment for the nine months ended September 30, 2015 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, 2014	\$1,645,209	\$429,982	\$412,322	\$ 254,706	\$—	\$2,742,219
Deductible goodwill acquired during the year	29	7	—	—	4,636	4,672
Non-deductible goodwill acquired during the year	2,510	567	2,507	2,249	—	7,833
Fair value and other adjustments(1)	104	(25	) (415	) (638	) —	(974
Currency effects	(22,703	) (5,684	) (18,247	) (44,739	) —	(91,373
Gross Balance as of September 30, 2015	\$1,625,149	\$424,847	\$396,167	\$ 211,578	\$4,636	\$2,662,377
Accumulated Amortization Balance as of December 31, 2014	\$205,987	\$54,025	\$58,273	\$ 151	\$—	\$318,436
Currency effects	(1,073	) (268	) (1,763	) (19	) —	(3,123
Accumulated Amortization Balance as of September 30, 2015	\$204,914	\$53,757	\$56,510	\$ 132	\$—	\$315,313
Net Balance as of December 31, 2014	\$1,439,222	\$375,957	\$354,049	\$ 254,555	\$—	\$2,423,783
Net Balance as of September 30, 2015	\$1,420,235	\$371,090	\$339,657	\$ 211,446	\$4,636	\$2,347,064
Accumulated Goodwill Impairment Balance as of December 31, 2014	\$85,909	\$—	\$46,500	\$ —	\$—	\$132,409
Accumulated Goodwill Impairment Balance as of September 30, 2015	\$85,909	\$—	\$46,500	\$ —	\$—	\$132,409

(1) Total fair value and other adjustments primarily include \$622 in net adjustments to deferred income taxes and \$(5,202) related to customer relationships and acquisition costs and other assumed liabilities (which represent adjustments, within the applicable measurement period, to provisional amounts recognized in purchase accounting), as well as \$3,606 of cash paid related to certain 2014 acquisitions.

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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)

The components of our amortizable intangible assets as of December 31, 2014 and September 30, 2015 are as follows:

	December 31, 2014			September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	\$904,866	\$(297,029)	\$607,837	\$898,153	\$(322,866)	\$575,287
Core Technology(1)	3,568	(3,540)	28	3,420	(3,420)	—
Trademarks and Non-Compete Agreements(1)	7,062	(5,068)	1,994	6,135	(4,762)	1,373
Deferred Financing Costs	63,033	(15,956)	47,077	83,989	(18,121)	65,868
Total	\$978,529	\$(321,593)	\$656,936	\$991,697	\$(349,169)	\$642,528

(1)Included in Other, a component of Other Assets, net in the accompanying Consolidated Balance Sheets.

Amortization expense associated with amortizable intangible assets (including deferred financing costs) for the three and nine months ended September 30, 2014 and 2015 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2015	September 30, 2014	2015
Amortization expense associated with amortizable intangible assets (including deferred financing costs)	\$14,269	\$13,094	\$42,227	\$39,939

e. Stock-Based Compensation

We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock, 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 nine months ended September 30, 2014 was \$8,671 (\$6,132 after tax or \$0.03 per basic and diluted share) and \$23,129 (\$16,683 after tax or \$0.09 per basic and diluted share), respectively.

Stock-based compensation expense for Employee Stock-Based Awards for the three and nine months ended September 30, 2015 was \$6,159 (\$4,502 after tax or \$0.02 per basic and diluted share) and \$20,936 (\$14,915 after tax or \$0.07 per basic and diluted share), respectively.

Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations related to continuing operations is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2015	September 30, 2014	2015
Cost of sales (excluding depreciation and amortization)	\$177	\$65	\$556	\$156
Selling, general and administrative expenses	8,494	6,094	22,573	20,780
Total stock-based compensation	\$8,671	\$6,159	\$23,129	\$20,936

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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)

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 from continuing operations included \$40 and \$323 for the nine months ended September 30, 2014 and 2015, 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

Under our various stock option plans, options are generally granted with exercise prices equal to the market price of the stock on the date of grant; however, in certain instances, options are granted at prices greater than the market price of the stock on the date of grant. Certain of the options we issue become exercisable ratably over a period of ten years from the date of grant and have a contractual life of 12 years from the date of grant, unless the holder's employment is terminated sooner. As of September 30, 2015, ten-year vesting options represented 7.1% of total outstanding options. Certain of the options we issue become exercisable ratably over a period of five years from the date of grant and have a contractual life of ten years from the date of grant, unless the holder's employment is terminated sooner. As of September 30, 2015, five-year vesting options represented 43.0% of total outstanding options. The remainder of options we issue become exercisable ratably over a period of three years from the date of grant and have a contractual life of ten years from the date of grant, unless the holder's employment is terminated sooner. As of September 30, 2015, three-year vesting options represented 49.9% of total outstanding options. Our non-employee directors are considered employees for purposes of our stock option plans and stock option reporting. Options granted to our non-employee directors become exercisable immediately upon grant.

The weighted average fair value of options granted for the nine months ended September 30, 2014 and 2015 was \$5.60 and \$4.88 per share, respectively. These values were estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used for grants in the respective period are as follows:

Weighted Average Assumptions	Nine Months Ended		
	September 30,		
	2014	2015	
Expected volatility	33.9	% 28.4	%
Risk-free interest rate	2.06	% 1.70	%
Expected dividend yield	4	% 5	%
Expected life	6.8 years	5.5 years	

Expected volatility is calculated utilizing daily historical volatility over a period that equates to the expected life of the 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 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.

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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)

A summary of option activity for the nine months ended September 30, 2015 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Outstanding at December 31, 2014	3,678,246	\$23.37		
Granted	768,916	42.48		
Exercised	(582,404)	21.04		
Forfeited	(32,926)	25.75		
Expired	(17,068)	23.85		
Outstanding at September 30, 2015	3,814,764	\$27.55	5.64	\$22,224
Options exercisable at September 30, 2015	2,505,986	\$22.82	4.03	\$20,566
Options expected to vest	1,233,897	\$36.51	8.70	\$1,590

The aggregate intrinsic value of stock options exercised for the three and nine months ended September 30, 2014 and 2015 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Aggregate intrinsic value of stock options exercised	\$10,194	\$1,985	\$18,727	\$7,868

Restricted Stock and Restricted Stock Units

Under our various equity compensation plans, we may also grant restricted stock or RSUs. Our restricted stock and RSUs generally have a vesting period of between three and five years from the date of grant. However, beginning in 2015, RSUs granted to our non-employee directors now 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 restricted stock and 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).

Cash dividends accrued and paid on RSUs for the three and nine months ended September 30, 2014 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Cash dividends accrued on RSUs	\$680	\$616	\$1,530	\$1,917
Cash dividends paid on RSUs	124	270	1,178	2,570

The fair value of restricted stock and RSUs vested during the three and nine months ended September 30, 2014 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Fair value of restricted stock vested	\$—	\$—	\$1	\$—
Fair value of RSUs vested	1,566	2,377	19,114	21,561

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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)

A summary of restricted stock and RSU activity for the nine months ended September 30, 2015 is as follows:

	Restricted Stock and RSUs	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2014	1,405,569	\$28.78
Granted	599,580	37.69
Vested	(609,109)	) 31.18
Forfeited	(99,550)	) 32.84
Non-vested at September 30, 2015	1,296,490	\$33.59

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 or revenue growth and return on invested capital ("ROIC"). The number of PUs earned may range from 0% to 150% (for PUs granted prior to 2014) and 0% to 200% (for PUs granted in 2014 and thereafter) 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 either a one-year performance period (for PUs granted prior to 2014) or a three-year performance period (for PUs granted in 2014 and thereafter). Certain PUs granted in 2013, 2014 and 2015 will be earned based on a market condition associated with the total return on our common stock in relation to a subset of the S&P 500 rather than the revenue growth 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. For those PUs subject to a one-year performance period, employees who subsequently terminate their employment after the end of the one-year performance period and on or after attaining age 55 and completing 10 years of qualifying service (the "Retirement Criteria") shall immediately and completely vest in any PUs earned based on the actual achievement against the predefined targets as discussed above (but delivery of the shares remains deferred). As a result, PUs subject to a one-year performance period are generally expensed over the shorter of (1) the vesting period, (2) achievement of the Retirement Criteria, which may occur as early as January 1 of the year following the year of grant or (3) a maximum of three years. For those PUs subject to a three-year performance period, employees who terminate their employment during the performance period and on or after meeting the Retirement Criteria are eligible for pro rated vesting, subject to the actual achievement against the predefined targets 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 subject to a three-year performance period are generally expensed over the three-year performance period. Outstanding 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.

Cash dividends accrued and paid on PUs for the three and nine months ended September 30, 2014 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Cash dividends accrued on PUs	\$240	\$222	\$532	\$647
Cash dividends paid on PUs	—	—	312	1,015

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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)

During the nine months ended September 30, 2015, we issued 156,182 PUs. The majority of our PUs are earned based on our performance against revenue or revenue growth and ROIC targets during their applicable performance period. We forecast the likelihood of achieving the predefined revenue, revenue growth 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 applicable performance period) or the actual PUs earned (at the one-year anniversary date for PUs granted prior to 2014, and at the three-year anniversary date for PUs granted in 2014 and thereafter) 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 September 30, 2015, we expected 0% and 100% achievement of the predefined revenue, revenue growth and ROIC targets associated with the awards of PUs made in 2014 and 2015, respectively.

The fair value of earned PUs that vested during the three and nine months ended September 30, 2014 and 2015 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2015	2014	2015
Fair value of earned PUs that vested	\$—	\$—	\$6,296	\$2,107

A summary of PU activity for the nine months ended September 30, 2015 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2014	461,666	(82,609	) 379,057	\$30.80
Granted	156,182	—	156,182	39.41
Vested	(80,035	) (4,350	) (84,385	) 29.62
Forfeited	(20,201	) —	(20,201	) 31.27
Non-vested at September 30, 2015	517,612	(86,959	) 430,653	\$34.13

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

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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)

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 ESPP provides a way for our eligible employees to become stockholders on favorable terms. The ESPP provides for the purchase of our common stock by eligible employees through successive offering periods. We have historically had two six-month offering periods per year, the first of which generally runs from June 1 through November 30 and the second of which generally runs from December 1 through May 31. During each offering period, participating employees accumulate after-tax payroll contributions, up to a maximum of 15% of their compensation, to pay the purchase price at the end of the offering. Participating employees may withdraw from an offering before the purchase date and obtain a refund of the amounts withheld as payroll deductions. At the end of the offering period, outstanding options under the ESPP are exercised, and each employee's accumulated contributions are used to purchase our common stock. The price for shares purchased under the ESPP is 95% of the fair market price 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 nine months ended September 30, 2014 and 2015, there were 69,567 shares and 59,569 shares, respectively, purchased under the ESPP. As of September 30, 2015, we had 901,069 shares available under the ESPP.

As of September 30, 2015, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$41,067 and is expected to be recognized over a weighted-average period of 2.1 years. We generally issue shares of our common stock for the exercises of stock options, restricted stock, RSUs, PUs and shares of our common stock under our ESPP from unissued reserved shares.

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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)

f. 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 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 nine months ended September 30, 2014 and 2015 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2015	2014	2015
Income (loss) from continuing operations	\$858	\$23,517	\$316,281	\$119,263
Total (loss) income from discontinued operations	\$—	\$—	\$(938)	\$—
Net income (loss) attributable to Iron Mountain Incorporated	\$66	\$23,110	\$313,370	\$117,536
Weighted-average shares—basic	193,360,000	210,912,000	192,540,000	210,616,000
Effect of dilutive potential stock options	1,023,890	621,615	823,036	934,553
Effect of dilutive potential restricted stock, RSUs and PUs	520,644	382,995	470,060	530,252
Weighted-average shares—diluted	194,904,534	211,916,610		