IRON MOUNTAIN INC
Form 10-Q
April 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended March 31, 2016

OR

o 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 Incorporation or Organization)	(I.R.S. Employer 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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark 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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a	Smaller reporting company o

smaller reporting company)

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

Number of shares of the registrant's Common Stock outstanding at April 22, 2016: 211,952,148

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Part I. Financial Information
Item 1. Unaudited Consolidated Financial Statements
IRON MOUNTAIN INCORPORATED
CONSOLIDATED BALANCE SHEETS
(In Thousands, except Share and Per Share Data)
(Unaudited)

	December 31, 2015	March 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$128,381	$117,945
Accounts receivable (less allowances of $31,447 and $28,683 as of December 31, 2015 and March 31, 2016, respectively)	564,401	574,717
Deferred income taxes	22,179	22,261
Prepaid expenses and other	142,951	116,973
Total Current Assets	857,912	831,896
Property, Plant and Equipment:		
Property, plant and equipment	4,744,236	4,865,424
Less—Accumulated depreciation	(2,247,078)	(2,326,120)
Property, Plant and Equipment, net	2,497,158	2,539,304
Other Assets, net:		
Goodwill	2,360,978	2,400,719
Customer relationships and customer inducements	603,314	618,339
Other	31,225	32,051
Total Other Assets, net	2,995,517	3,051,109
Total Assets	$6,350,587	$6,422,309
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$88,068	$89,974
Accounts payable	219,590	180,259
Accrued expenses	351,061	297,169
Deferred revenue	183,112	181,091
Total Current Liabilities	841,831	748,493
Long-term Debt, net of current portion	4,757,610	4,931,296
Other Long-term Liabilities	71,844	74,356
Deferred Rent	95,693	96,079
Deferred Income Taxes	55,002	50,941
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 211,892,754 shares as of December 31, 2015 and March 31, 2016, respectively)	2,113	2,119
Additional paid-in capital	1,623,863	1,628,971
(Distributions in excess of earnings) Earnings in excess of distributions	(942,218)	(982,532)
Accumulated other comprehensive items, net	(174,917)	(152,160)
Total Iron Mountain Incorporated Stockholders' Equity	508,841	496,398

Noncontrolling Interests	19,766	24,746
Total Equity	528,607	521,144
Total Liabilities and Equity	$6,350,587	$6,422,309

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 March 31,	
	2015	2016
Revenues:		
Storage rental	$458,872	$461,211
Service	290,414	289,479
Total Revenues	749,286	750,690
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	321,654	326,105
Selling, general and administrative	196,414	207,766
Depreciation and amortization	85,951	87,204
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	333	(451)
Total Operating Expenses	604,352	620,624
Operating Income (Loss)	144,934	130,066
Interest Expense, Net (includes Interest Income of $814 and $1,287 for the three months ended March 31, 2015 and 2016, respectively)	64,898	67,062
Other Expense (Income), Net	22,349	(11,937)
Income (Loss) Before Provision (Benefit) for Income Taxes	57,687	74,941
Provision (Benefit) for Income Taxes	15,948	11,900
Net Income (Loss)	41,739	63,041
Less: Net Income (Loss) Attributable to Noncontrolling Interests	643	267
Net Income (Loss) Attributable to Iron Mountain Incorporated	$41,096	$62,774
Earnings (Losses) per Share—Basic:		
Net Income (Loss)	$0.20	$0.30
Net Income (Loss) Attributable to Iron Mountain Incorporated	$0.20	$0.30
Earnings (Losses) per Share—Diluted:		
Net Income (Loss)	$0.20	$0.30
Net Income (Loss) Attributable to Iron Mountain Incorporated	$0.19	$0.30
Weighted Average Common Shares Outstanding—Basic	210,237	211,526
Weighted Average Common Shares Outstanding—Diluted	212,249	212,471
Dividends Declared per Common Share	$0.4747	$0.4853

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

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

	Three Months Ended March 31,	
	2015	2016
Net Income (Loss)	$41,739	$63,041
Other Comprehensive (Loss) Income:		
Foreign Currency Translation Adjustments	(56,175)	23,978
Market Value Adjustments for Securities	23	(734)
Total Other Comprehensive (Loss) Income	(56,152)	23,244
Comprehensive (Loss) Income	(14,413)	86,285
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	542	754
Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated	$(14,955)	$85,531

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					
		Common Stock					
	Total	Shares	Amounts	Additional Paid-in Capital	(Distributions in Excess of Earnings) Earnings in Excess of Distributions	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2014	$869,955	209,818,812	$ 2,098	$ 1,588,841	$ (659,553)	$ (75,031)	$ 13,600
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of $231	1,994	708,425	7	1,987	—	—	—
Parent cash dividends declared	(100,539)	—	—	—	(100,539)	—	—
Currency translation adjustment	(56,175)	—	—	—	—	(56,074)	(101)
Market value adjustments for securities	23	—	—	—	—	23	—
Net income (loss)	41,739	—	—	—	41,096	—	643
Noncontrolling interests dividends	(495)	—	—	—	—	—	(495)
Balance, March 31, 2015	$756,502	210,527,237	$ 2,105	$ 1,590,828	$ (718,996)	$ (131,082)	$ 13,647

		Iron Mountain Incorporated Stockholders' Equity					
		Common Stock					
	Total	Shares	Amounts	Additional Paid-in Capital	(Distributions in Excess of Earnings) Earnings in Excess of Distributions	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2015	$528,607	211,340,296	$ 2,113	$ 1,623,863	$ (942,218)	$ (174,917)	$ 19,766
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax deficiency of $348	5,114	552,458	6	5,108	—	—	—
Parent cash dividends declared	(103,088)	—	—	—	(103,088)	—	—
	23,978	—	—	—	—	23,491	487

Currency translation adjustment							
Market value adjustments for securities	(734)	—	—	—	—	(734)	—
Net income (loss)	63,041	—	—	—	62,774	—	267
Noncontrolling interests equity contributions	1,299	—	—	—	—	—	1,299
Noncontrolling interests dividends	(579)	—	—	—	—	—	(579)
Purchase of noncontrolling interests	3,506	—	—	—	—	—	3,506
Balance, March 31, 2016	$521,144	211,892,754	$ 2,119	$1,628,971	$ (982,532)	$ (152,160)	$ 24,746

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

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IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Three Months Ended March 31, 2015	2016
Cash Flows from Operating Activities:		
Net income (loss)	$41,739	$63,041
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	74,791	75,390
Amortization (includes deferred financing costs and bond discount of $2,092 and $2,749, for the three months ended March 31, 2015 and 2016, respectively)	13,252	14,563
Stock-based compensation expense	6,856	6,885
(Benefit) Provision for deferred income taxes	(3,273)	(6,012)
Loss (Gain) on disposal/write-down of property, plant and equipment, net (including real estate)	333	(451)
Foreign currency transactions and other, net	7,241	(8,534)
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	3,437	(8,151)
Prepaid expenses and other	1,964	30,297
Accounts payable	(17,995)	(30,934)
Accrued expenses and deferred revenue	(121,462)	(55,494)
Other assets and long-term liabilities	(1,371)	518
Cash Flows from Operating Activities	5,512	81,118
Cash Flows from Investing Activities:		
Capital expenditures	(74,776)	(80,852)
Cash paid for acquisitions, net of cash acquired	(6,431)	(19,340)
Decrease in restricted cash	13,860	—
Acquisition of customer relationships	(4,862)	(6,132)
Customer inducements	(4,381)	(1,126)
Proceeds from sales of property and equipment and other, net (including real estate)	410	169
Cash Flows from Investing Activities	(76,180)	(107,281)
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(2,282,261)	(2,384,215)
Proceeds from revolving credit and term loan facilities and other debt	2,450,403	2,509,845
Debt financing and equity contribution from noncontrolling interests	—	1,299
Debt repayment and equity distribution to noncontrolling interests	(388)	(414)
Parent cash dividends	(102,539)	(104,931)
Net proceeds (payments) associated with employee stock-based awards	4,364	(1,975)
Excess tax benefit (deficiency) from stock-based compensation	231	(348)
Payment of debt financing and stock issuance costs	(947)	—
Cash Flows from Financing Activities	68,863	19,261
Effect of Exchange Rates on Cash and Cash Equivalents	(4,523)	(3,534)
(Decrease) Increase in Cash and Cash Equivalents	(6,328)	(10,436)
Cash and Cash Equivalents, Beginning of Period	125,933	128,381
Cash and Cash Equivalents, End of Period	$119,605	$117,945

Supplemental Information:		
Cash Paid for Interest	$90,339	$83,942
Cash Paid (Refund Received) for Income Taxes, net	$10,560	$(3,211)
Non-Cash Investing and Financing Activities:		
Capital Leases	$4,589	$18,005
Accrued Capital Expenditures	$44,335	$42,205
Dividends Payable	$4,183	$3,736

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

(2) Summary of Significant Accounting Policies

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 Switzerland, whose functional currency is the United States dollar. In those instances where the local currency is the functional currency, assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period. Resulting translation adjustments are reflected in the accumulated other comprehensive items, net component of Iron Mountain Incorporated Stockholders' Equity and Noncontrolling Interests in the accompanying Consolidated Balance Sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (1) our previously outstanding $6^3/_4$% Euro Senior Subordinated Notes due 2018 (the "$6^3/_4$% Notes"), (2) borrowings in certain foreign currencies under our revolving credit facility 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.

Total loss (gain) on foreign currency transactions for the three months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31,	
	2015	2016
Total loss (gain) on foreign currency transactions	$22,266	$(12,542)

(In Thousands, Except Share and Per Share Data)

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 and March 31, 2016, no factors were identified that would alter our October 1, 2015 goodwill analysis. In making this assessment, we relied on a number of factors including operating results, business plans, anticipated future cash flows, transactions and marketplace data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. When changes occur in the composition of one or more reporting units, the goodwill is reassigned to the reporting units affected based on their relative fair values.

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

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

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(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.

(In Thousands, Except Share and Per Share Data)

(2) Summary of Significant Accounting Policies (Continued)

The carrying value of goodwill, net for each of our reporting units as of March 31, 2016 is as follows:

	Carrying Value as of March 31, 2016
North American Records and Information Management	$1,351,471
North American Secure Shredding	73,502
North American Data Management	372,264
Adjacent Businesses - Data Centers	—
Adjacent Businesses - Consumer Storage	4,636
Adjacent Businesses - Fine Arts	22,696
UKI	254,688
Continental Western Europe	67,777
Emerging Markets - Europe(1)	94,451
Latin America	84,178
Australia	50,328
Southeast Asia	5,705
Africa and India(2)	19,023
Total	$2,400,719

(1) Included in this reporting unit at March 31, 2016 is the goodwill associated with our March 2016 acquisition of Archyvu Sistemos as more fully described in Note 4.

(2) Included in this reporting unit at March 31, 2016 is the goodwill associated with our March 2016 acquisition of Docufile Holdings Proprietary Limited as more fully described 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 three months ended March 31, 2016 are as follows:

	North American Records and Information Management Business	North American Data Management Business	Western European Business	Other International Business	Corporate and Other Business	Total Consolidated
Gross Balance as of December 31, 2015	$ 1,620,425	$ 423,606	$ 381,149	$ 225,626	$ 26,186	$ 2,676,992
Deductible goodwill acquired during the year	—	—	—	—	—	—
Non-deductible goodwill acquired during the year	—	—	—	15,729	—	15,729
Fair value and other adjustments(1)	(175)	—	—	(133)	1,146	838
Currency effects	9,868	2,473	(1,277)	12,593	—	23,657
Gross Balance as of March 31, 2016	$ 1,630,118	$ 426,079	$ 379,872	$ 253,815	$ 27,332	$ 2,717,216
Accumulated Amortization Balance as of December 31, 2015	$ 204,681	$ 53,699	$ 57,505	$ 129	$ —	$ 316,014
Currency effects	464	116	(98)	1	—	483
Accumulated Amortization Balance as of March 31, 2016	$ 205,145	$ 53,815	$ 57,407	$ 130	$ —	$ 316,497
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 March 31, 2016	$ 1,424,973	$ 372,264	$ 322,465	$ 253,685	$ 27,332	$ 2,400,719
Accumulated Goodwill Impairment Balance as of December 31, 2015	$ 85,909	$ —	$ 46,500	$ —	$ —	$ 132,409
Accumulated Goodwill Impairment Balance as of March 31, 2016	$ 85,909	$ —	$ 46,500	$ —	$ —	$ 132,409

(1) Total fair value and other adjustments primarily include net adjustments of $1,020 related to property, plant and equipment and customer relationships and acquisition costs, 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 the depreciation and amortization line item 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 the storage and service revenue line items 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 March 31, 2016 are as follows:

	December 31, 2015			March 31, 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	$969,963	$(351,624)	$618,339
Core Technology(1)	3,370	(3,370)	—	3,442	(3,442)	—
Trademarks and Non-Compete Agreements(1)	7,741	(4,955)	2,786	8,122	(5,367)	2,755
Total	$948,285	$(342,185)	$606,100	$981,527	$(360,433)	$621,094

(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 months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31,	
	2015	2016
Amortization expense associated with finite-lived intangible assets and deferred financing costs	$13,252	$14,563

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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 months ended March 31, 2015 and 2016 was $6,856 ($4,946 after tax or $0.02 per basic and diluted share) and $6,885 ($4,914 after tax or $0.02 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 March 31,	
	2015	2016
Cost of sales (excluding depreciation and amortization)	$45	$27
Selling, general and administrative expenses	6,811	6,858
Total stock-based compensation	$6,856	$6,885

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 $231 and $(348) for the three months ended March 31, 2015 and 2016, respectively, from the benefit (deficiency) 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 options outstanding by vesting terms is as follows:

	March 31, 2016		
	Options Outstanding	% of Options Outstanding	
Three-year vesting period (ten year contractual life)	3,269,375	67.0	%
Five-year vesting period (ten year contractual life)	1,339,548	27.4	%
Ten-year vesting period (12 year contractual life)	271,138	5.6	%
	4,880,061		

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(In Thousands, Except Share and Per Share Data)

The weighted average fair value of options granted for the three months ended March 31, 2015 and 2016 was $4.99 and $2.49 per share, respectively. These values were estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used for grants in the respective period are as follows:

	Three Months Ended March 31,	
Weighted Average Assumptions	2015	2016
Expected volatility	28.6 %	27.2 %
Risk-free interest rate	1.71 %	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 option. The risk-free interest rate was based on the United States Treasury interest rates whose term is consistent with the expected life (estimated period of time outstanding) of the stock options. Expected dividend yield is considered in the option pricing model and represents our current annualized expected per share dividends over the current trade price of our common stock. The expected life of the stock options granted is estimated using the historical exercise behavior of employees.

A summary of option activity for the three months ended March 31, 2016 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Outstanding at December 31, 2015	3,688,814	$ 27.79		
Granted	1,408,788	33.88		
Exercised	(199,258)	22.51		
Forfeited	(10,526)	34.16		
Expired	(7,757)	26.88		
Outstanding at March 31, 2016	4,880,061	$ 29.75	6.74	$29,299
Options exercisable at March 31, 2016	2,693,160	$ 25.27	4.58	$25,520
Options expected to vest	2,009,861	$ 35.28	9.39	$3,498

The aggregate intrinsic value of stock options exercised for the three months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31,	
	2015	2016
Aggregate intrinsic value of stock options exercised	$4,167	$1,433

Restricted Stock Units

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

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

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Cash dividends accrued and paid on RSUs for the three months ended March 31, 2015 and 2016 are as follows:

	Three Months Ended March 31,	
	2015	2016
Cash dividends accrued on RSUs	$670	$631
Cash dividends paid on RSUs	1,729	1,635

The fair value of RSUs vested during the three months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31,	
	2015	2016
Fair value of RSUs vested	$15,584	$14,978

A summary of RSU activity for the three months ended March 31, 2016 is as follows:

	RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	1,217,597	$ 33.68
Granted	550,285	30.71
Vested	(447,641)	33.46
Forfeited	(20,230)	35.33
Non-vested at March 31, 2016	1,300,011	$ 32.47

Performance Units

Under our various equity compensation plans, we may also make awards of PUs. For the majority of outstanding PUs, the number of PUs earned is determined based on our performance against predefined targets of revenue or revenue growth and return on invested capital ("ROIC"). The number of PUs earned may range from 0% to 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 growth and ROIC targets noted above. The number of PUs earned based on this market condition may range from 0% to 200% of the initial award.

All of our PUs will be settled in shares of our common stock and are subject to cliff vesting three years from the date of the original PU grant. 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 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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(2) Summary of Significant Accounting Policies (Continued)

Cash dividends accrued and paid on PUs for the three months ended March 31, 2015 and 2016 are as follows:

	Three Months Ended March 31, 2015	2016
Cash dividends accrued on PUs	$211	$262
Cash dividends paid on PUs	1,015	645

During the three months ended March 31, 2016, we issued 220,864 PUs. The majority of our PUs are earned based on our performance against revenue or revenue growth and ROIC targets during their applicable performance period; therefore, we forecast the likelihood of achieving the predefined revenue, revenue growth and ROIC targets in order to calculate the expected PUs to be earned. We record a compensation charge based on either the forecasted PUs to be earned (during the 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 March 31, 2016, we expected 0%, 100% and 100% achievement of the predefined revenue, revenue growth 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 months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31, 2015	2016
Fair value of earned PUs that vested	$2,063	$4,081

A summary of PU activity for the three months ended March 31, 2016 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	520,764	(86,959)	433,805	$ 34.11
Granted	220,864	—	220,864	35.09
Vested	(112,581)	—	(112,581)	36.25
Forfeited/Performance or Market Conditions Not Achieved	(2,106)	(34,079)	(36,185)	44.36
Non-vested at March 31, 2016	626,941	(121,038)	505,903	$ 33.33

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(1) Represents an increase or decrease in the number of original PUs awarded based on either (a) the final performance criteria or market condition achievement at the end of the performance period of such PUs or (b) 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 fair market price at the end of the offering period, without a look-back feature. As a result, we do not recognize compensation expense for the ESPP shares purchased. As of March 31, 2016, we had 838,429 shares available under the ESPP.

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As of March 31, 2016, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was $56,121 and is expected to be recognized over a weighted-average period of 2.3 years.
We generally issue shares of our common stock for the exercises of stock options, 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 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 months ended March 31, 2015 and 2016 is as follows:

	Three Months Ended March 31,	
	2015	2016
Net income (loss)	$41,739	$ 63,041
Net income (loss) attributable to Iron Mountain Incorporated	$41,096	$ 62,774
Weighted-average shares—basic	210,237,000	211,526,000
Effect of dilutive potential stock options	1,223,330	482,388
Effect of dilutive potential RSUs and PUs	788,758	463,053
Weighted-average shares—diluted	212,249,088	212,471,441
Earnings (losses) per share—basic:		
Net income (loss)	$0.20	$ 0.30
Net income (loss) attributable to Iron Mountain Incorporated	$0.20	$ 0.30
Earnings (losses) per share—diluted:		
Net income (loss)	$0.20	$ 0.30
Net income (loss) attributable to Iron Mountain Incorporated	$0.19	$ 0.30
Antidilutive stock options, RSUs and PUs, excluded from the calculation	358,233	2,821,795

e. Income Taxes

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. Our effective tax rate is subject to variability in the future due to, among other items: (1) changes in the mix of income between our qualified REIT subsidiaries and our domestic taxable REIT subsidiaries ("TRSs"), as well as between 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 rate for the three months ended March 31, 2015 and 2016 was 27.6% and 15.9% respectively. The primary reconciling item between the federal statutory tax rate of 35% and our overall effective tax rate in the three months ended March 31, 2015 was 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. The primary reconciling items between the federal statutory tax rate of 35% and our overall effective tax rate in the three months ended March 31, 2016 were the benefit derived from the dividends paid deduction and differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates.

f. Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents (including money market funds and time deposits) and accounts receivable. The only significant concentrations of liquid investments as of December 31, 2015 and March 31, 2016 relate to cash and cash equivalents. At December 31, 2015 and March 31, 2016, we had time deposits with four global banks. We consider the global banks to be large, highly-rated investment-grade institutions. As of December 31, 2015 and March 31, 2016, our cash and cash equivalents were $128,381 and $117,945, respectively, including time deposits amounting to $18,645 and $29,611, respectively.

g. Fair Value Measurements

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

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

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

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

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

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

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

		Fair Value Measurements at March 31, 2016 Using		
Description	Total Carrying Value at March 31, 2016	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Time Deposits(1)	$ 29,611	$—	$ 29,611	$ —
Trading Securities	9,242	8,760 (2)	482 (1)	—

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

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

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

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

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h. Accumulated Other Comprehensive Items, Net

The changes in accumulated other comprehensive items, net for the three months ended March 31, 2015 and 2016, respectively, are as follows:

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2014	$(76,010)	$ 979	$(75,031)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(56,074)	—	(56,074)
Market value adjustment for securities	—	23	23
Total other comprehensive (loss) income	(56,074)	23	(56,051)
Balance as of March 31, 2015	$(132,084)	$ 1,002	$(131,082)

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2015	$(175,651)	$ 734	$(174,917)
Other comprehensive income (loss):			
Foreign currency translation adjustments	23,491	—	23,491
Market value adjustments for securities	—	(734)	(734)
Total other comprehensive income (loss)	23,491	(734)	22,757
Balance as of March 31, 2016	$(152,160)	$ —	$(152,160)

i. Other Expense (Income), Net

Other expense (income), net is as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Foreign currency transaction losses (gains), net	$22,266	$(12,542)
Other, net	83	605
	$22,349	$(11,937)

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

During the three months ended March 31, 2015 and 2016, we capitalized $6,040 and $3,403 of costs, respectively, associated with the development of internal use computer software projects.

Consolidated loss on disposal/write-down of property, plant and equipment (excluding real estate), net for the three months ended March 31, 2015 was $333, which was primarily associated with the write-off of certain property associated with our North American Records and Information Management Business segment. Consolidated gain on disposal/write-down of property, plant and equipment (excluding real estate), net for the three months ended March 31, 2016 was $451, which was primarily associated with the retirement of leased vehicles accounted for as capital lease assets within our North American Records and Information Management Business segment.

k. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 provides additional 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 defers 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 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 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.

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(2) Summary of Significant Accounting Policies (Continued)

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

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

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). ASU 2016-07 eliminates the requirement for a reporting entity to apply the equity method of accounting retrospectively when they obtain significant influence over a previously held investment. Furthermore, under ASU 2016-07, for any available-for-sale securities that become eligible for the equity method of accounting, the unrealized gain or loss recorded within other comprehensive income (loss) associated with the securities should be recognized in earnings at the date the investment initially qualifies for the use of the equity method. We adopted ASU 2016-07 on April 1, 2016. The adoption of ASU 2016-07 will 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.

(3) Derivative Instruments and Hedging Activities

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

Net cash payments included in cash from operating activities related to settlements associated with foreign currency forward contracts for the three months ended March 31, 2015 and 2016 are as follows:

	Three Months Ended March 31,	
	2015	2016
Net cash payments	$16,820	$ —

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(3) Derivative Instruments and Hedging Activities (Continued)

Losses for our derivative instruments for the three months ended March 31, 2015 and 2016 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivatives Three Months Ended March 31, 2015	2016
Foreign exchange contracts	Other expense (income), net	$ 28,533	$ —
Total		$ 28,533	$ —

We have designated a portion of our previously outstanding $6^3/_4$% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility (discussed more fully in Note 5) as a hedge of net investment of certain of our Euro denominated subsidiaries. For the three months ended March 31, 2015 and 2016, we designated, on average, 36,000 and 30,218 Euros, respectively, of the previously outstanding $6^3/_4$% Notes and Euro denominated borrowings by IMI under our Revolving Credit Facility as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded the following foreign exchange gains (losses), net of tax, related to the change in fair value of such debt due to currency translation adjustments, which is a component of accumulated other comprehensive items, net:

	Three Months Ended March 31, 2015