

IRON MOUNTAIN INC  
Form 10-Q  
November 08, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**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, 2011

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

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**IRON MOUNTAIN INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or other Jurisdiction of  
Incorporation or Organization)

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

**745 Atlantic Avenue, Boston, MA 02111**  
(Address of Principal Executive Offices, Including Zip Code)

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

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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

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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 small 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)

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 at October 24, 2011: 185,617,679

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**INCORPORATED**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands, except Share and Per Share Data)

(Unaudited)

	December 31, 2010	September 30, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 258,693	\$ 480,879
Restricted cash	35,105	35,109
Accounts receivable (less allowances of \$21,545 and \$23,012, as of December 31, 2010 and September 30, 2011, respectively)	533,070	548,422
Deferred income taxes	37,565	50,955
Prepaid expenses and other	138,643	132,315
Assets of discontinued operations (see Note 10)	202,726	12,263
<b>Total Current Assets</b>	<b>1,205,802</b>	<b>1,259,943</b>
Property, Plant and Equipment:		
Property, plant and equipment	4,178,652	4,208,018
Less Accumulated depreciation	(1,702,825)	(1,812,051)
<b>Property, Plant and Equipment, net</b>	<b>2,475,827</b>	<b>2,395,967</b>
Other Assets, net:		
Goodwill	2,282,137	2,259,087
Customer relationships and acquisition costs	387,779	417,825
Deferred financing costs	29,146	37,169
Other	29,042	21,452
<b>Total Other Assets, net</b>	<b>2,728,104</b>	<b>2,735,533</b>
<b>Total Assets</b>	<b>\$ 6,409,733</b>	<b>\$ 6,391,443</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 96,603	\$ 63,193
Accounts payable	145,089	130,470
Accrued expenses	385,056	392,420
Deferred revenue	173,676	166,096
Liabilities of discontinued operations (see Note 10)	57,222	2,510
<b>Total Current Liabilities</b>	<b>857,646</b>	<b>754,689</b>
Long-term Debt, net of current portion	2,912,465	3,257,213
Other Long-term Liabilities	86,605	52,695
Deferred Rent	95,860	95,567
Deferred Income Taxes	493,895	517,578
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 200,064,066 shares and 186,615,930 shares, as of December 31, 2010 and September 30, 2011, respectively)	2,001	1,866
Additional paid-in capital	1,228,655	774,821
Retained earnings	695,707	924,087
Accumulated other comprehensive items, net	29,482	5,552

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Total Iron Mountain Incorporated Stockholders' Equity	1,955,845	1,706,326
Noncontrolling Interests	7,417	7,375
Total Equity	1,963,262	1,713,701
Total Liabilities and Equity	\$ 6,409,733	\$ 6,391,443

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

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**IRON MOUNTAIN INCORPORATED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, except Per Share Data)

(Unaudited)

	Three Months Ended September 30,	
	2010	2011
<b>Revenues:</b>		
Storage (see Note 2.q.)	\$ 403,670	\$ 428,748
Service (see Note 2.q.)	327,462	343,334
<b>Total Revenues</b>	<b>731,132</b>	<b>772,082</b>
<b>Operating Expenses:</b>		
Cost of sales (excluding depreciation and amortization)	299,622	309,703
Selling, general and administrative	180,156	210,110
Depreciation and amortization	77,235	77,838
Intangible impairments	76,500	53,000
(Gain) Loss on disposal/write-down of property, plant and equipment, net	(9,379)	4,634
<b>Total Operating Expenses</b>	<b>624,134</b>	<b>655,285</b>
Operating Income (Loss)	106,998	116,797
Interest Expense, Net (includes Interest Income of \$162 and \$614 for the three months ended September 30, 2010 and 2011, respectively)	52,054	50,433
Other Expense (Income), Net	(1,856)	16,635
<b>Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes</b>	<b>56,800</b>	<b>49,729</b>
Provision (Benefit) for Income Taxes	29,310	16,258
<b>Income (Loss) from Continuing Operations</b>	<b>27,490</b>	<b>33,471</b>
Income (Loss) from Discontinued Operations (see Note 10), Net of Tax	(178,307)	(2,457)
Gain (Loss) on Sale of Discontinued Operations (see Note 10), Net of Tax		6,911
<b>Net Income (Loss)</b>	<b>(150,817)</b>	<b>37,925</b>
Less: Net Income (Loss) Attributable to Noncontrolling Interests	2,959	587
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (153,776)</b>	<b>\$ 37,338</b>
<b>Earnings (Losses) per Share Basic:</b>		
Income (Loss) from Continuing Operations	\$ 0.14	\$ 0.17
<b>Total Income (Loss) from Discontinued Operations</b>	<b>\$ (0.89)</b>	<b>\$ 0.02</b>
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (0.76)</b>	<b>\$ 0.19</b>
<b>Earnings (Losses) per Share Diluted:</b>		
Income (Loss) from Continuing Operations	\$ 0.14	\$ 0.17
<b>Total Income (Loss) from Discontinued Operations</b>	<b>\$ (0.89)</b>	<b>\$ 0.02</b>
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (0.76)</b>	<b>\$ 0.19</b>

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Weighted Average Common Shares Outstanding Basic	201,249	195,610
Weighted Average Common Shares Outstanding Diluted	201,249	196,717
Dividends Declared per Common Share	\$ 0.0625	\$ 0.2500

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2011</b>
<b>Revenues:</b>		
Storage (see Note 2.q.)	\$ 1,200,048	\$ 1,266,399
Service (see Note 2.q.)	981,447	1,018,864
<b>Total Revenues</b>	<b>2,181,495</b>	<b>2,285,263</b>
<b>Operating Expenses:</b>		
Cost of sales (excluding depreciation and amortization)	905,392	940,568
Selling, general and administrative	576,716	649,806
Depreciation and amortization	228,348	238,695
Intangible impairments	76,500	53,000
(Gain) Loss on disposal/write-down of property, plant and equipment, net	(10,535)	5,146
<b>Total Operating Expenses</b>	<b>1,776,421</b>	<b>1,887,215</b>
Operating Income (Loss)	405,074	398,048
Interest Expense, Net (includes Interest Income of \$952 and \$1,658 for the nine months ended September 30, 2010 and 2011, respectively)	157,587	148,431
Other Expense (Income), Net	11,052	10,339
<b>Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes</b>	<b>236,435</b>	<b>239,278</b>
Provision (Benefit) for Income Taxes	126,792	63,116
<b>Income (Loss) from Continuing Operations</b>	<b>109,643</b>	<b>176,162</b>
Income (Loss) from Discontinued Operations (see Note 10), Net of Tax	(192,869)	(10,831)
Gain (Loss) on Sale of Discontinued Operations (see Note 10), Net of Tax		200,260
<b>Net Income (Loss)</b>	<b>(83,226)</b>	<b>365,591</b>
Less: Net Income (Loss) Attributable to Noncontrolling Interests	3,692	2,109
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (86,918)</b>	<b>\$ 363,482</b>
<b>Earnings (Losses) per Share Basic:</b>		
Income (Loss) from Continuing Operations	\$ 0.54	\$ 0.88
<b>Total Income (Loss) from Discontinued Operations</b>	<b>\$ (0.95)</b>	<b>\$ 0.95</b>
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (0.43)</b>	<b>\$ 1.83</b>
<b>Earnings (Losses) per Share Diluted:</b>		
Income (Loss) from Continuing Operations	\$ 0.54	\$ 0.88
<b>Total Income (Loss) from Discontinued Operations</b>	<b>\$ (0.95)</b>	<b>\$ 0.95</b>
<b>Net Income (Loss) Attributable to Iron Mountain Incorporated</b>	<b>\$ (0.43)</b>	<b>\$ 1.81</b>



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Weighted Average Common Shares Outstanding Basic	202,612	199,164
Weighted Average Common Shares Outstanding Diluted	202,612	200,427
Dividends Declared per Common Share	\$ 0.1875	\$ 0.6875

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	Comprehensive Income (Loss)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Retained Earnings		Noncontrolling Interests
			Shares	Amounts		Items, Net		
<b>Balance, December 31, 2009</b>	\$ 2,157,471	\$	203,546,757	\$ 2,035	\$ 1,298,657	\$ 825,014	\$ 27,661	\$ 4,104
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$1,913	29,992		876,710	9	29,983			
Stock options issued in connection with an acquisition	1,997				1,997			
Stock repurchases	(94,662)		(3,990,634)	(39)	(94,623)			
Parent cash dividends (see Note 9)	(37,893)					(37,893)		
Comprehensive Income (Loss):								
Currency translation adjustment	(5,015)	(5,015)					(5,344)	329
Net income (loss)	(83,226)	(83,226)				(86,918)		3,692
<b>Comprehensive Income (Loss)</b>		\$ (88,241)						
Noncontrolling interests dividends	(1,452)							(1,452)
<b>Balance, September 30, 2010</b>	\$ 1,967,212		200,432,833	\$ 2,005	\$ 1,236,014	\$ 700,203	\$ 22,317	\$ 6,673

**Iron Mountain Incorporated Stockholders' Equity**

	Total	Comprehensive Income (Loss)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Retained Earnings		Noncontrolling Interests
			Shares	Amounts		Items, Net		
<b>Balance, December 31, 2010</b>	\$ 1,963,262	\$	200,064,066	\$ 2,001	\$ 1,228,655	\$ 695,707	\$ 29,482	\$ 7,417
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit	94,486		3,753,404	37	94,449			

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of \$578

Stock repurchases	(548,455)	(17,201,540)	(172)	(548,283)
Parent cash dividends (see Note 9)	(135,102)			(135,102)
<b>Comprehensive Income (Loss):</b>				
Currency translation adjustment	(24,814)	(24,814)		(23,930) (884)
Net income (loss)	365,591	365,591		363,482 2,109

Comprehensive  
Income (Loss)                      \$ 340,777

Noncontrolling interests equity contributions	217			217
Noncontrolling interests dividends	(1,484)			(1,484)

<b>Balance, September 30, 2011</b>	\$ 1,713,701	186,615,930	\$ 1,866	\$ 774,821	\$ 924,087	\$ 5,552	\$ 7,375
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**IRON MOUNTAIN INCORPORATED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In Thousands)****(Unaudited)**

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2011</b>
Net (Loss) Income	\$ (150,817)	\$ 37,925
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	46,993	(66,288)
Total Other Comprehensive Income (Loss)	46,993	(66,288)
Comprehensive (Loss) Income	(103,824)	(28,363)
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	3,672	(452)
Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated	\$ (107,496)	\$ (27,911)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2011</b>
Net (Loss) Income	\$ (83,226)	\$ 365,591
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	(5,015)	(24,814)
Total Other Comprehensive (Loss) Income	(5,015)	(24,814)
Comprehensive (Loss) Income	(88,241)	340,777
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	4,021	1,225
Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated	\$ (92,262)	\$ 339,552

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)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (83,226)	\$ 365,591
(Income) Loss from discontinued operations (see Note 10)	192,869	10,831
(Gain) Loss on sale of discontinued operations (see Note 10)		(200,260)
<b>Adjustments to reconcile net income (loss) to cash flows from operating activities:</b>		
Depreciation	209,438	217,343
Amortization (includes deferred financing costs and bond discount of \$3,985 and \$4,520 for the nine months ended September 30, 2010 and 2011, respectively)	22,895	25,872
Intangible impairments	76,500	53,000
Stock-based compensation expense	13,130	12,442
Provision for deferred income taxes	42,706	14,095
Loss on early extinguishment of debt, net	1,792	993
(Gain) Loss on disposal/writedown of property, plant and equipment, net	(10,535)	5,146
Foreign currency transactions and other, net	20,174	12,090
<b>Changes in Assets and Liabilities (exclusive of acquisitions):</b>		
Accounts receivable	467	(17,153)
Prepaid expenses and other current assets	(8,606)	(4,092)
Accounts payable	(2,947)	875
Accrued expenses, deferred revenue and other current liabilities	(56,890)	(41,541)
Other assets and long-term liabilities	12,944	(5,009)
<b>Cash Flows from Operating Activities - Continuing Operations</b>	<b>430,711</b>	<b>450,223</b>
<b>Cash Flows from Operating Activities - Discontinued Operations</b>	<b>14,325</b>	<b>(39,265)</b>
<b>Cash Flows from Operating Activities</b>	<b>445,036</b>	<b>410,958</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(189,942)	(148,335)
Cash paid for acquisitions, net of cash acquired	(13,222)	(75,172)
Investment in restricted cash	(35,102)	(4)
Additions to customer relationship and acquisition costs	(10,042)	(16,869)
Proceeds from sales of property and equipment and other, net	17,989	3,810
<b>Cash Flows from Investing Activities - Continuing Operations</b>	<b>(230,319)</b>	<b>(236,570)</b>
<b>Cash Flows from Investing Activities - Discontinued Operations</b>	<b>(122,237)</b>	<b>371,338</b>
<b>Cash Flows from Investing Activities</b>	<b>(352,556)</b>	<b>134,768</b>
<b>Cash Flows from Financing Activities:</b>		
Repayment of revolving credit and term loan facilities and other debt	(89,975)	(1,940,741)
Proceeds from revolving credit and term loan facilities and other debt	42,604	2,057,835
Early retirement of senior subordinated notes	(202,584)	(231,255)
Net proceeds from sales of senior subordinated notes		394,000
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	52	531
Stock repurchases	(93,693)	(548,455)
Parent cash dividends	(25,361)	(125,739)
Proceeds from exercise of stock options and employee stock purchase plan	12,440	81,887
Excess tax benefits from stock-based compensation	1,913	578
Payment of debt financing costs		(8,860)
<b>Cash Flows from Financing Activities - Continuing Operations</b>	<b>(354,604)</b>	<b>(320,219)</b>
<b>Cash Flows from Financing Activities - Discontinued Operations</b>	<b>(440)</b>	<b>(415)</b>

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Cash Flows from Financing Activities	(355,044)	(320,634)
Effect of Exchange Rates on Cash and Cash Equivalents	81	(2,906)
(Decrease) Increase in Cash and Cash Equivalents	(262,483)	222,186
Cash and Cash Equivalents, Beginning of Period	446,656	258,693
Cash and Cash Equivalents, End of Period	\$ 184,173	\$ 480,879
Supplemental Information:		
Cash Paid for Interest	\$ 186,356	\$ 162,426
Cash Paid for Income Taxes	\$ 104,351	\$ 124,680
Non-Cash Investing and Financing Activities:		
Capital Leases	\$ 24,949	\$ 25,062
Accrued Capital Expenditures	\$ 25,901	\$ 20,141
Dividends Payable	\$ 12,532	\$ 46,877
Unsettled Purchases of Parent Common Stock	\$ 970	\$ 10,852

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 without audit 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. We are a global, full-service provider of information management and related services for all media in various locations throughout North America, Europe, Latin America and Asia Pacific. We have a diversified customer base comprised of commercial, legal, banking, health care, accounting, insurance, entertainment and government organizations.

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("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 included herein should be read in conjunction with the annual consolidated financial statements and notes for the year ended December 31, 2010 included in our Current Report on Form 8-K filed on September 19, 2011.

In August 2010, Iron Mountain Incorporated ("IMI") divested the domain name management product line of our digital business (the "Domain Name Product Line"). On June 2, 2011, IMI completed the sale (the "Digital Sale") of our online backup and recovery, digital archiving and eDiscovery solutions businesses of our digital business (the "Digital Business") to Autonomy Corporation plc, a corporation formed under the laws of England and Wales ("Autonomy"), pursuant to a purchase and sale agreement dated as of May 15, 2011 among IMI, certain subsidiaries of IMI and Autonomy (the "Digital Sale Agreement"). The financial position, operating results and cash flows of the Domain Name Product Line and the Digital Business, for all periods presented, including the gains on the sales, have been reported as discontinued operations for financial reporting purposes. Additionally, in May 2011, IMI committed to a plan to sell our records management business in New Zealand (the "New Zealand Business"). The New Zealand Business was sold on October 3, 2011. The financial position, operating results and cash flows of the New Zealand Business, for all periods presented, have been reported as discontinued operations for financial reporting purposes. See "Note 10. Discontinued Operations" for a further discussion of these events.

**(2) Summary of Significant Accounting Policies**

a. Principles of Consolidation

The accompanying financial statements reflect our financial position, results of operations and cash flows on a consolidated basis. All intercompany account balances have been eliminated.

b. Cash and Cash Equivalents and Restricted Cash

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

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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)**

We have restricted cash associated with a collateral trust agreement with our insurance carrier that was entered into in 2010 related to our worker's compensation self-insurance program. The restricted cash subject to this agreement was \$35,105 and \$35,109 as of December 31, 2010 and September 30, 2011, respectively, and is included in current assets on our consolidated balance sheets. Restricted cash consists primarily of U.S. Treasuries.

c. Foreign Currency

Local currencies are considered the functional currencies for our operations outside the United States, with the exception of certain foreign holding companies and our financing center in Switzerland, whose functional currencies are the U.S. 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. 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 (a) our 7<sup>1</sup>/<sub>4</sub>% GBP Senior Subordinated Notes due 2014, (b) our 6<sup>3</sup>/<sub>4</sub> Euro Senior Subordinated Notes due 2018, (c) the borrowings in certain foreign currencies under our revolving credit agreement, and (d) 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, on our consolidated statements of operations. The total gain or loss on foreign currency transactions amounted to a net gain of \$3,972 and net loss of \$4,979 for the three and nine months ended September 30, 2010, respectively. The total gain or loss on foreign currency transactions amounted to a net loss of \$15,624 and \$14,381 for the three and nine months ended September 30, 2011, respectively.

d. Goodwill and Other Intangible Assets

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

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, 2010 and noted no impairment of goodwill. As of December 31, 2010 and September 30, 2011, no factors were identified, other than those factors related to our European operations discussed below, that would alter our October 1, 2010 goodwill assessment. In making this assessment, we relied on a number of factors including operating results, business plans, anticipated future cash flows, transactions and marketplace data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. When changes occur in the composition of one or more reporting units, the goodwill is reassigned to the reporting units affected based on their relative fair values. As discussed at



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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)**

Note 10, we recorded a goodwill impairment charge in 2010 associated with our former worldwide digital business reporting unit. For the year ended December 31, 2010, we allocated \$85,909 of this charge (\$76,500 in the third quarter of 2010 and \$9,409 in the fourth quarter of 2010) to the technology escrow services business based on a relative fair value basis. This charge continues to be included in our continuing results of operations as a component of intangible impairments in our consolidated statements of operations as we retained this business following the Digital Sale. Our technology escrow services business, which had been reported in our former worldwide digital business reporting segment, is now reported as a component of our North American Physical Business segment.

In September 2011, as a result of certain changes we made in the manner in which our European operations will be managed, we reorganized our reporting structure and reassigned goodwill among the revised reporting units. Previously, we tested goodwill impairment at the European level on a combined basis. As a result of the management and reporting changes, we concluded that we have three reporting units for our European operations: (1) the United Kingdom, Ireland and Norway ("UKI"), (2) Belgium, France, Germany, Italy, Luxembourg, Netherlands and Spain ("Western Europe") and (3) the remaining countries in Europe ("Central Europe"). Due to these changes, we will perform all future goodwill impairment analysis on the new reporting unit basis. As a result of the restructuring of our reporting units, we concluded that we had an interim triggering event, and, therefore, we performed an interim goodwill impairment test for UKI, Western Europe and Central Europe in the third quarter of 2011. As required by GAAP, prior to our goodwill impairment analysis we performed an impairment test on the long-lived assets within our Western Europe reporting unit. The undiscounted cash flows from our Italian operations were lower than the carrying value of the long-lived assets associated with these operations and resulted in the requirement to fair value the long-lived assets of this lower level component. As a result, we recorded write-offs of other intangible assets, primarily customer relationship values, of \$8,000 during the quarter ending September 30, 2011, associated with our Italian operations which are a component of our Western Europe reporting unit. We also recorded certain write-downs to property, plant and equipment (primarily racking) long-lived assets in Italy as more fully discussed at Note 2.p. Additionally, we concluded that the goodwill of our UKI and Central Europe reporting units were not impaired. Our UKI and Central Europe reporting units have fair values that exceed their carrying values by 15.1% and 5.0%, respectively, as of August 31, 2011. Central Europe is still in the investment stage and accordingly its fair value does not exceed its carrying value by a significant margin at this point in time. A deterioration of the UKI or Central Europe businesses or the businesses not achieving the forecasted results could lead to impairments in future periods. Our Western Europe reporting unit's fair value was less than its carrying value, and, as a result, we recorded a provisional goodwill impairment charge included as a component of intangible impairments in our consolidated statements of operations for the quarter ending September 30, 2011 of \$45,000. An estimated tax benefit of approximately \$6,500 was recorded associated with the Western Europe provisional goodwill impairment charge. The provisional charge is subject to refinement of forecast assumptions and results and valuation analyses necessary to calculate an implied fair value for goodwill. After the provisional impairment, the remaining Western Europe reporting unit goodwill is \$52,588. We will finalize the provisional charge and record any necessary adjustments in the fourth quarter of 2011 (including to the estimated tax benefit).

Table of Contents**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)**

Our reporting units at which level we performed our goodwill impairment analysis as of October 1, 2010 were as follows: North America; Europe; Latin America; Australia and Joint Ventures (which includes India, the various joint ventures in Southeast Asia and Russia (referred to as "Joint Ventures")). As of December 31, 2010, the carrying value of goodwill, net amounted to \$1,750,420, \$440,920, \$29,787 and \$61,010 for North America, Europe, Latin America and Australia, respectively. Our Joint Ventures reporting unit had no goodwill as of December 31, 2010. Our reporting units at which level we will perform our goodwill impairment analysis as of October 1, 2011 are as follows: North America; UKI; Western Europe; Central Europe; Latin America; Australia; and Joint Ventures. As of September 30, 2011, the carrying value of goodwill, net amounted to \$1,742,856, \$312,741, \$52,588, \$63,714, \$27,347, and \$59,841 for North America, UKI, Western Europe, Central Europe, Latin America and Australia, respectively. Our Joint Ventures reporting unit has no goodwill as of September 30, 2011.

Reporting unit valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit or a combined approach based on the present value of future cash flows and market and transaction multiples of revenues and earnings. The income approach incorporates many assumptions including future growth rates, discount factors, expected capital expenditures and income tax cash flows. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

The changes in the carrying value of goodwill attributable to each reportable operating segment for the nine months ended September 30, 2011 is as follows:

	<b>North American Physical Business</b>	<b>International Physical Business</b>	<b>Total Consolidated</b>
Balance as of December 31, 2010	\$ 1,750,420	\$ 531,717	\$ 2,282,137
Deductible goodwill acquired during the year	1,398		1,398
Non-deductible goodwill acquired during the year		35,207	35,207
Goodwill impairment		(45,000)	(45,000)
Fair value and other adjustments(1)	161	(939)	(778)
Currency effects	(9,123)	(4,754)	(13,877)
<b>Balance as of September 30, 2011(2)</b>	<b>\$ 1,742,856</b>	<b>\$ 516,231</b>	<b>\$ 2,259,087</b>

(1) Fair value and other adjustments primarily include \$(836) of adjustments to property, plant and equipment, net, customer relationships and deferred income taxes, as well as \$58 of cash paid related to prior years' acquisitions.

(2) Net of cumulative goodwill impairment charges of \$85,909 (recorded in 2010) and \$45,000 (recorded in 2011) in our North American Physical Business segment and International Physical Business segment, respectively, through September 30, 2011.

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

The components of our amortizable intangible assets at September 30, 2011 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	\$ 592,833	\$ (175,008)	\$ 417,825
Core Technology(1)	3,786	(2,285)	1,501
Trademarks and Non-Compete Agreements(1)	3,061	(2,349)	712
Deferred Financing Costs	54,610	(17,441)	37,169
<b>Total</b>	<b>\$ 654,290</b>	<b>\$ (197,083)</b>	<b>\$ 457,207</b>

(1)

Included in other assets, net in the accompanying consolidated balance sheet.

Amortization expense associated with amortizable intangible assets (including deferred financing costs) was \$7,595 and \$22,819 for the three and nine months ended September 30, 2010, respectively, and was \$8,640 and \$25,147 for the three and nine months ended September 30, 2011, respectively.

e. Stock-Based Compensation

We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock, restricted stock units, performance units and shares of stock issued under the employee stock purchase plan (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, 2010 was \$4,750, including \$737 in discontinued operations, (\$3,819 after tax or \$0.02 per basic and diluted share), and \$15,559, including \$2,429 in discontinued operations, (\$12,240 after tax or \$0.06 per basic and diluted share), respectively. Stock-based compensation expense for Employee Stock-Based Awards for the three and nine months ended September 30, 2011 was \$4,403 (\$2,479 after tax or \$0.01 per basic and diluted share), and \$12,702, including \$260 in discontinued operations, (\$5,213 after tax or \$0.03 per basic and diluted share), respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Cost of sales (excluding depreciation and amortization)	\$ 302	\$ 240	\$ 442	\$ 560
Selling, general and administrative expenses	3,711	4,163	12,688	11,882
<b>Total stock-based compensation</b>	<b>\$ 4,013</b>	<b>\$ 4,403</b>	<b>\$ 13,130</b>	<b>\$ 12,442</b>



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

The benefits associated with the tax deductions in excess of recognized compensation cost are required to be reported as a financing cash flow. This requirement reduces reported operating cash flows and increases reported financing cash flows. As a result, net financing cash flows from continuing operations included \$1,913 and \$578 for the nine months ended September 30, 2010 and 2011, respectively, from the benefits of tax deductions in excess of recognized compensation cost. We used the short form method to calculate the Additional Paid-in Capital ("APIC") pool. The tax benefit of any resulting excess tax deduction increases the APIC pool. Any resulting tax deficiency is deducted from the APIC pool.

*Stock Options*

Under our various stock option plans, options were granted with exercise prices equal to the market price of the stock on the date of grant. The majority of our options become exercisable ratably over a period of five years and generally have a contractual life of ten years, unless the holder's employment is terminated. Certain of the options we issue become exercisable ratably over a period of ten years and have a contractual life of 12 years, unless the holder's employment is terminated. As of September 30, 2011, ten-year vesting options represent 7.1% of total outstanding options. Beginning in 2011, certain of the options we issue become exercisable ratably over a period of three years and have a contractual life of ten years, unless the holder's employment is terminated. As of September 30, 2011, three-year vesting options represent 10.1% of total outstanding options. Our directors are considered employees for purposes of our stock option plans and stock option reporting. Options granted to our non-employee directors generally become exercisable after one year.

The weighted average fair value of options granted for the nine months ended September 30, 2010 and 2011 was \$7.93 and \$7.43 per share, respectively. These values were estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average assumptions used for grants in the respective period:

Weighted Average Assumptions	Nine Months Ended September 30,	
	2010	2011
Expected volatility	32.7%	33.4%
Risk-free interest rate	2.50%	2.46%
Expected dividend yield	1%	3%
Expected life of option	6.4 years	6.3 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 U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. Beginning in the first quarter of 2010, expected dividend yield was considered in the option pricing model as a result of our new dividend program. The expected life (estimated period of time outstanding) of the stock options granted is estimated using the historical exercise behavior of employees.

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## IRON MOUNTAIN INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

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

A summary of option activity for the nine months ended September 30, 2011 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic value
Outstanding at December 31, 2010	12,140,560	\$ 24.30		
Granted	1,014,434	28.54		
Exercised	(3,649,848)	21.84		
Forfeited	(2,157,253)	25.92		
Expired	(110,142)	27.81		
Outstanding at September 30, 2011	7,237,751	\$ 25.61	6.92	\$ 45,135
Options exercisable at September 30, 2011	3,685,125	\$ 24.97	5.79	\$ 25,523
Options expected to vest	3,254,161	\$ 26.30	8.07	\$ 17,897

The following table provides the aggregate intrinsic value of stock options exercised for the three and nine months ended September 30, 2010 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Aggregate intrinsic value of stock options exercised	\$ 2,856	\$ 7,869	\$ 8,820	\$ 36,778

*Restricted Stock and Restricted Stock Units*

Under our various stock option plans, we may also issue grants of restricted stock or restricted stock units ("RSUs"). Our restricted stock and RSUs generally have a three to five year vesting period. The fair value of restricted stock and RSUs is the excess of the market price of our common stock at the date of grant over the purchase price (which is typically zero).

A summary of restricted stock and RSUs activity for the nine months ended September 30, 2011 is as follows:

	Restricted Stock and RSUs	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2010	168,221	\$ 22.53
Granted	466,854	29.79
Vested	(29,472)	23.76
Forfeited	(118,219)	26.38
Non-vested at September 30, 2011	487,384	\$ 28.48



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The total fair value of restricted stock vested for the three and nine months ended September 30, 2010 was \$0 and \$13, respectively. The total fair value of restricted stock vested for the three and nine months ended September 30, 2011 was \$0 and \$13, respectively. No RSUs vested during the three and nine months ended September 30, 2010. The total fair value of RSUs vested for the three and nine months ended September 30, 2011 was \$225 and \$687, respectively.

*Performance Units*

Under our various stock option plans, we may also issue grants of performance units ("PUs"). The number of PUs earned will be determined based on our performance against predefined targets of calendar year revenue growth and return on invested capital ("ROIC"). The range of payout is zero to 150% of the number of granted PUs. The number of PUs earned will be determined based on actual performance at the end of the one-year performance period, and the award will be settled in shares of our common stock, subject to vesting, three years from the date of the original grant. Additionally, employees who are employed through the one-year anniversary of the date of grant and who reach both 55 years of age and 10 years of qualifying service (the "retirement criteria") shall immediately and completely vest in any PUs earned based on the actual achievement against the predefined targets as discussed above. As a result, PUs will be expensed over the shorter of (a) achievement of the retirement criteria, which such achievement may occur as early as one year after the date of grant, or (b) a maximum of three years.

In the first nine months of 2011, we issued 154,239 PUs. During the one-year performance period, we will forecast the likelihood of achieving the annual revenue growth and ROIC predefined targets in order to calculate the expected PUs to be earned. We will record a compensation charge based on either the forecasted PUs to be earned (during the one-year performance period) or the actual PUs earned (at the one-year anniversary date) over the vesting period for each individual grant as described above. The performance unit liability is remeasured at each fiscal quarter-end during the vesting period using the estimated percentage of units earned multiplied by the closing market price of our common stock on the current period-end date and is pro-rated based on the amount of time passed in the vesting period. As of September 30, 2011, we expected 102% achievement of the predefined revenue and ROIC targets associated with the grants made in the first nine months of 2011 and the closing market price of our common stock was \$31.62.

A summary of PU activity for the nine months ended September 30, 2011 is as follows:

	PUs
Non-vested at December 31, 2010	
Granted	154,239
Vested	
Forfeited	(40,985)
Non-vested at September 30, 2011	113,254



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**IRON MOUNTAIN INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In Thousands, Except Share and Per Share Data)**

**(Unaudited)**

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

*Employee Stock Purchase Plan*

We offer an employee stock purchase plan in which participation is available to substantially all U.S. and Canadian employees who meet certain service eligibility requirements (the "ESPP"). The ESPP provides a way for our eligible employees to become stockholders on favorable terms. The ESPP provides for the purchase of our common stock by eligible employees through successive offering periods. We generally have two six-month offering periods per year, the first of which begins June 1 and ends November 30 and the second of which begins December 1 and ends May 31. During each offering period, participating employees accumulate after-tax payroll contributions, up to a maximum of 15% of their compensation, to pay the exercise price of their options. Participating employees may withdraw from an offering period before the purchase date and obtain a refund of the amounts withheld as payroll deductions. At the end of the offering period, outstanding options are exercised, and each employee's accumulated contributions are used to purchase our common stock. The price for shares purchased under the ESPP is 95% of the fair market price at the end of the offering period, without a look-back feature. As a result, we do not recognize compensation cost for the ESPP shares purchased. For the nine months ended September 30, 2010 and 2011, there were 137,200 shares and 82,267 shares, respectively, purchased under the ESPP. The number of shares available for purchase under the ESPP at September 30, 2011 was 472,053.

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As of September 30, 2011, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$41,671 and is expected to be recognized over a weighted-average period of 3.0 years.

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

f. **Income (Loss) Per Share Basic and Diluted**

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In Thousands, Except Share and Per Share Data)**

**(Unaudited)**

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

The following table presents the calculation of basic and diluted income (loss) per share:

<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>
<b>2010</b>	<b>2011</b>	<b>2010</b>