

IRON MOUNTAIN INC  
Form 10-Q  
April 26, 2018  
Table of Contents

---

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 March 31, 2018

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 23-2588479  
(State or other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)  
One Federal Street, Boston, Massachusetts 02110  
(Address of Principal Executive Offices, Including Zip Code)

(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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
--	---	--	---	---

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

smaller reporting  
company)

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

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

Number of shares of the registrant's Common Stock outstanding at April 20, 2018: 285,923,945

---

---

Table of Contents

IRON MOUNTAIN INCORPORATED

Index

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1—Unaudited Condensed Consolidated Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets at December 31, 2017 and March 31, 2018 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2018 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2017 and 2018 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Equity for the Three Months Ended March 31, 2017 and 2018 (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2018 (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>51</u>
<u>Item 4—Controls and Procedures</u>	<u>82</u>
<u>PART II—OTHER INFORMATION</u>	
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>83</u>
<u>Item 6—Exhibits</u>	<u>83</u>
<u>Signatures</u>	<u>85</u>

Table of Contents

## Part I. Financial Information

## Item 1. Unaudited Condensed Consolidated Financial Statements

## IRON MOUNTAIN INCORPORATED

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share and Per Share Data)

(Unaudited)

	December 31, 2017	March 31, 2018
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$925,699	\$442,491
Accounts receivable (less allowances of \$46,648 and \$49,512 as of December 31, 2017 and March 31, 2018, respectively)	835,742	859,106
Prepaid expenses and other	188,874	223,276
Total Current Assets	1,950,315	1,524,873
Property, Plant and Equipment:		
Property, plant and equipment	6,251,100	7,306,059
Less—Accumulated depreciation	(2,833,421 )	(2,940,588 )
Property, Plant and Equipment, Net	3,417,679	4,365,471
Other Assets, Net:		
Goodwill	4,070,267	4,325,478
Customer relationships, customer inducements and data center lease-based intangibles	1,400,547	1,592,488
Other	133,594	189,839
Total Other Assets, Net	5,604,408	6,107,805
Total Assets	\$10,972,402	\$11,998,149
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$146,300	\$137,198
Accounts payable	289,137	251,214
Accrued expenses	653,146	574,725
Deferred revenue	241,590	267,925
Total Current Liabilities	1,330,173	1,231,062
Long-term Debt, net of current portion	6,896,971	8,020,873
Other Long-term Liabilities	73,039	96,731
Deferred Rent	126,231	125,442
Deferred Income Taxes	155,728	169,889
Commitments and Contingencies (see Note 8)		
Redeemable Noncontrolling Interests	91,418	92,877
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 283,110,183 shares and 285,923,405 shares as of December 31, 2017 and March 31, 2018, respectively)	2,831	2,859
Additional paid-in capital	4,164,562	4,250,757
(Distributions in excess of earnings) Earnings in excess of distributions	(1,765,966 )	(1,919,787 )
Accumulated other comprehensive items, net	(103,989 )	(74,082 )
Total Iron Mountain Incorporated Stockholders' Equity	2,297,438	2,259,747

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Noncontrolling Interests	1,404	1,528
Total Equity	2,298,842	2,261,275
Total Liabilities and Equity	\$ 10,972,402	\$ 11,998,149

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

3

---

Table of Contents

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

	Three Months Ended March 31,	
	2017	2018
Revenues:		
Storage rental	\$572,279	\$651,149
Service	366,597	391,309
Total Revenues	938,876	1,042,458
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	426,707	448,721
Selling, general and administrative	240,166	269,730
Depreciation and amortization	124,707	160,578
(Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	(459)	(1,130)
Total Operating Expenses	791,121	877,899
Operating Income (Loss)	147,755	164,559
Interest Expense, Net (includes Interest Income of \$2,293 and \$1,386 for the three months ended March 31, 2017 and 2018, respectively)	86,055	97,626
Other (Income) Expense, Net	(6,364)	20,151
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	68,064	46,782
Provision (Benefit) for Income Taxes	9,220	1,168
Income (Loss) from Continuing Operations	58,844	45,614
(Loss) Income from Discontinued Operations, Net of Tax	(337)	(462)
Net Income (Loss)	58,507	45,152
Less: Net Income (Loss) Attributable to Noncontrolling Interests	382	468
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$58,125	\$44,684
Earnings (Losses) per Share—Basic:		
Income (Loss) from Continuing Operations	\$0.22	\$0.16
Total Income (Loss) from Discontinued Operations, Net of Tax	\$—	\$—
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$0.22	\$0.16
Earnings (Losses) per Share—Diluted:		
Income (Loss) from Continuing Operations	\$0.22	\$0.16
Total Income (Loss) from Discontinued Operations, Net of Tax	\$—	\$—
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$0.22	\$0.16
Weighted Average Common Shares Outstanding—Basic	263,855	285,259
Weighted Average Common Shares Outstanding—Diluted	264,810	285,993
Dividends Declared per Common Share	\$0.5504	\$0.5888

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

Table of Contents

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

	Three Months Ended March 31,	
	2017	2018
Net Income (Loss)	\$58,507	\$45,152
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	50,784	31,651
Change in Fair Value of Interest Rate Swap Agreements	—	(185 )
Total Other Comprehensive Income (Loss)	50,784	31,466
Comprehensive Income (Loss)	109,291	76,618
Comprehensive (Loss) Income Attributable to Noncontrolling Interests	(168 )	2,027
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$109,459	\$74,591

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

Table of Contents

IRON MOUNTAIN INCORPORATED  
CONDENSED 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	Redeemable Noncontrolling Interests
Balance, December 31, 2016	\$1,936,671	263,682,670	\$2,636	\$3,489,795	\$(1,343,311)	\$(212,573 )	\$ 124	\$ 54,697
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation	2,453	427,718	5	2,448	—	—	—	—
Change in value of redeemable noncontrolling interests	(307 )	—	—	(307 )	—	—	—	307
Parent cash dividends declared	(145,427 )	—	—	—	(145,427 )	—	—	—
Foreign currency translation adjustment	51,405	—	—	—	—	51,334	71	(621 )
Net income (loss)	58,350	—	—	—	58,125	—	225	157
Noncontrolling interests equity contributions	—	—	—	—	—	—	—	13,230
Noncontrolling interests dividends	(214 )	—	—	—	—	—	(214 )	(462 )
Purchase of noncontrolling interests	843	—	—	—	—	—	843	—
Balance, March 31, 2017	\$1,903,774	264,110,388	\$2,641	\$3,491,936	\$(1,430,613)	\$(161,239 )	\$ 1,049	\$ 67,308
		Iron Mountain Incorporated Stockholders' Equity						
	Total	Common Stock Shares	Amounts	Additional Paid-in Capital	(Distributions in Excess of Earnings) Earnings in	Accumulated Other Comprehensive	Noncontrolling Interests	Redeemable Noncontrolling Interests

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

					Excess of Distributions	Items, Net		
Balance, December 31, 2017	\$2,298,842	283,110,183	\$2,831	\$4,164,562	\$(1,765,966)	\$(103,989 )	\$ 1,404	\$ 91,418
Cumulative-effect adjustment for adoption of ASU 2014-09 (see Note 2.d.)	(29,461 )	—	—	—	(29,461 )	—	—	—
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation	1,432	364,736	4	1,428	—	—	—	—
Issuance of shares associated with the Over-Allotment Option, net of underwriting discounts and offering expenses (see Note 9)	76,192	2,175,000	22	76,170	—	—	—	—
Issuance of shares through the At the Market (ATM) Equity Program, net of underwriting discounts and offering expenses (see Note 9)	8,716	273,486	2	8,714	—	—	—	—
Change in value of redeemable noncontrolling interests	(117 )	—	—	(117 )	—	—	—	117
Parent cash dividends declared	(169,044 )	—	—	—	(169,044 )	—	—	—
Foreign currency translation adjustment	30,246	—	—	—	—	30,092	154	1,405
Change in fair value of interest rate swap agreements	(185 )	—	—	—	—	(185 )	—	—
Net income (loss)	44,654	—	—	—	44,684	—	(30 )	498
Noncontrolling interests dividends	—	—	—	—	—	—	—	(561 )
	\$2,261,275	285,923,405	\$2,859	\$4,250,757	\$(1,919,787)	\$(74,082 )	\$ 1,528	\$ 92,877

Balance,  
March 31, 2018

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

6

---

Table of Contents

IRON MOUNTAIN INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2018
Cash Flows from Operating Activities:		
Net income (loss)	\$58,507	\$45,152
Loss (Income) from discontinued operations	337	462
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	99,592	113,432
Amortization (includes amortization of deferred financing costs and discount of \$3,907 and \$3,553 for the three months ended March 31, 2017 and 2018, respectively)	29,022	50,699
Revenue reduction associated with amortization of permanent withdrawal fees and above- and below-market leases (see Note 2.c.)	3,158	3,664
Stock-based compensation expense	6,549	7,384
(Benefit) Provision for deferred income taxes	(7,386)	(387)
(Gain) Loss on disposal/write-down of property, plant and equipment, net (including real estate)	(459)	(1,130)
Foreign currency transactions and other, net	(786)	23,530
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	(8,971)	(10,590)
Prepaid expenses and other	(24,826)	(56,937)
Accounts payable	5,869	(1,381)
Accrued expenses and deferred revenue	(36,112)	(76,324)
Other assets and long-term liabilities	(2,320)	(6,006)
Cash Flows from Operating Activities - Continuing Operations	122,174	91,568
Cash Flows from Operating Activities - Discontinued Operations	(337)	—
Cash Flows from Operating Activities	121,837	91,568
Cash Flows from Investing Activities:		
Capital expenditures	(73,202)	(95,605)
Cash paid for acquisitions, net of cash acquired	(12,187)	(1,428,974)
Acquisition of customer relationships	(17,132)	(12,602)
Customer inducements (see Note 2.c.)	(4,271)	(130)
Contract fulfillment costs (see Note 2.d.)	—	(5,314)
Net proceeds from Divestments	2,423	—
Proceeds from sales of property and equipment and other, net (including real estate)	66	(19,387)
Cash Flows from Investing Activities - Continuing Operations	(104,303)	(1,562,012)
Cash Flows from Investing Activities - Discontinued Operations	—	—
Cash Flows from Investing Activities	(104,303)	(1,562,012)
Cash Flows from Financing Activities:		
Repayment of revolving credit, term loan and bridge facilities and other debt	(2,682,348)	(4,410,656)
Proceeds from revolving credit, term loan and bridge facilities and other debt	2,714,783	5,496,491
Debt financing and equity contribution from noncontrolling interests	13,230	—
Debt repayment and equity distribution to noncontrolling interests	(2,562)	(561)
Parent cash dividends	(2,060)	(169,006)
Net proceeds associated with the Over-Allotment Option (see Note 9)	—	76,192
Net proceeds associated with the At the Market (ATM) Program	—	8,716

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net (payments) proceeds associated with employee stock-based awards	(4,308 )	(5,950 )
Payment of debt financing and stock issuance costs	(73 )	(9,974 )
Cash Flows from Financing Activities - Continuing Operations	36,662	985,252
Cash Flows from Financing Activities - Discontinued Operations	—	—
Cash Flows from Financing Activities	36,662	985,252
Effect of Exchange Rates on Cash and Cash Equivalents	4,948	1,984
Increase (Decrease) in Cash and Cash Equivalents	59,144	(483,208 )
Cash and Cash Equivalents, including Restricted Cash, Beginning of Period	236,484	925,699
Cash and Cash Equivalents, including Restricted Cash, End of Period	\$295,628	\$442,491
Supplemental Information:		
Cash Paid for Interest	\$99,022	\$122,027
Cash Paid for Income Taxes, Net	\$30,422	\$22,292
Non-Cash Investing and Financing Activities:		
Capital Leases	\$24,395	\$13,877
Accrued Capital Expenditures	\$63,655	\$36,760
Accrued Purchase Price and Other Holdbacks	\$—	\$149
Decrease in Fair Value of OSG Investment	\$—	\$87
Dividends Payable	\$148,992	\$172,140

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

Table of Contents

IRON MOUNTAIN INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(1) General

The interim condensed 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, provide colocation and wholesale data center spaces and provide information management and data center solutions that help organizations in various locations throughout North America, Europe, Latin America, Asia and Africa protect their information, lower storage rental costs, comply with regulations, facilitate corporate disaster recovery, and better use their information and information technology ("IT") infrastructure for business advantages, regardless of its format, location or life cycle stage. We currently serve customers across an array of market verticals - commercial, legal, financial, healthcare, insurance, life sciences, energy, business services, entertainment and government organizations.

The unaudited condensed 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 Condensed 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, 2017 included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018 (our "Annual Report"). We have been organized and have operated as a real estate investment trust for United States federal income tax purposes ("REIT") beginning with our taxable year ended December 31, 2014.

On January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). See Note 2.d.

On January 10, 2018, we completed the acquisition of IO Data Centers, LLC ("IODC"). See Note 4.

(2) Summary of Significant Accounting Policies

This Note 2 to Notes to Condensed 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. 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, 2017 and March 31, 2018, we had approximately \$22,167 and \$18,360, respectively, of restricted cash held by certain financial institutions related to bank guarantees.

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

## b. 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. 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 (i) borrowings in certain foreign currencies under our Former Revolving Credit Facility and Revolving Credit Facility (both as defined and discussed more fully in Note 5), (ii) our Euro Notes (as defined and discussed more fully in Note 5), and (iii) 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 (income) expense, net, in the accompanying Condensed Consolidated Statements of Operations. Total (gain) loss on foreign currency transactions for the three months ended March 31, 2017 and 2018 is as follows:

	Three Months Ended March 31,	
	2017	2018

Total (gain) loss on foreign currency transactions	\$(4,164)	\$21,785
--	-----------	----------

## c. Goodwill and Other Intangible Assets and Liabilities

## Goodwill

Goodwill is not amortized but is reviewed annually for impairment, or more frequently if impairment indicators arise. 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, 2017 and as a result of that review, we determined that the fair value of the Consumer Storage reporting unit was less than its carrying value and, therefore, we recorded a \$3,011 impairment charge on the goodwill associated with this reporting unit during the fourth quarter of 2017, which represents a write-off of all goodwill associated with this reporting unit. As of December 31, 2017 and March 31, 2018, no factors were identified that would alter our October 1, 2017 goodwill impairment analysis. In making this assessment, we considered 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 as of December 31, 2017 are described in detail in Note 2.h. to Notes to Consolidated Financial Statements included in our Annual Report. The goodwill associated with acquisitions completed during the first three months of 2018 (which are described in Note 4) has been incorporated into our reporting units as they existed as of December 31, 2017.

During the first quarter of 2018, as a result of changes in the management of our businesses included in our Other International Business segment, we reassessed the composition of our reporting units. As a result of this reassessment, we determined that our business in South Africa, which was previously being managed in conjunction with our businesses in Northern and Eastern Europe and Middle East and India as a part of our former Northern and Eastern Europe and Middle East, Africa and India (“NEE and MEAI”) reporting unit, was now being managed in conjunction with our businesses included in our Australia and New Zealand reporting unit. This newly formed reporting unit, which consists of (i) the businesses included in our former Australia and New Zealand reporting unit and (ii) our business in South Africa is referred to as the Australia, New Zealand and South Africa (“ANZ-SA”) reporting unit. The

former NEE and MEAI reporting unit is now referred to as the Northern and Eastern Europe and Middle East and India ("NEE and MEI") reporting unit.

9

---

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED 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 three months ended March 31, 2018 are as follows:

	North American Records and Information Management Business	North American Data Management Business	Western European Business	Other International Business	Global Data Center Business	Corporate and Other Business	Total Consolidated
Gross Balance as of December 31, 2017	\$2,474,829	\$ 551,726	\$453,537	\$ 846,721	\$—	\$ 60,048	\$4,386,861
Non-deductible goodwill acquired during the year	—	—	—	—	229,539	—	229,539
Fair value and other adjustments(1)	122	—	—	5,886	—	4,704	10,712
Currency effects	(5,593)	(1,528)	13,885	7,713	—	621	15,098
Gross Balance as of March 31, 2018	\$2,469,358	\$ 550,198	\$467,422	\$ 860,320	\$229,539	\$ 65,373	\$4,642,210
Accumulated Amortization Balance as of December 31, 2017	\$205,383	\$ 53,875	\$57,048	\$ 288	\$—	\$—	\$316,594
Currency effects	(198)	(50)	376	10	—	—	138
Accumulated Amortization Balance as of March 31, 2018	\$205,185	\$ 53,825	\$57,424	\$ 298	\$—	\$—	\$316,732
Net Balance as of December 31, 2017	\$2,269,446	\$ 497,851	\$396,489	\$ 846,433	\$—	\$ 60,048	\$4,070,267
Net Balance as of March 31, 2018	\$2,264,173	\$ 496,373	\$409,998	\$ 860,022	\$229,539	\$ 65,373	\$4,325,478
Accumulated Goodwill Impairment Balance as of December 31, 2017	\$85,909	\$—	\$46,500	\$—	\$—	\$ 3,011	\$135,420
Accumulated Goodwill Impairment Balance as of March 31, 2018	\$85,909	\$—	\$46,500	\$—	\$—	\$ 3,011	\$135,420

(1) Total fair value and other adjustments include \$10,712 in net adjustments primarily related to property, plant and equipment, customer relationship intangible assets and deferred income taxes and other liabilities.

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

Finite-lived intangible assets and liabilities

i. Customer Relationship 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 and are included in depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations. 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.

ii. Customer Inducements

Prior to the adoption of ASU 2014-09, free intake costs to transport boxes to one of our facilities, which include labor and transportation costs ("Free Move Costs"), were capitalized and amortized over periods ranging from 10 to 30 years. The amortization of Free Move Costs is included in depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2017. Subsequent to the adoption of ASU 2014-09, Free Move Costs are considered a Contract Fulfillment Cost (as defined in Note 2.d.) and, therefore, are now deferred and amortized over three years, consistent with the transfer of the performance obligation to the customer to which the asset relates. See Note 2.d. for information regarding the accounting for Free Move Costs, which are now a component of Intake Costs (as defined in Note 2.d.), following the adoption of ASU 2014-09.

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 5 to 15 years and are included in storage and service revenue in the accompanying Condensed Consolidated Statements of Operations. Our accounting for Permanent Withdrawal Fees did not change as a result of the adoption of ASU 2014-09.

Free Move Costs (prior to the adoption of ASU 2014-09) 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.

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

iii. Data Center Intangible Assets and Liabilities

Finite-lived intangible assets associated with our data center business consist of the following:

Data Center In-Place Lease Intangible Assets and Data Center Tenant Relationship Intangible Assets

Data Center In-Place Lease Intangible Assets (“Data Center In-Place Leases”) and Data Center Tenant Relationship Intangible Assets (“Data Center Tenant Relationships”) are acquired through either business combinations or asset acquisitions in our data center business. These intangible assets reflect the value associated with acquiring a data center operation with active tenants as of the date of acquisition. The value of Data Center In-Place Leases is determined based upon an estimate of the economic costs (such as lost revenues and unreimbursed operating expenses during the lease-up period, tenant improvement costs, commissions, legal expenses and other costs to acquire new data center leases) avoided by acquiring a data center operation with active tenants that would have otherwise been incurred if the data center operation was purchased vacant. Data Center In-Place Leases are amortized over the weighted average remaining term of the acquired data center leases and are included in depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations. The value of Data Center Tenant Relationships is determined based upon an estimate of the economic costs avoided upon lease renewal of the acquired tenants, based upon expectations of lease renewal. Data Center Tenant Relationships are amortized over the weighted average remaining anticipated life of the relationship with the acquired tenant and are included in depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations. Data Center In-Place Leases and Data Center Tenant Relationships are included in Customer relationships, customer inducements and data center lease-based intangibles in the accompanying Condensed Consolidated Balance Sheets.

Data Center Above-Market and Below-Market In-Place Lease Intangible Assets

Data Center Above-Market In-Place Lease Intangible Assets (“Data Center Above-Market Leases”) and Data Center Below-Market In-Place Lease Intangible Assets (“Data Center Below-Market Leases”) are acquired through either business combinations or asset acquisitions in our data center business. We record Data Center Above-Market Leases and Data Center Below-Market Leases at the net present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management’s estimate of the fair market lease rates for each corresponding in-place lease. Data Center Above-Market Leases and Data Center Below-Market Leases are amortized over the remaining non-cancellable term of the acquired in-place lease to storage revenue in the accompanying Condensed Consolidated Statements of Operations. Data Center Above-Market Leases are included in Customer relationships, customer inducements and data center lease-based intangibles in the accompanying Condensed Consolidated Balance Sheets. Data Center Below-Market Leases are included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

The components of our finite-lived intangible assets related to customer relationship value, customer inducements and data center lease-based intangible assets and liabilities as of December 31, 2017 and March 31, 2018 are as follows:

	December 31, 2017			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Assets:</b>						
Customer relationship intangible assets	\$ 1,704,105	\$ (395,278 )	\$ 1,308,827	\$ 1,728,685	\$ (427,550 )	\$ 1,301,135
Customer inducements(1)	140,030	(66,981 )	73,049	57,502	(35,149 )	22,353
Data center lease-based intangible assets(2)	19,314	(643 )	18,671	282,609	(13,609 )	269,000
	\$ 1,863,449	\$ (462,902 )	\$ 1,400,547	\$ 2,068,796	\$ (476,308 )	\$ 1,592,488
<b>Liabilities:</b>						
Data center below-market leases	\$—	\$—	\$—	\$ 11,421	\$ (349 )	\$ 11,072

The gross carrying amount, accumulated amortization and net carrying amount of customer inducements as of December 31, 2017 includes Free Move Costs, which were capitalized as Customer Inducements prior to the adoption of ASU 2014-09. Subsequent to the adoption of ASU 2014-09, Free Move Costs are considered a (1) Contract Fulfillment Cost. Contract Fulfillment Costs are included in Other, a component of Other Assets, Net, in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018. See Note 2.d. for information regarding Contract Fulfillment Costs included in our Condensed Consolidated Balance Sheet as of March 31, 2018.

(2)Includes Data Center In-Place Leases, Data Center Tenant Relationships and Data Center Above-Market Leases.

Other finite-lived intangible assets, including trade names, noncompetition agreements and trademarks, are capitalized and amortized over a weighted average of four years and are included in depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2017 and 2018. The other finite-lived intangible assets as of December 31, 2017 and March 31, 2018 are as follows:

	December 31, 2017			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other finite-lived intangible assets (included in other assets, net)	\$ 20,929	\$ (10,728 )	\$ 10,201	\$ 20,974	\$ (11,936 )	\$ 9,038

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

Amortization expense associated with finite-lived intangible assets, revenue reduction associated with the amortization of Permanent Withdrawal Fees and net revenue reduction associated with the amortization of Data Center Above-Market Leases and Data Center Below-Market Leases for the three months ended March 31, 2017 and 2018 are as follows:

	Three Months Ended March 31,	
	2017	2018
Amortization expense included in depreciation and amortization associated with:		
Customer relationship intangible assets	\$20,133	\$26,337
Customer inducements	2,666	2,469
Data center in-place leases and tenant relationships	—	10,838
Other finite-lived intangible assets	2,316	1,185
Revenue reduction associated with amortization of:		
Permanent withdrawal fees	\$3,158	\$2,585
Data center above-market leases and data center below-market leases	—	1,079

## d. Revenues

In May 2014, the Financial Accounting Standards Board ("FASB") issued 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. We adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective method for all of our customer contracts, whereby the cumulative effect of applying ASU 2014-09 is recognized at the date of initial application. At January 1, 2018, we recognized the cumulative effect of initially applying ASU 2014-09 as an adjustment to the opening balance of (distributions in excess of earnings) earnings in excess of distributions, resulting in a decrease of \$29,461 to stockholders' equity. The reduction of (distribution in excess of earnings) earnings in excess of distributions represents the net effect of (i) the write off of Free Move Costs, net (which were capitalized and amortized prior to the adoption of ASU 2014-09) based upon the net book value of the Free Move Costs as of December 31, 2017, (ii) the recognition of certain Contract Fulfillment Assets, specifically Intake Costs (each as defined below) and commission assets, (iii) the recognition of deferred revenue associated with Intake Costs billed to our customers (as discussed below), and (iv) the deferred income tax impact of the aforementioned items. As we adopted ASU 2014-09 on a modified retrospective basis, the comparative Condensed Consolidated Balance Sheet as of December 31, 2017, and the Condensed Consolidated Statement of Operations, the Condensed Consolidated Statement of Comprehensive Income (Loss), the Condensed Consolidated Statement of Equity and the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 have not been restated to reflect the adoption of ASU 2014-09 and reflect our revenue policies in place at that time, as disclosed in Note 2.I. to Notes to Consolidated Financial Statements included in our Annual Report.

Storage rental and service revenues are recognized in the month the respective storage rental or service is provided, and customers are generally billed on a monthly basis on contractually agreed-upon terms. The performance obligation is a series of distinct services (as determined for purposes of ASU 2014-09, a "series") that have the same pattern of transfer to the customer that is satisfied over time. For those contracts that qualify as a series, we have a right to consideration from the customer in an amount that corresponds directly with the value of the underlying performance obligation transferred to the customer to date. This concept is known as "right to invoice" and we are

applying the "right to invoice" practical expedient to all revenues, with the exception of storage revenues in our data center business.

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

For all of our businesses, with the exception of the storage component of our data center business, each purchasing decision is fully in the control of the customer and, therefore, consideration beyond the current reporting period is variable and allocated to the specific period, which is consistent with the practical expedient above. Our data center business features storage rental provided to the customer at contractually specified rates over a fixed contractual period. The storage rental revenue related to the storage component of our data center business is recognized on a straight-line basis over the contract term. The revenue related to the service component of our data center business is recognized in the period the data center access or related services are provided. Total data center revenues represent less than 5% of our total consolidated revenues at March 31, 2018.

The costs associated with the initial movement of customer records into physical storage and certain commissions are considered costs to obtain or fulfill customer contracts ("Contract Fulfillment Costs"). The following describes each of these Contract Fulfillment Costs recognized under ASC 2014-09:

**Intake Costs (and associated deferred revenue)**

Prior to the adoption of ASU 2014-09, intake costs incurred but not charged to a customer to transport records to our facilities (or Free Move Costs, as described in Note 2.c.), which include labor and transportation costs, were capitalized and amortized as a component of depreciation and amortization in our Consolidated Statements of Operations. The initial movement of customer records into physical storage must take place prior to initiation of the storage of records and is not considered a separate performance obligation and, therefore, the costs of the initial intake of customer records into physical storage ("Intake Costs") represent a contract fulfillment cost for the storage of records as the earnings process does not commence until a customer's records or other assets are in our possession.

Accordingly, upon the adoption of ASU 2014-09, all Intake Costs, regardless of whether or not the services associated with such initial moves are billed to the customer or are provided to the customer at no charge, will be deferred and amortized as a component of depreciation and amortization in our Consolidated Statements of Operations over three years, consistent with the transfer of the performance obligation to the customer to which the asset relates. Similarly, in instances where such Intake Costs are billed to the customer, the associated revenue will be deferred and recognized over the same three year period.

**Commissions**

Prior to the adoption of ASU 2014-09, commissions we paid related to our long-term storage contracts were expensed as incurred. Upon the adoption of ASU 2014-09, certain commission payments that are directly associated with the fulfillment of long-term storage contracts are capitalized and amortized as a component of depreciation and amortization in our Consolidated Statements of Operations over three years, consistent with the transfer of the performance obligation to the customer to which the asset relates. Certain direct commission payments associated with contracts with a duration of one year or less are expensed as incurred under the practical expedient which allows an entity to expense as incurred an incremental cost of obtaining a contract if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

The Contract Fulfillment Assets recorded as a result of the adoption of ASU 2014-09 as of January 1, 2018 and March 31, 2018 are as follows:

Description	Location in Balance Sheet	January 1, 2018 (Date of Adoption of ASU 2014-09)			March 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		\$42,072	\$ (21,173 )	\$ 20,899	\$44,729	\$ (24,781 )	\$ 19,948

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Commissions asset	Other (within Other Assets, Net)								
Intake Costs asset	Other (within Other Assets, Net)	31,604	(14,954	)	16,650	34,408	(17,875	)	16,533

15

---

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

Amortization expense associated with the commissions asset and Intake Costs asset was \$3,587 and \$2,730, respectively, for the three months ended March 31, 2018.

Deferred revenue liabilities, associated with billed Intake Costs, recorded as a result of the adoption of ASU 2014-09 as of January 1, 2018 and March 31, 2018 are as follows:

Description	Location in Balance Sheet	January 1, 2018 (Date of Adoption of ASU 2014-09)	March 31, 2018
Deferred revenue - Current	Deferred revenue	\$ 9,953	\$ 10,482
Deferred revenue - Long-term	Other Long-term Liabilities	9,453	9,639

The following table presents certain components of our Condensed Consolidated Statements of Operations as of March 31, 2018 as reported and if we had not adopted ASU 2014-09 on January 1, 2018:

	Three Months Ended March 31, 2018 (As Reported)	Three Months Ended March 31, 2018 (If ASU 2014-09 was not adopted)
Revenues	\$1,042,458	\$1,041,264
Operating Income	\$164,559	\$165,319
Income from Continuing Operations	\$45,614	\$46,374
Per Share Income from Continuing Operations - Basic	\$0.16	\$0.16
Per Share Income from Continuing Operations - Diluted	\$0.16	\$0.16

## e. 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 for the three months ended March 31, 2017 and 2018 was \$6,549 (\$5,777 after tax or \$0.02 per basic and diluted share) and \$7,384 (\$6,833 after tax or \$0.02 per basic and diluted share), respectively.

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

Three Months Ended March 31, 2017	2018
--	------

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Cost of sales (excluding depreciation and amortization)	\$28	\$29
Selling, general and administrative expenses	6,521	7,355
Total stock-based compensation	\$6,549	\$7,384

16

---

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

## Stock Options

A summary of our stock options outstanding as of March 31, 2018 by vesting terms is as follows:

	March 31, 2018		
	Stock Options Outstanding	% of Stock Options Outstanding	
Three-year vesting period (10 year contractual life)	4,111,684	91.8	%
Five-year vesting period (10 year contractual life)	366,855	8.2	%
	4,478,539	100.0	%

The weighted average fair value of stock options granted for the three months ended March 31, 2017 and 2018 was \$4.26 and \$3.50 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 periods are as follows:

	Three Months Ended March 31,			
Weighted Average Assumptions	2017		2018	
Expected volatility	25.8	%	25.4	%
Risk-free interest rate	1.96	%	2.65	%
Expected dividend yield	6	%	7	%
Expected life	5.0 years		5.0 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.

A summary of stock option activity for the three months ended March 31, 2018 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Outstanding at December 31, 2017	3,671,740	\$ 34.41		
Granted	839,437	33.72		
Exercised	(20,223 )	19.41		
Forfeited	(9,673 )	35.12		
Expired	(2,742 )	37.71		
Outstanding at March 31, 2018	4,478,539	\$ 34.34	7.58	\$ 8,201
Options exercisable at March 31, 2018	2,498,039	\$ 33.73	6.39	\$ 7,815
Options expected to vest	1,831,809	\$ 35.12	9.08	\$ 367

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

The aggregate intrinsic value of stock options exercised for the three months ended March 31, 2017 and 2018 is as follows:

	Three Months Ended March 31, 2017 2018	
Aggregate intrinsic value of stock options exercised	\$1,912	\$393

## Restricted Stock Units

Under our various equity compensation plans, we may also grant RSUs. Our RSUs generally have a vesting period of three years from the date of grant. However, RSUs granted to our non-employee directors 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).

Cash dividends accrued and paid on RSUs for the three months ended March 31, 2017 and 2018 are as follows:

	Three Months Ended March 31, 2017 2018	
Cash dividends accrued on RSUs	\$683	\$721
Cash dividends paid on RSUs	1,855	2,043

The fair value of RSUs vested during the three months ended March 31, 2017 and 2018 is as follows:

	Three Months Ended March 31, 2017 2018	
Fair value of RSUs vested	\$14,026	\$15,330

A summary of RSU activity for the three months ended March 31, 2018 is as follows:

	RSUs	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2017	1,071,469	\$ 35.38
Granted	611,030	33.58
Vested	(436,489 )	35.12
Forfeited	(24,035 )	36.43
Non-vested at March 31, 2018	1,221,975	\$ 34.55

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

## 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") and, beginning with PUs granted in 2018, Adjusted EBITDA (as defined in Note 7). 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 either (i) a subset of the Standard & Poor's 500 Index (for certain PUs granted prior to 2017), or (ii) the MSCI United States REIT Index (for certain PUs granted in 2017 and thereafter), rather than the revenue, ROIC and Adjusted EBITDA targets noted above. The number of PUs earned based on the applicable 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.

Cash dividends accrued and paid on PUs for the three months ended March 31, 2017 and 2018 are as follows:

	Three Months Ended March 31, 2017	2018
Cash dividends accrued on PUs	\$324	\$450
Cash dividends paid on PUs	205	644

The majority of our PUs are earned based on our performance against revenue, ROIC and, beginning with PUs granted in 2018, Adjusted EBITDA targets during their applicable performance period; therefore, we forecast the likelihood of achieving the predefined revenue, ROIC and Adjusted EBITDA 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. The fair value of PUs based on our performance against revenue, ROIC and Adjusted EBITDA targets is the excess of the market price of our common stock at the date of grant over the purchase price (which is typically zero). 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 March 31, 2018, we expected 100%, 100% and 100% achievement of the predefined revenue, ROIC and Adjusted EBITDA targets associated with the awards of PUs made in 2016, 2017 and 2018, respectively.

The fair value of earned PUs that vested during the three months ended March 31, 2017 and 2018 is as follows:

Three Months Ended March 31,

2017 2018

Fair value of earned PUs that vested \$905 \$3,033

19

---

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (2) Summary of Significant Accounting Policies (Continued)

A summary of PU activity for the three months ended March 31, 2018 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2017	717,878	(250,067 )	467,811	\$ 39.28
Granted	347,576	—	347,576	33.64
Vested	(79,121 )	—	(79,121 )	38.34
Forfeited/Performance or Market Conditions Not Achieved	(2,626 )	(49,881 )	(52,507 )	38.28
Non-vested at March 31, 2018	983,707	(299,948 )	683,759	\$ 36.60

Represents an increase or decrease in the number of original PUs awarded based on either the final performance (1) 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 of our employees employed in the United States and Canada 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. As of March 31, 2018, we have 624,768 shares available under the ESPP.

As of March 31, 2018, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$64,416 and is expected to be recognized over a weighted-average period of 2.3 years.

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

Table of Contents

## IRON MOUNTAIN INCORPORATED

## NOTES TO CONDENSED 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 stock options, RSUs or PUs) that were outstanding during the period, unless the effect is antidilutive.

The calculation of basic and diluted income (loss) per share for the three months ended March 31, 2017 and 2018 is as follows:

	Three Months Ended March 31,	
	2017	2018
Income (loss) from continuing operations	\$58,844	\$ 45,614
Less: Net income (loss) attributable to noncontrolling interests	382	468
Income (loss) from continuing operations (utilized in numerator of Earnings Per Share calculation)	\$58,462	\$ 45,146
(Loss) income from discontinued operations, net of tax	\$(337 )	\$(462 )
Net income (loss) attributable to Iron Mountain Incorporated	\$58,125	\$ 44,684
Weighted-average shares—basic	263,855,000	265,259,000
Effect of dilutive potential stock options	461,761	249,564
Effect of dilutive potential RSUs and PUs	492,905	484,314
Weighted-average shares—diluted	264,809,666	265,992,878
Earnings (losses) per share—basic:		
Income (loss) from continuing operations	\$0.22	\$ 0.16
Income (loss) from discontinued operations, net of tax	—	—
Net income (loss) attributable to Iron Mountain Incorporated(1)	\$0.22	\$ 0.16
Earnings (losses) per share—diluted:		