

IRON MOUNTAIN INC  
Form 10-Q  
November 01, 2016  
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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, 2016

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 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 28, 2016: 263,447,840

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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<br>31, 2015 | September<br>30, 2016 |
|---|----------------------|-----------------------|
| <b>ASSETS</b>   |                      |                       |
| Current Assets:   |                      |                       |
| Cash and cash equivalents   | \$ 128,381           | \$ 458,128            |
| Accounts receivable (less allowances of \$31,447 and \$41,636 as of December 31, 2015 and September 30, 2016, respectively)   | 564,401              | 700,238               |
| Deferred income taxes   | 22,179               | 11,075                |
| Prepaid expenses and other  | 142,951              | 169,988               |
| Assets held for sale (see Note 10)  | —                    | 127,912               |
| Total Current Assets  | 857,912              | 1,467,341             |
| Property, Plant and Equipment:  |                      |                       |
| Property, plant and equipment   | 4,744,236            | 5,574,805             |
| Less—Accumulated depreciation   | (2,247,078 )         | (2,408,277 )          |
| Property, Plant and Equipment, Net  | 2,497,158            | 3,166,528             |
| Other Assets, Net:  |                      |                       |
| Goodwill  | 2,360,978            | 3,861,810             |
| Customer relationships and customer inducements   | 603,314              | 1,306,011             |
| Other   | 31,225               | 103,226               |
| Total Other Assets, Net   | 2,995,517            | 5,271,047             |
| Total Assets  | \$ 6,350,587         | \$ 9,904,916          |
| <b>LIABILITIES AND EQUITY</b>   |                      |                       |
| Current Liabilities:  |                      |                       |
| Current portion of long-term debt   | \$ 88,068            | \$ 121,203            |
| Accounts payable  | 219,590              | 233,971               |
| Accrued expenses  | 351,061              | 447,413               |
| Deferred revenue  | 183,112              | 202,171               |
| Liabilities held for sale (see Note 10)   | —                    | 19,269                |
| Total Current Liabilities   | 841,831              | 1,024,027             |
| Long-term Debt, Net of Current Portion  | 4,757,610            | 6,338,024             |
| Other Long-term Liabilities   | 71,844               | 88,794                |
| Deferred Rent   | 95,693               | 111,035               |
| Deferred Income Taxes   | 55,002               | 192,782               |
| 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 211,340,296 shares and 263,425,012 shares as of December 31, 2015 and September 30, 2016, respectively) | 2,113                | 2,634                 |
| Additional paid-in capital  | 1,623,863            | 3,506,913             |
| (Distributions in excess of earnings) Earnings in excess of distributions   | (942,218 )           | (1,246,408 )          |

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|   |             |             |
|---|-------------|-------------|
| Accumulated other comprehensive items, net            | (174,917 )  | (138,446 )  |
| Total Iron Mountain Incorporated Stockholders' Equity | 508,841     | 2,124,693   |
| Noncontrolling Interests                              | 19,766      | 25,561      |
| Total Equity  | 528,607     | 2,150,254   |
| Total Liabilities and Equity                          | \$6,350,587 | \$9,904,916 |

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<br>September 30, |           |
|--|-------------------------------------|-----------|
|  | 2015                                | 2016      |
| Revenues:  |                                     |           |
| Storage rental   | \$460,052                           | \$576,465 |
| Service  | 286,477                             | 366,357   |
| Total Revenues   | 746,529                             | 942,822   |
| Operating Expenses:  |                                     |           |
| Cost of sales (excluding depreciation and amortization)  | 317,663                             | 429,808   |
| Selling, general and administrative  | 215,693                             | 252,944   |
| Depreciation and amortization  | 86,492                              | 124,670   |
| (Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net   | (141)                               | (54)      |
| Total Operating Expenses   | 619,707                             | 807,368   |
| Operating Income (Loss)  | 126,822                             | 135,454   |
| Interest Expense, Net (includes Interest Income of \$1,132 and \$2,118 for the three months ended September 30, 2015 and 2016, respectively) | 65,135                              | 83,300    |
| Other Expense (Income), Net  | 35,246                              | 23,302    |
| Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate                         | 26,441                              | 28,852    |
| Provision (Benefit) for Income Taxes   | 3,774                               | 23,418    |
| Gain on Sale of Real Estate, Net of Tax  | (850)                               | (325)     |
| Income (Loss) from Continuing Operations   | 23,517                              | 5,759     |
| Income (Loss) from Discontinued Operations, Net of Tax   | —                                   | 2,041     |
| Net Income (Loss)  | 23,517                              | 7,800     |
| Less: Net Income (Loss) Attributable to Noncontrolling Interests   | 407                                 | 720       |
| Net Income (Loss) Attributable to Iron Mountain Incorporated   | \$23,110                            | \$7,080   |
| Earnings (Losses) per Share—Basic:   |                                     |           |
| Income (Loss) from Continuing Operations   | \$0.11                              | \$0.02    |
| Total Income (Loss) from Discontinued Operations, Net of Tax   | \$—                                 | \$0.01    |
| Net Income (Loss) Attributable to Iron Mountain Incorporated   | \$0.11                              | \$0.03    |
| Earnings (Losses) per Share—Diluted:   |                                     |           |
| Income (Loss) from Continuing Operations   | \$0.11                              | \$0.02    |
| Total Income (Loss) from Discontinued Operations, Net of Tax   | \$—                                 | \$0.01    |
| Net Income (Loss) Attributable to Iron Mountain Incorporated   | \$0.11                              | \$0.03    |
| Weighted Average Common Shares Outstanding—Basic   | 210,912                             | 263,269   |
| Weighted Average Common Shares Outstanding—Diluted   | 211,917                             | 264,502   |
| Dividends Declared per Common Share  | \$0.4751                            | \$0.4852  |

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

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

|   | Nine Months Ended<br>September 30, |             |
|---|------------------------------------|-------------|
|   | 2015                               | 2016        |
| Revenues:   |                                    |             |
| Storage rental  | \$1,380,133                        | \$1,576,358 |
| Service   | 875,416                            | 1,000,902   |
| Total Revenues  | 2,255,549                          | 2,577,260   |
| Operating Expenses:   |                                    |             |
| Cost of sales (excluding depreciation and amortization)   | 965,600                            | 1,151,562   |
| Selling, general and administrative   | 627,992                            | 737,787     |
| Depreciation and amortization   | 259,992                            | 326,896     |
| Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net  | 707                                | (1,131 )    |
| Total Operating Expenses  | 1,854,291                          | 2,215,114   |
| Operating Income (Loss)   | 401,258                            | 362,146     |
| Interest Expense, Net (includes Interest Income of \$2,777 and \$5,549 for the nine months ended September 30, 2015 and 2016, respectively) | 196,120                            | 225,228     |
| Other Expense (Income), Net   | 59,599                             | 37,006      |
| Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate                        | 145,539                            | 99,912      |
| Provision (Benefit) for Income Taxes  | 27,126                             | 46,157      |
| Gain on Sale of Real Estate, Net of Tax   | (850 )                             | (325 )      |
| Income (Loss) from Continuing Operations  | 119,263                            | 54,080      |
| Income (Loss) from Discontinued Operations, Net of Tax  | —                                  | 3,628       |
| Net Income (Loss)   | 119,263                            | 57,708      |
| Less: Net Income (Loss) Attributable to Noncontrolling Interests  | 1,727                              | 1,822       |
| Net Income (Loss) Attributable to Iron Mountain Incorporated  | \$117,536                          | \$55,886    |
| Earnings (Losses) per Share—Basic:  |                                    |             |
| Income (Loss) from Continuing Operations  | \$0.57                             | \$0.22      |
| Total Income (Loss) from Discontinued Operations, Net of Tax  | \$—                                | \$0.02      |
| Net Income (Loss) Attributable to Iron Mountain Incorporated  | \$0.56                             | \$0.23      |
| Earnings (Losses) per Share—Diluted:  |                                    |             |
| Income (Loss) from Continuing Operations  | \$0.56                             | \$0.22      |
| Total Income (Loss) from Discontinued Operations, Net of Tax  | \$—                                | \$0.02      |
| Net Income (Loss) Attributable to Iron Mountain Incorporated  | \$0.55                             | \$0.23      |
| Weighted Average Common Shares Outstanding—Basic  | 210,616                            | 240,394     |
| Weighted Average Common Shares Outstanding—Diluted  | 212,081                            | 241,520     |
| Dividends Declared per Common Share   | \$1.4250                           | \$1.4886    |

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<br>Ended<br>September 30, |          |
|--|--|----------|
|  | 2015                                   | 2016     |
| Net Income (Loss)  | \$23,517                               | \$7,800  |
| Other Comprehensive (Loss) Income:                                     |  |          |
| Foreign Currency Translation Adjustments                               | (34,594 )                              | 11,304   |
| Market Value Adjustments for Securities                                | (134 )                                 | —        |
| Total Other Comprehensive (Loss) Income                                | (34,728 )                              | 11,304   |
| Comprehensive (Loss) Income  | (11,211 )                              | 19,104   |
| Comprehensive (Loss) Income Attributable to Noncontrolling Interests   | (384 )                                 | 1,181    |
| Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated | \$(10,827)                             | \$17,923 |
|  | Nine Months Ended<br>September 30,     |          |
|  | 2015                                   | 2016     |
| Net Income (Loss)  | \$119,263                              | \$57,708 |
| Other Comprehensive (Loss) Income:                                     |  |          |
| Foreign Currency Translation Adjustments                               | (89,769 )                              | 38,071   |
| Market Value Adjustments for Securities                                | (111 )                                 | (734 )   |
| Total Other Comprehensive (Loss) Income                                | (89,880 )                              | 37,337   |
| Comprehensive Income (Loss)  | 29,383                                 | 95,045   |
| Comprehensive Income (Loss) Attributable to Noncontrolling Interests   | 503                                    | 2,688    |
| Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated | \$28,880                               | \$92,357 |

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<br>Shares | Common Stock<br>Amounts | Additional<br>Paid-in<br>Capital | (Distributions<br>in Excess of<br>Earnings)<br>Earnings in<br>Excess of<br>Distributions | Accumulated<br>Other<br>Comprehensive<br>Items, Net | Noncontrolling<br>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<br>employee stock purchase<br>plan and option plans and<br>stock-based compensation,<br>including tax benefit of \$323 | 24,627  | 1,264,935              | 13                      | 24,614                           | —  | —   | —                           |
| Parent cash dividends<br>declared   | (302,658 )                                      | —                      | —                       | —                                | (302,658 )   | —   | —                           |
| Foreign currency translation<br>adjustments   | (89,769 )                                       | —                      | —                       | —                                | —  | (88,545 )   | (1,224 )                    |
| Market value adjustments<br>for securities  | (111 )  | —                      | —                       | —                                | —  | (111 )  | —                           |
| Net income (loss)   | 119,263   | —                      | —                       | —                                | 117,536  | —   | 1,727                       |
| Noncontrolling interests<br>dividends   | (1,530 )  | —                      | —                       | —                                | —  | —   | (1,530 )                    |
| Balance, September 30,<br>2015  | \$619,777                                       | 211,083,747            | \$ 2,111                | \$ 1,613,455                     | \$ (844,675 )  | \$ (163,687 )                                       | \$ 12,573                   |

|   | Iron Mountain Incorporated Stockholders' Equity |                        |                         |                                  |  |   |                             |
|---|---|------------------------|-------------------------|----------------------------------|--|---|-----------------------------|
|   | Total   | Common Stock<br>Shares | Common Stock<br>Amounts | Additional<br>Paid-in<br>Capital | (Distributions<br>in Excess of<br>Earnings)<br>Earnings in<br>Excess of<br>Distributions | Accumulated<br>Other<br>Comprehensive<br>Items, Net | Noncontrolling<br>Interests |
| Balance, December 31,<br>2015   | \$528,607                                       | 211,340,296            | \$ 2,113                | \$ 1,623,863                     | \$ (942,218 )  | \$ (174,917 )                                       | \$ 19,766                   |
| Issuance of shares under<br>employee stock purchase<br>plan and option plans and<br>stock-based<br>compensation, including<br>tax benefit of \$91 | 48,545  | 1,851,304              | 19                      | 48,526                           | —  | —   | —                           |
| Issuance of shares in<br>connection with the<br>acquisition of Recall   | 1,835,026                                       | 50,233,412             | 502                     | 1,834,524                        | —  | —   | —                           |

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|   |             |             |         |             |               |              |          |   |
|---|-------------|-------------|---------|-------------|---------------|--------------|----------|---|
| Holdings Limited (see Note 4)                 |             |             |         |             |               |              |          |   |
| Parent cash dividends declared                | (360,076 )  | —           | —       | —           | (360,076 )    | —            | —        | — |
| Foreign currency translation adjustments      | 38,071      | —           | —       | —           | —             | 37,205       | 866      |   |
| Market value adjustments for securities       | (734 )      | —           | —       | —           | —             | (734 )       | —        |   |
| Net income (loss)                             | 57,708      | —           | —       | —           | 55,886        | —            | 1,822    |   |
| Noncontrolling interests equity contributions | 1,299       | —           | —       | —           | —             | —            | 1,299    |   |
| Noncontrolling interests dividends            | (1,698 )    | —           | —       | —           | —             | —            | (1,698 ) |   |
| Purchase of noncontrolling interests          | 3,506       | —           | —       | —           | —             | —            | 3,506    |   |
| Balance, September 30, 2016                   | \$2,150,254 | 263,425,012 | \$2,634 | \$3,506,913 | \$(1,246,408) | \$(138,446 ) | \$25,561 |   |

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

Table of ContentsIRON MOUNTAIN INCORPORATED  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

|  | Nine Months Ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2015                               | 2016         |
| Cash Flows from Operating Activities:  |                                    |              |
| Net income (loss)  | \$ 119,263                         | \$ 57,708    |
| (Income) loss from discontinued operations   | —                                  | (3,628 )     |
| Adjustments to reconcile net income (loss) to cash flows from operating activities:  |                                    |              |
| Depreciation   | 226,497                            | 267,280      |
| Amortization (includes deferred financing costs and bond discount of \$6,443 and \$9,241, for the nine months ended September 30, 2015 and 2016, respectively) | 39,938                             | 68,857       |
| Stock-based compensation expense   | 20,936                             | 21,870       |
| (Benefit) Provision for deferred income taxes  | (10,317 )                          | (22,196 )    |
| Loss on early extinguishment of debt, net  | 2,156                              | 9,283        |
| (Gain) Loss on disposal/write-down of property, plant and equipment, net (including real estate)   | (352 )                             | (1,490 )     |
| Anticipated loss on disposal of assets held for sale   | —                                  | 14,000       |
| Foreign currency transactions and other, net   | 39,006                             | 24,006       |
| Changes in Assets and Liabilities (exclusive of acquisitions):   |                                    |              |
| Accounts receivable  | 11,096                             | (6,996 )     |
| Prepaid expenses and other   | 2,687                              | (642 )       |
| Accounts payable   | (23,977 )                          | (39,073 )    |
| Accrued expenses and deferred revenue  | (105,538 )                         | 39,553       |
| Other assets and long-term liabilities   | (1,300 )                           | (9,580 )     |
| Cash Flows from Operating Activities - Continuing Operations   | 320,095                            | 418,952      |
| Cash Flows from Operating Activities - Discontinued Operations   | —                                  | 3,640        |
| Cash Flows from Operating Activities   | 320,095                            | 422,592      |
| Cash Flows from Investing Activities:  |                                    |              |
| Capital expenditures   | (202,581 )                         | (246,029 )   |
| Cash paid for acquisitions, net of cash acquired   | (27,975 )                          | (276,371 )   |
| Decrease in restricted cash  | 33,860                             | —            |
| Acquisition of customer relationships  | (20,208 )                          | (24,756 )    |
| Customer inducements   | (14,955 )                          | (16,099 )    |
| Net proceeds from divestments (see Note 10)  | —                                  | 53,950       |
| Proceeds from sales of property and equipment and other, net (including real estate)   | 2,032                              | 2,197        |
| Cash Flows from Investing Activities - Continuing Operations   | (229,827 )                         | (507,108 )   |
| Cash Flows from Investing Activities - Discontinued Operations   | —                                  | (12 )        |
| Cash Flows from Investing Activities   | (229,827 )                         | (507,120 )   |
| Cash Flows from Financing Activities:  |                                    |              |
| Repayment of revolving credit, term loan and bridge facilities and other debt  | (8,539,577 )                       | (11,560,385) |
| Proceeds from revolving credit, term loan and bridge facilities and other debt   | 8,142,443                          | 11,427,389   |
| Net proceeds from sales of senior notes  | 985,000                            | 925,443      |
| Debt financing and equity contribution from noncontrolling interests   | —                                  | 1,299        |
| Debt repayment and equity distribution to noncontrolling interests   | (1,260 )                           | (1,305 )     |
| Parent cash dividends  | (303,712 )                         | (360,462 )   |
| Net proceeds (payments) associated with employee stock-based awards  | 13,988                             | 26,374       |

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|  |           |             |
|--|-----------|-------------|
| Excess tax benefit (deficiency) from stock-based compensation  | 323       | 91          |
| Payment of debt financing and stock issuance costs             | (11,665 ) | (17,107 )   |
| Cash Flows from Financing Activities - Continuing Operations   | 285,540   | 441,337     |
| Cash Flows from Financing Activities - Discontinued Operations | —         | —           |
| Cash Flows from Financing Activities                           | 285,540   | 441,337     |
| Effect of Exchange Rates on Cash and Cash Equivalents          | (8,842 )  | (27,062 )   |
| Increase (Decrease) in Cash and Cash Equivalents               | 366,966   | 329,747     |
| Cash and Cash Equivalents, Beginning of Period                 | 125,933   | 128,381     |
| Cash and Cash Equivalents, End of Period                       | \$492,899 | \$458,128   |
| Supplemental Information:                                      |           |             |
| Cash Paid for Interest   | \$218,863 | \$226,770   |
| Cash Paid for Income Taxes, Net                                | \$33,411  | \$49,776    |
| Non-Cash Investing and Financing Activities:                   |           |             |
| Capital Leases   | \$28,598  | \$45,997    |
| Accrued Capital Expenditures                                   | \$29,626  | \$47,900    |
| Dividends Payable  | \$5,123   | \$5,193     |
| Fair Value of Stock Issued for Recall Transaction (see Note 4) | \$—       | \$1,835,026 |

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

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IRON MOUNTAIN INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(1) General

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

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

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

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

(2) Summary of Significant Accounting Policies

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

a. Foreign Currency

Local currencies are the functional currencies for our operations outside the United States, with the exception of certain foreign holding companies and our financing centers in Europe, whose functional currency is the United States dollar. In those instances where the local currency is the functional currency, assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period. Resulting translation adjustments are reflected in the accumulated other comprehensive items, net component of Iron Mountain Incorporated Stockholders' Equity and Noncontrolling Interests in the accompanying Consolidated Balance Sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (1) our previously outstanding 6<sup>3</sup>/<sub>4</sub>% Euro Senior Subordinated Notes due 2018 (the "6<sup>3</sup>/<sub>4</sub>% Notes"), (2) borrowings in certain foreign currencies under our Revolving Credit Facility (as defined in Note 5) and (3) certain foreign currency denominated intercompany obligations of our foreign subsidiaries to us and between our foreign subsidiaries, which are not considered permanently invested, are included in Other Expense (Income), Net, in the accompanying Consolidated Statements of Operations.



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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

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

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

|   | Three Months<br>Ended<br>September 30,<br>2015 |          | Nine Months<br>Ended<br>September 30,<br>2016 |          |
|---|--|----------|---|----------|
| Total loss on foreign currency transactions | \$32,539                                       | \$10,685 | \$56,461                                      | \$15,336 |

## b. Goodwill and Other Intangible Assets

## Goodwill and indefinite-lived intangible assets

We have selected October 1 as our annual goodwill impairment review date. We performed our most recent annual goodwill impairment review as of October 1, 2015 and concluded there was no impairment of goodwill at such date. As of December 31, 2015, no factors were identified that would alter our October 1, 2015 goodwill analysis. While several of our reporting units were impacted by our acquisition of Recall, no factors were identified as of September 30, 2016 that would indicate an impairment of goodwill. 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.

Refer to our Annual Report for information regarding the composition of our reporting units as of December 31, 2015.

The carrying value of goodwill, net for each of our reporting units as of December 31, 2015 was as follows:

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

(1) This reporting unit is included in the North American Records and Information Management Business segment.

(2) This reporting unit is included in the North American Data Management Business segment.

(3) This reporting unit is included in the Corporate and Other Business segment.

(4) This reporting unit is included in the Western European Business segment.

(5) This reporting unit is included in the Other International Business segment.

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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)

In the third quarter of 2016, as a result of changes in the management of our businesses included in our Western European Business segment, we reassessed the composition of our reporting units. As a result of this reassessment, we determined that the businesses included in our former UKI reporting unit were now being managed in conjunction with the businesses included in our former Continental Western Europe reporting unit. As a result, as of September 30, 2016, we have concluded that our Western European Business segment consists of one reporting unit, which is referred to herein as the Western Europe reporting unit.

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

North American Records and Information Management - includes the goodwill associated with the records and information management businesses of Recall in the United States and Canada.

North American Secure Shredding - includes the goodwill associated with the secure shredding businesses of Recall in the United States and Canada.

North American Data Management - includes the goodwill associated with the data management businesses of Recall in the United States and Canada.

Western Europe - includes the goodwill associated with the operations of Recall in Belgium, France, Germany, Spain, Switzerland and the United Kingdom as well as the goodwill associated with the document management solutions (“DMS”) operations of Recall in Sweden.

Northern and Eastern Europe - this reporting unit consists of our former Emerging Markets - Europe reporting unit (as described in our Annual Report), and includes the goodwill associated with the operations of Recall in Denmark, Finland and Norway, as well as the goodwill associated with the records and information management operations of Recall in Sweden. This reporting unit is included in the Other International Business segment.

Latin America - includes the goodwill associated with the operations of Recall in Brazil and Mexico.

Australia and New Zealand - this reporting unit consists of the goodwill associated with the Australia Retained Business (as defined in Note 4), which was a component of our former Australia reporting unit, as well as the operations of Recall in Australia and New Zealand. This reporting unit is included in the Other International Business segment.

Southeast Asia - includes the goodwill associated with the operations of Recall in China, Hong Kong, Malaysia, Singapore, Taiwan and Thailand.

Africa and India - includes the goodwill associated with the operations of Recall in India.

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## 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, 2016 is as follows:

|   | Carrying<br>Value<br>as of<br>September<br>30, 2016 |
|---|---|
| North American Records and Information Management | \$2,058,150   |
| North American Secure Shredding                   | 148,905   |
| North American Data Management                    | 499,644   |
| Adjacent Businesses - Data Centers                | —   |
| Adjacent Businesses - Consumer Storage            | 4,636   |
| Adjacent Businesses - Fine Arts                   | 22,911  |
| Western Europe                                    | 454,531   |
| Northern and Eastern Europe(1)                    | 142,285   |
| Latin America                                     | 180,664   |
| Australia and New Zealand                         | 152,387   |
| Southeast Asia                                    | 177,512   |
| Africa and India(2)                               | 20,185  |
| Total   | \$3,861,810   |

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(1) Included in this reporting unit at September 30, 2016 is the goodwill associated with our March 2016 acquisition of Archyvu Sistemas as more fully disclosed in Note 4.

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

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## 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, 2016 are as follows:

|  | North<br>American<br>Records and<br>Information<br>Management<br>Business | North<br>American<br>Data<br>Management<br>Business | Western<br>European<br>Business | Other<br>International<br>Business | Corporate<br>and<br>Other<br>Business | Total<br>Consolidated |
|--|---|---|---------------------------------|------------------------------------|---------------------------------------|-----------------------|
| Gross Balance as of December 31, 2015                            | \$ 1,620,425  | \$ 423,606  | \$ 381,149                      | \$ 225,626                         | \$ 26,186                             | \$ 2,676,992          |
| Deductible goodwill acquired during the year                     | —   | —   | —                               | —                                  | —                                     | —                     |
| Non-deductible goodwill acquired during the year                 | 790,250   | 128,669   | 161,005                         | 474,576                            | 215                                   | 1,554,715             |
| Goodwill reclassified as assets held for sale (see Note 10)      | (3,332 )  | —   | —                               | (40,089 )                          | —                                     | (43,421 )             |
| Fair value and other adjustments(1)                              | (157 )  | —   | —                               | (486 )                             | 1,146                                 | 503                   |
| Currency effects   | 4,921   | 1,161   | (30,939 )                       | 13,462                             | —                                     | (11,395 )             |
| Gross Balance as of September 30, 2016                           | \$ 2,412,107  | \$ 553,436  | \$ 511,215                      | \$ 673,089                         | \$ 27,547                             | \$ 4,177,394          |
| Accumulated Amortization Balance as of December 31, 2015         | \$ 204,681  | \$ 53,699   | \$ 57,505                       | \$ 129                             | \$ —                                  | \$ 316,014            |
| Currency effects   | 371   | 93  | (821 )                          | (73 )                              | —                                     | (430 )                |
| Accumulated Amortization Balance as of September 30, 2016        | \$ 205,052  | \$ 53,792   | \$ 56,684                       | \$ 56                              | \$ —                                  | \$ 315,584            |
| Net Balance as of December 31, 2015                              | \$ 1,415,744  | \$ 369,907  | \$ 323,644                      | \$ 225,497                         | \$ 26,186                             | \$ 2,360,978          |
| Net Balance as of September 30, 2016                             | \$ 2,207,055  | \$ 499,644  | \$ 454,531                      | \$ 673,033                         | \$ 27,547                             | \$ 3,861,810          |
| Accumulated Goodwill Impairment Balance as of December 31, 2015  | \$ 85,909   | \$ —  | \$ 46,500                       | \$ —                               | \$ —                                  | \$ 132,409            |
| Accumulated Goodwill Impairment Balance as of September 30, 2016 | \$ 85,909   | \$ —  | \$ 46,500                       | \$ —                               | \$ —                                  | \$ 132,409            |

Total fair value and other adjustments primarily include net adjustments of \$685 related to property, plant and (1) equipment and customer relationship intangible assets, partially offset by \$182 of cash received related to certain acquisitions completed in 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)

## Finite-lived intangible assets

Customer relationship intangible assets, which are acquired through either business combinations or acquisitions of customer relationships, are amortized over periods ranging from 10 to 30 years. The value of customer relationship intangible assets is calculated based upon estimates of their fair value utilizing an income approach based on the present value of expected future cash flows.

Costs related to the acquisition of large volume accounts are capitalized. Free intake costs to transport boxes to one of our facilities, which include labor and transportation charges ("Move Costs"), are amortized over periods ranging from one to 30 years, and are included in depreciation and amortization in the accompanying Consolidated Statements of Operations. Payments that are made to a customer's current records management vendor in order to terminate the customer's existing contract with that vendor, or direct payments to a customer ("Permanent Withdrawal Fees"), are amortized over periods ranging from one to 15 years and are included in storage and service revenue in the accompanying Consolidated Statements of Operations. Move Costs and Permanent Withdrawal Fees are collectively referred to as "Customer Inducements". If the customer terminates its relationship with us, the unamortized carrying value of the Customer Inducement intangible asset is charged to expense or revenue. However, in the event of such termination, we generally collect, and record as income, permanent removal fees that generally equal or exceed the amount of the unamortized Customer Inducement intangible asset.

Other intangible assets, including noncompetition agreements and trademarks, are capitalized and amortized over periods ranging from five to 10 years.

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

|  | December 31, 2015     |                          |                     | September 30, 2016    |                          |                     |
|--|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationship intangible assets and Customer Inducements | \$937,174             | \$(333,860)              | \$603,314           | \$1,684,891           | \$(378,880)              | \$1,306,011         |
| Core Technology(1)   | 3,370                 | (3,370)                  | —                   | 1,625                 | (1,625)                  | —                   |
| Trademarks and Non-Compete Agreements(1)                         | 7,741                 | (4,955)                  | 2,786               | 24,448                | (6,985)                  | 17,463              |
| Total  | \$948,285             | \$(342,185)              | \$606,100           | \$1,710,964           | \$(387,490)              | \$1,323,474         |

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

Amortization expense associated with finite-lived intangible assets and deferred financing costs for the three and nine months ended September 30, 2015 and 2016 is as follows:

|  | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2015 | September 30, 2016 | September 30, 2015 | September 30, 2016 |
| Amortization expense associated with finite-lived intangible assets and deferred financing costs | \$13,094           | \$29,899           | \$39,939           | \$68,857           |

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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)

## c. Stock-Based Compensation

We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock units ("RSUs"), performance units ("PUs") and shares of stock issued under our employee stock purchase plan ("ESPP") (together, "Employee Stock-Based Awards").

Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations for the three and 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 for the three and nine months ended September 30, 2016 was \$5,957 (\$4,245 after tax or \$0.02 per basic and diluted share) and \$21,870 (\$16,170 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 is as follows:

|   | Three Months Ended |         | Nine Months Ended |          |
|---|--------------------|---------|-------------------|----------|
|   | September 30,      |         | September 30,     |          |
|   | 2015               | 2016    | 2015              | 2016     |
| Cost of sales (excluding depreciation and amortization) | \$65               | \$28    | \$156             | \$80     |
| Selling, general and administrative expenses            | 6,094              | 5,929   | 20,780            | 21,790   |
| Total stock-based compensation                          | \$6,159            | \$5,957 | \$20,936          | \$21,870 |

The benefits associated with the tax deductions in excess of recognized compensation cost are required to be reported as financing activities in the accompanying Consolidated Statements of Cash Flows. This requirement impacts reported operating cash flows and reported financing cash flows. As a result, net financing cash flows included \$323 and \$91 for the nine months ended September 30, 2015 and 2016, respectively, from the benefit of tax deductions compared to recognized compensation cost. The tax benefit of any resulting excess tax deduction increases the Additional Paid-in Capital ("APIC") pool. Any resulting tax deficiency is deducted from the APIC pool.

## Stock Options

A summary of our stock options outstanding as of September 30, 2016 by vesting terms is as follows:

|  | September 30, 2016        |                                |   |
|--|---------------------------|--------------------------------|---|
|  | Stock Options Outstanding | % of Stock Options Outstanding |   |
| Three-year vesting period (10 year contractual life) | 2,826,698                 | 76.3                           | % |
| Five-year vesting period (10 year contractual life)  | 622,057                   | 16.8                           | % |
| Ten-year vesting period (12 year contractual life)   | 255,255                   | 6.9                            | % |
|  | 3,704,010                 |                                |   |

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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 weighted average fair value of stock options granted for the nine months ended September 30, 2015 and 2016 was \$4.88 and \$2.55 per share, respectively. These values were estimated on the date of grant using the Black-Scholes stock option pricing model. The weighted average assumptions used for grants in the respective period are as follows:

| Weighted Average Assumptions | Nine Months Ended |           |   |
|------------------------------|-------------------|-----------|---|
|                              | September 30,     |           |   |
|                              | 2015              | 2016      |   |
| Expected volatility          | 28.4              | % 27.2    | % |
| Risk-free interest rate      | 1.70              | % 1.32    | % |
| Expected dividend yield      | 5                 | % 7       | % |
| Expected life                | 5.5 years         | 5.6 years |   |

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

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

|   | Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Average Intrinsic Value |
|---|---------------|---------------------------------|---|-------------------------|
| Outstanding at December 31, 2015          | 3,688,814     | \$ 27.79                        |   |                         |
| Granted                                   | 1,435,879     | 34.02                           |   |                         |
| Exercised                                 | (1,373,290)   | 24.12                           |   |                         |
| Forfeited                                 | (35,927 )     | 32.43                           |   |                         |
| Expired                                   | (11,466 )     | 30.50                           |   |                         |
| Outstanding at September 30, 2016         | 3,704,010     | \$ 31.51                        | 7.08  | \$26,628                |
| Options exercisable at September 30, 2016 | 1,553,980     | \$ 26.08                        | 4.54  | \$19,208                |
| Options expected to vest                  | 2,025,402     | \$ 35.44                        | 8.91  | \$7,020                 |

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

|  | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2015 | September 30, 2016 | September 30, 2015 | September 30, 2016 |
| Aggregate intrinsic value of stock options exercised | \$1,985            | \$5,433            | \$7,868            | \$16,792           |

## Restricted Stock Units

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

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

over the purchase price (which is typically zero).

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## 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)

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

|                                | Three Months Ended September 30, |       | Nine Months Ended September 30, |         |
|--------------------------------|----------------------------------|-------|---------------------------------|---------|
|                                | 2015                             | 2016  | 2015                            | 2016    |
| Cash dividends accrued on RSUs | \$616                            | \$620 | \$1,917                         | \$1,867 |
| Cash dividends paid on RSUs    | 270                              | 129   | 2,570                           | 1,960   |

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

|                           | Three Months Ended September 30, |         | Nine Months Ended September 30, |          |
|---------------------------|----------------------------------|---------|---------------------------------|----------|
|                           | 2015                             | 2016    | 2015                            | 2016     |
| Fair value of RSUs vested | \$2,377                          | \$1,486 | \$21,561                        | \$19,271 |

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

|                                  | RSUs       | Weighted-Average Grant-Date Fair Value |
|----------------------------------|------------|--|
| Non-vested at December 31, 2015  | 1,217,597  | \$ 33.68                               |
| Granted                          | 671,385    | 32.36                                  |
| Vested                           | (575,875 ) | 33.47                                  |
| Forfeited                        | (59,627 )  | 33.74                                  |
| Non-vested at September 30, 2016 | 1,253,480  | \$ 33.07                               |

## Performance Units

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

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

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





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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)

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

|                               | Three<br>Months<br>Ended<br>September<br>30,<br>2015 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |       |
|-------------------------------|--|-------|---|-------|
| Cash dividends accrued on PUs | \$222  | \$264 | \$647   | \$789 |
| Cash dividends paid on PUs    | —  | —     | 1,015   | 645   |

During the nine months ended September 30, 2016, we issued 230,052 PUs. The majority of our PUs are earned based on our performance against revenue and ROIC targets during their applicable performance period; therefore, we forecast the likelihood of achieving the predefined revenue and ROIC targets in order to calculate the expected PUs to be earned. We record a compensation charge based on either the forecasted PUs to be earned (during the performance period) or the actual PUs earned (at the three-year anniversary of the grant date) over the vesting period for each of the awards. For PUs earned based on a market condition, we utilize a Monte Carlo simulation to fair value these awards at the date of grant, and such fair value is expensed over the three-year performance period. As of September 30, 2016, we expected 0%, 50% and 100% achievement of the predefined revenue and ROIC targets associated with the awards of PUs made in 2014, 2015 and 2016, respectively.

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

|                                      | Three<br>Months<br>Ended<br>September<br>30,<br>2015 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|--------------------------------------|--|-------|---|---------|
| Fair value of earned PUs that vested | \$ —   | \$ 17 | \$2,107                                       | \$5,272 |

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

|   | Original<br>PU<br>Awards | PU<br>Adjustment(1) | Total<br>PU<br>Awards | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|---|--------------------------|---------------------|-----------------------|--|
| Non-vested at December 31, 2015                         | 520,764                  | (86,959 )           | 433,805               | \$ 34.11   |
| Granted   | 230,052                  | —                   | 230,052               | 35.84  |
| Vested  | (148,855)                | —                   | (148,855)             | 35.42  |
| Forfeited/Performance or Market Conditions Not Achieved | (7,690 )                 | (34,079 )           | (41,769 )             | 42.87  |
| Non-vested at September 30, 2016                        | 594,271                  | (121,038 )          | 473,233               | \$ 33.77   |

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

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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)

As of September 30, 2016, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$43,137 and is expected to be recognized over a weighted-average period of 2.0 years. We generally issue shares of our common stock for the exercises of stock options, RSUs, PUs and shares of our common stock under our ESPP from unissued reserved shares.

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

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

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

|  | Three Months Ended |             | Nine Months Ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
|  | 2015               | 2016        | 2015              | 2016        |
| Income (loss) from continuing operations   | \$23,517           | \$ 5,759    | \$119,263         | \$ 54,080   |
| Less: Net income (loss) attributable to noncontrolling interests                                   | 407                | 720         | 1,727             | 1,822       |
| Income (loss) from continuing operations (utilized in numerator of Earnings Per Share calculation) | \$23,110           | \$ 5,039    | \$117,536         | \$ 52,258   |
| Income (loss) from discontinued operations, net of tax   | \$—                | \$ 2,041    | \$—               | \$ 3,628    |
| Net income (loss) attributable to Iron Mountain Incorporated                                       | \$23,110           | \$ 7,080    | \$117,536         | \$ 55,886   |
| Weighted-average shares—basic  | 210,912,000        | 213,269,000 | 210,616,000       | 214,394,000 |
| Effect of dilutive potential stock options   | 621,615            | 640,202     | 934,553           | 628,263     |
| Effect of dilutive potential RSUs and PUs  | 382,995            | 592,773     | 530,252           | 497,658     |
| Weighted-average shares—diluted  | 211,916,610        | 214,501,975 | 212,080,805       | 215,519,921 |
| Earnings (losses) per share—basic:   |                    |             |                   |             |
| Income (loss) from continuing operations   | \$0.11             | \$ 0.02     | \$0.57            | \$ 0.22     |
| Income (loss) from discontinued operations, net of tax   | —                  | 0.01        | —                 | 0.02        |
| Net income (loss) attributable to Iron Mountain Incorporated(1)                                    | \$0.11             | \$ 0.03     | \$0.56            | \$ 0.23     |
| Earnings (losses) per share—diluted:   |                    |             |                   |             |
| Income (loss) from continuing operations   | \$0.11             | \$ 0.02     | \$0.56            | \$ 0.22     |
| Income (loss) from discontinued operations, net of tax   | —                  | 0.01        | —                 | 0.02        |
| Net income (loss) attributable to Iron Mountain Incorporated(1)                                    | \$0.11             | \$ 0.03     | \$0.55            | \$ 0.23     |
| Antidilutive stock options, RSUs and PUs, excluded from the calculation                            | 2,262,827          | 759,478     | 1,318,811         | 1,725,249   |

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(1) Columns may not foot due to rounding.

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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)

e. Income Taxes

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

Our effective tax rates for the three and nine months ended September 30, 2015 were 14.3% and 18.6%, respectively. Our effective tax rates for the three and nine months ended September 30, 2016 were 81.2% and 46.2%, respectively. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and nine months ended September 30, 2015 were the benefit derived from the dividends paid deduction, differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates, and state income taxes (net of federal tax benefit). In the third quarter of 2015, we recorded a tax benefit of \$4,100 related to the expiration of certain statutes of limitations and an out-of-period tax adjustment (\$9,000 tax benefit) to correct the valuation of certain deferred tax assets associated with the REIT conversion that occurred in 2014. The primary reconciling items between the federal statutory tax rate of 35.0% and our overall effective tax rates in the three and nine months ended September 30, 2016 were the benefit derived from the dividends paid deduction, differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates, and the impact of the \$14,000 charge (described in Note 2.i.) recorded during the third quarter of 2016 related to the anticipated loss on disposal of the Australia Divestment Business (as defined in Note 4), which had no associated tax benefit.

f. Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents (including money market funds and time deposits) and accounts receivable. The only significant concentrations of liquid investments as of December 31, 2015 and September 30, 2016 relate to cash and cash equivalents. At December 31, 2015, we had time deposits with four global banks. At September 30, 2016, we had time deposits with six global banks. We consider the global banks to be large, highly-rated investment-grade institutions. As of December 31, 2015 and September 30, 2016, our cash and cash equivalents were \$128,381 and \$458,128, respectively, including time deposits amounting to \$18,645 and \$18,687, respectively.

g. Fair Value Measurements

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

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

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

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

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



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

| Description                   | Total<br>Carrying<br>Value at<br>December 31,<br>2015     | Fair Value Measurements at<br>December 31, 2015 Using    |   |  |
|-------------------------------|---|--|---|--|
|                               |   | Quoted<br>prices<br>in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Time Deposits(1)              | \$ 18,645   | \$—  | \$ 18,645   | \$ —   |
| Trading Securities            | 10,371  | 9,524  | 857   | (1) —  |
| Available-for-Sale Securities | 624   | 624  | —   | —  |
| Description                   | Total<br>Carrying<br>Value at<br>September<br>30,<br>2016 | Fair Value Measurements at<br>September 30, 2016 Using   |   |  |
|                               |   | Quoted<br>prices<br>in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Time Deposits(1)              | \$ 18,687   | \$—  | \$ 18,687   | \$ —   |
| Trading Securities            | 10,708  | 10,254   | 483   | (1) —  |

(1) Time deposits and certain trading securities are measured based on quoted prices for similar assets and/or subsequent transactions and are included in Prepaid expenses and other in our Consolidated Balance Sheets.

(2) Available-for-sale securities and certain trading securities are measured at fair value using quoted market prices. Disclosures are required in the financial statements for items measured at fair value on a non-recurring basis. We did not have any material items that are measured at fair value on a non-recurring basis at December 31, 2015 and September 30, 2016, with the exception of: (i) goodwill (as disclosed in Note 2.b.); (ii) the assets and liabilities acquired through acquisitions (as disclosed in Note 4); (iii) the Access Contingent Consideration (as defined and disclosed in Note 4); and (iv) assets and liabilities held for sale (as disclosed in Note 10), all of which are based on Level 3 inputs.

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

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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)

## h. Accumulated Other Comprehensive Items, Net

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

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments<br>for<br>Securities | Total       |
|--|---|---|-------------|
| Balance as of June 30, 2015              | \$ (130,752 )                                     | \$ 1,002  | \$(129,750) |
| Other comprehensive (loss) income:       |   |   |             |
| Foreign currency translation adjustments | (33,803 )   | —   | (33,803 )   |
| Market value adjustments for securities  | —   | (134 )  | (134 )      |
| Total other comprehensive (loss) income  | (33,803 )   | (134 )  | (33,937 )   |
| Balance as of September 30, 2015         | \$ (164,555 )                                     | \$ 868  | \$(163,687) |

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments<br>for<br>Securities | Total        |
|--|---|---|--------------|
| Balance as of June 30, 2016              | \$ (149,289 )                                     | \$  | —\$(149,289) |
| Other comprehensive income (loss):       |   |   |              |
| Foreign currency translation adjustments | 10,843  | —   | 10,843       |
| Total other comprehensive income (loss)  | 10,843  | —   | 10,843       |
| Balance as of September 30, 2016         | \$ (138,446 )                                     | \$  | —\$(138,446) |

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

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments<br>for<br>Securities | Total       |
|--|---|---|-------------|
| Balance as of December 31, 2014          | \$ (76,010 )                                      | \$ 979  | \$(75,031 ) |
| Other comprehensive (loss) income:       |   |   |             |
| Foreign currency translation adjustments | (88,545 )   | —   | (88,545 )   |
| Market value adjustments for securities  | —   | (111 )  | (111 )      |
| Total other comprehensive (loss) income  | (88,545 )   | (111 )  | (88,656 )   |
| Balance as of September 30, 2015         | \$ (164,555 )                                     | \$ 868  | \$(163,687) |



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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)

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments<br>for<br>Securities | Total       |
|--|---|---|-------------|
| Balance as of December 31, 2015          | \$(175,651 )                                      | \$ 734  | \$(174,917) |
| Other comprehensive income (loss):       |   |   |             |
| Foreign currency translation adjustments | 37,205  | —   | 37,205      |
| Market value adjustments for securities  | —   | (734 )  | (734 )      |
| Total other comprehensive income (loss)  | 37,205  | (734 )  | 36,471      |
| Balance as of September 30, 2016         | \$(138,446 )                                      | \$ —  | \$(138,446) |

## i. Other Expense (Income), Net

Other expense (income), net for the three and nine months ended September 30, 2015 and 2016 are as follows:

|  | Three Months<br>Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2015                                   | 2016     | 2015                                  | 2016     |
| Foreign currency transaction losses (gains), net | \$32,539                               | \$10,685 | \$56,461                              | \$15,336 |
| Debt extinguishment expense                      | 2,156                                  | —        | 2,156                                 | 9,283    |
| Other, net                                       | 551                                    | 12,617   | 982                                   | 12,387   |
|  | \$35,246                               | \$23,302 | \$59,599                              | \$37,006 |

Other, net for the three and nine months ended September 30, 2016 includes a charge of \$14,000 associated with the anticipated loss on disposal of the Australia Divestment Business. As disclosed in Note 10, we have determined that the Australia Divestment Business met the criteria to be reported as held for sale beginning in the second quarter of 2016. Accordingly, the Australia Divestment Business is reflected in our Consolidated Balance Sheet at the lower of its carrying value or its fair value (less costs to sell). This charge represents the excess of the carrying value of the Australia Divestment Business compared to its fair value (less costs to sell) as of September 30, 2016, based upon the sale price of the business described more fully in Note 13.

## j. Property, Plant and Equipment and Long-Lived Assets

During the three and nine months ended September 30, 2015, we capitalized \$6,844 and \$19,279 of costs, respectively, associated with the development of internal use computer software projects. During the three and nine months ended September 30, 2016, we capitalized \$3,601 and \$12,139 of costs, respectively, associated with the development of internal use computer software projects.

Consolidated (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net for the three and nine months ended September 30, 2015 was \$(141) and \$707, respectively. Losses in the nine months ended September 30, 2015 consisted primarily of the write-off of certain property associated with our North American Records and Information Management Business segment. Consolidated gains on disposal/write-down of property, plant and equipment (excluding real estate), net for the three and nine months ended September 30, 2016 was \$54 and \$1,131, respectively, which were primarily associated with the retirement of leased vehicles accounted for as capital lease assets within our North American Records and Information Management Business segment.

Consolidated gain on sale of real estate was \$850, net of tax of \$209, for the three and nine months ended September 30, 2015, which was associated with the sale of a building in the United Kingdom. Consolidated gain on sale of real estate for the three and nine months ended September 30, 2016 was \$325, net of tax of \$34, associated with the sale of

land in North America.

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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)

k. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 provides guidance for management to reassess revenue recognition as it relates to: (1) transfer of control, (2) variable consideration, (3) allocation of transaction price based on relative standalone selling price, (4) licenses, (5) time value of money, and (6) contract costs. Further disclosures will be required to provide a better understanding of revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"). ASU 2015-14 deferred the effective date of ASU 2014-09 for one year, making it effective for us on January 1, 2018, with early adoption permitted as of January 1, 2017. We will adopt ASU 2014-09 as of January 1, 2018. We are currently evaluating the impact ASU 2014-09 will have on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) ("ASU 2014-15"). ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles of current United States auditing standards. Specifically, the amendments (1) provide a definition of the term "substantial doubt", (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is still present, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for us on January 1, 2017, with early adoption permitted. We will adopt ASU 2014-15 as of January 1, 2017. We do not believe that the adoption of ASU 2014-15 will have an impact on our consolidated financial statements.

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

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU No. 2015-17 eliminates the requirement for reporting entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, reporting entities will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments in ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. ASU 2015-17 is effective for us on January 1, 2017, with early adoption permitted. We are currently evaluating the impact ASU 2015-17 will have on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The pronouncement also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for us on January 1, 2018. We do not believe that the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with

terms of more than 12 months. ASU 2016-02 also will require certain qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for us on January 1, 2019, with early adoption permitted. We are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements.

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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)

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

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 addresses eight specific cash flow changes with the objective of reducing the existing diversity in the practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We adopted ASU 2016-15 during the third quarter of 2016. ASU 2016-15 did not have an impact on our consolidated financial statements.

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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (3) Derivative Instruments and Hedging Activities

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

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

|  | Three Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2016 | 2015 | 2016 |
|--|--|---|------|------|
|--|--|---|------|------|

Net cash (receipts) payments \$(7,024) \$ —\$22,164 \$ —

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

|  | Location of<br>(Gain)<br>Loss<br>Recognized<br>in Income<br>on<br>Derivative<br>Other<br>expense<br>(income),<br>net | Amount of (Gain) Loss<br>Recognized in<br>Income on Derivatives |              |      |      |
|--|--|---|--------------|------|------|
|  |  | 2015  | 2016         | 2015 | 2016 |
| Derivatives Not Designated as<br>Hedging Instruments |  |   |              |      |      |
| Foreign exchange contracts                           |  | \$(301)   | \$ —\$20,113 | \$ — |      |

We have designated a portion of our previously outstanding 6<sup>3</sup>/<sub>4</sub>% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility (discussed more fully in Note 5) as a hedge of net investment of certain of our Euro denominated subsidiaries. For the nine months ended September 30, 2015 and 2016, we designated, on average, 35,151 and 29,858 Euros, respectively, of the previously outstanding 6<sup>3</sup>/<sub>4</sub>% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded the following foreign exchange (losses) gains, net of tax, related to the change in fair value of such debt due to currency translation adjustments, which is a component of accumulated other comprehensive items, net:

|  | Three Months<br>Ended<br>September | Nine Months<br>Ended<br>September 30, |
|--|------------------------------------|---------------------------------------|
|--|------------------------------------|---------------------------------------|

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|  | 30,    |         |         |         |
|--|--------|---------|---------|---------|
|  | 2015   | 2016    | 2015    | 2016    |
| Foreign exchange (losses) gains                                | \$(85) | \$(313) | \$3,381 | \$(901) |
| Less: Tax (benefit) expense on foreign exchange (losses) gains | —      | —       | —       | —       |
| Foreign exchange (losses) gains, net of tax                    | \$(85) | \$(313) | \$3,381 | \$(901) |

As of September 30, 2016, cumulative net gains of \$16,195, net of tax, are recorded in accumulated other comprehensive items, net associated with this net investment hedge.

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(4) Acquisitions

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

a. Acquisition of Recall

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

Regulatory Approvals

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

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

Divestments and Management Pending Sales

i. United States

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

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

Recall’s records and information management facility in Seattle, Washington and certain of Recall’s records and information management facilities in Atlanta, Georgia, including in each case associated tangible and intangible assets (the “Seattle/Atlanta Divestments”).



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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(4) Acquisitions (Continued)

On May 4, 2016, we completed the sale of the Initial United States Divestments to Access CIG, LLC, a privately held provider of information management services throughout the United States ("Access CIG"), for total consideration of approximately \$80,000, subject to adjustments (the "Access Sale"). Of the total consideration, we received \$55,000 in cash proceeds upon closing of the Access Sale, and we are entitled to receive up to \$25,000 of additional cash proceeds on the 27-month anniversary of the closing of the Access Sale (the "Access Contingent Consideration"). Our estimate of the fair value of the Access Contingent Consideration is approximately \$21,400 (which reflects a fair value adjustment of approximately \$2,200 and a present value adjustment of approximately \$1,400), and accordingly, we have recognized a non-trade receivable included in Other, a component of Other Assets, Net in our Consolidated Balance Sheet as of September 30, 2016 for this amount.

The assets subject to the Access Sale were acquired in the Recall Transaction and, therefore, the estimated fair value of the Access Contingent Consideration has been reflected in the allocation of the purchase price for Recall as a component of "Fair Value of Divestments". Our policy related to the recognition of contingent consideration (from a seller's perspective) is to recognize contingent consideration at its estimated fair value upon closing of the transaction. Our policy related to the subsequent measurement of contingent consideration (from a seller's perspective) is (i) to recognize contingent consideration in excess of our original estimate of fair value upon cash receipt of such consideration and (ii) to recognize any impairment of the contingent consideration compared to our original estimate in the period in which we determine such an impairment exists.

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

In October 2016, we entered into an agreement with a potential buyer that provides for the sale of the Seattle/Atlanta Divestments and the Canadian Divestments (as described and defined below) to such potential buyer. This agreement remains subject to approval by the DOJ and the CCB as well as customary closing conditions and, therefore, we can provide no assurances that the DOJ and the CCB will approve the agreement, or that even with such approval that we will complete the sale on the terms agreed, or at all.

ii. Australia

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

Pursuant to the ACCC Undertaking, any prospective purchaser of the Australia Divestment Business is subject to ACCC approval. On October 24, 2016, we received the requisite clearance from the ACCC to sell the Australia Divestment Business and, on October 31, 2016, we completed the sale of the Australia Divestment Business. See Note 13.



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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(4) Acquisitions (Continued)

iii. Canada

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

Recall’s record and information management facilities, including associated tangible and intangible assets and employees, in Edmonton, Alberta and Montreal (Laval), Quebec and certain of Recall’s record and information management facilities, including all associated tangible and intangible assets and employees, in Calgary, Alberta and Toronto, Ontario, (the “Recall Canadian Divestments”); and

One of our records and information management facilities in Vancouver (Burnaby), British Columbia and one of our records and information management facilities in Ottawa, Ontario, including associated tangible and intangible assets and employees (the “Iron Mountain Canadian Divestments”).

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

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

In October 2016, we entered into an agreement with a potential buyer that provides for the sale of the Seattle/Atlanta Divestments and the Canadian Divestments to such potential buyer. This agreement remains subject to approval by the DOJ and the CCB as well as customary closing conditions and, therefore, we can provide no assurances that the DOJ and the CCB will approve the agreement, or that even with such approval that we will complete the sale, on the terms agreed or at all.

iv. United Kingdom

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

management facilities, including associated tangible and intangible assets and employees, in the Scotland Affected Areas (the “UK Divestments”).

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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (4) Acquisitions (Continued)

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

The unaudited consolidated pro forma financial information (the "Pro Forma Financial Information") below summarizes the combined results of us and Recall on a pro forma basis as if the Recall Transaction had occurred on January 1, 2015. The Pro Forma Financial Information is presented for informational purposes and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2015. The Pro Forma Financial Information, for all periods presented, includes adjustments to convert Recall's historical results from International Financial Reporting Standards to GAAP, our current estimates of purchase accounting adjustments (including amortization expenses from acquired intangible assets, depreciation of acquired property, plant and equipment and amortization of favorable and unfavorable leases), stock-based compensation and related tax effects. Through September 30, 2016, we and Recall have collectively incurred \$137,652 of operating expenditures to complete the Recall Transaction (including advisory and professional fees and costs to complete the Divestments required in connection with receipt of regulatory approval and to provide transitional services required to support the divested businesses during a transition period). These operating expenditures have been reflected within the results of operations in the Pro Forma Financial Information as if they were incurred on January 1, 2015. The costs we have incurred to integrate Recall with our existing operations, including moving, severance, facility upgrade, REIT conversion and system upgrade costs are reflected in the Pro Forma Financial Information in the period in which they were incurred.

The Pro Forma Financial Information, for all periods presented, exclude from income (loss) from continuing operations the results of operations of the Initial United States Divestments, the Seattle/Atlanta Divestments, the Recall Canadian Divestments and the UK Divestments, as these businesses are presented as discontinued operations. The results of the Australia Divestment Business and the Iron Mountain Canadian Divestments are included within the results from continuing operations in the Pro Forma Financial Information for all periods presented, as these businesses do not qualify for discontinued operations. The Australia Divestment Business and the Iron Mountain Canadian Divestments, collectively, represent \$23,317 and \$50,759 of total revenues and \$3,595 and \$5,146 of total income from continuing operations for the three and nine months ended September 30, 2015, respectively, and \$15,803 and \$42,954 of total revenues and \$1,986 and \$2,741 of total income from continuing operations for the three and nine months ended September 30, 2016, respectively.

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2015               | 2016      | 2015              | 2016        |
| Total Revenues   | \$927,622          | \$942,822 | \$2,811,211       | \$2,828,033 |
| Income (Loss) from Continuing Operations                     | \$14,530           | \$8,935   | \$(15,654)        | \$89,036    |
| Per Share Income (Loss) from Continuing Operations - Basic   | \$0.05             | \$0.03    | \$(0.07)          | \$0.33      |
| Per Share Income (Loss) from Continuing Operations - Diluted | \$0.05             | \$0.03    | \$(0.07)          | \$0.33      |

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

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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (4) Acquisitions (Continued)

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

## b. Other 2016 Acquisitions

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

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

In August 2016, we reached an agreement in principle under a non-binding memorandum of understanding to acquire the information management operations of Santa Fe Group A/S ("Santa Fe") in ten regions within Europe and Asia (the "Santa Fe Transaction") for approximately 27,000 Euro, or approximately \$30,300, based upon the exchange rate between the United States dollar and the Euro as of September 30, 2016. Santa Fe operates its information management business in Spain, India, Hong Kong, Macau, Indonesia, the Philippines, Singapore, Malaysia, South Korea and Taiwan. The memorandum of understanding between us and Santa Fe is non-binding and any binding agreement we enter into with Santa Fe will be subject to closing conditions; accordingly, we can provide no assurance that we will complete this acquisition, that the acquisition will not be delayed or that the terms of the acquisition will not change.

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

|   | Recall    | Other Fiscal<br>2016 Year<br>Acquisitions<br>(excluding<br>Recall) | Total     |
|---|-----------|--|-----------|
| Cash Paid (gross of cash acquired)(1)       | \$331,834 | \$ 21,817  | \$353,651 |
| Fair Value of Common Stock Issued           | 1,835,026 | —  | 1,835,026 |
| Fair Value of Noncontrolling Interests      | —         | 3,506  | 3,506     |
| Total Consideration                         | 2,166,860 | 25,323   | 2,192,183 |
| Fair Value of Identifiable Assets Acquired: |           |  |           |
| Cash  | 76,531    | 567  | 77,098    |
| Accounts Receivable and Prepaid Expenses    | 204,610   | 2,582  | 207,192   |
| Fair Value of Divestments(2)                | 122,978   | —  | 122,978   |
| Other Assets                                | 47,574    | 541  | 48,115    |
| Property, Plant and Equipment(3)            | 677,509   | 8,409  | 685,918   |

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|  |             |           |             |
|--|-------------|-----------|-------------|
| Customer Relationship Intangible Assets(4)               | 729,514     | 10,614    | 740,128     |
| Debt Assumed   | (789,264 )  | —         | (789,264 )  |
| Accounts Payable, Accrued Expenses and Other Liabilities | (258,937 )  | (8,450 )  | (267,387 )  |
| Deferred Income Taxes                                    | (184,590 )  | (2,720 )  | (187,310 )  |
| Total Fair Value of Identifiable Net Assets Acquired     | 625,925     | 11,543    | 637,468     |
| Goodwill Initially Recorded(5)                           | \$1,540,935 | \$ 13,780 | \$1,554,715 |

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(4) Acquisitions (Continued)

Included in cash paid for acquisitions in the Consolidated Statement of Cash Flows for the nine months ended (1) September 30, 2016 is net cash acquired of \$77,098 and cash received of \$182 related to acquisitions made in previous years.

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

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

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

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

Allocations of the purchase price for acquisitions made in 2016 were based on estimates of the fair value of the net assets acquired and are subject to adjustment upon the finalization of the purchase price allocations. The accounting for business combinations requires estimates and judgments as to expectations for future cash flows of the acquired business, and the allocations of those cash flows to identifiable tangible and intangible assets, in determining the assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, including contingent consideration, are based on management's best estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. The estimates and assumptions underlying the initial valuations are subject to the collection of information necessary to complete the valuations within the measurement periods, which are up to one year from the respective acquisition dates. Assets and liabilities that were acquired and classified as held for sale immediately following the Recall Transaction were valued based on the estimated fair value of the divestment, less costs to sell. The preliminary purchase price allocations that are not finalized as of September 30, 2016 primarily relate to the final assessment of the fair values of intangible assets (primarily customer relationship intangible assets and trademarks), property, plant and equipment (primarily building and racking structures), operating leases, contingencies and income taxes (primarily deferred income taxes) associated with the Recall Transaction.

As the valuation of certain assets and liabilities for purposes of purchase price allocations are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances regarding these assets and liabilities that existed at the acquisition date. Any adjustments to our estimates of purchase price allocation will be made in the periods in which the adjustments are determined and the cumulative effect of such adjustments will be calculated as if the adjustments had been completed as of the acquisition dates. Adjustments recorded during the three months ended September 30, 2016 were not material to our results from operations.

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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

## (5) Debt

Long-term debt is as follows:

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