

IRON MOUNTAIN INC
Form 10-Q
May 08, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark
One)

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

For the Quarterly Period Ended March 31, 2009

OR

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

For the Transition Period from _____ **to**
Commission file number 1-13045

IRON MOUNTAIN INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware **23-2588479**
(State or other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
745 Atlantic Avenue, Boston, MA 02111
(Address of Principal Executive Offices, Including Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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 May 4, 2009: 202,370,435

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Table of Contents**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, 2008	March 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 278,370	\$ 271,831
Accounts receivable (less allowances of \$19,562 and \$20,559, respectively)	552,830	562,656
Deferred income taxes	41,305	39,305
Prepaid expenses and other	103,887	100,146
Total Current Assets	976,392	973,938
Property, Plant and Equipment:		
Property, plant and equipment	3,750,515	3,744,345
Less Accumulated depreciation	(1,363,761)	(1,407,992)
Net Property, Plant and Equipment	2,386,754	2,336,353
Other Assets, net:		
Goodwill	2,452,304	2,412,524
Customer relationships and acquisition costs	443,729	427,864
Deferred financing costs	33,186	31,846
Other	64,489	62,039
Total Other Assets, net	2,993,708	2,934,273
Total Assets	\$ 6,356,854	\$ 6,244,564
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 35,751	\$ 30,032
Accounts payable	154,614	121,211
Accrued expenses	356,473	312,791
Deferred revenue	182,759	199,679
Total Current Liabilities	729,597	663,713
Long-term Debt, net of current portion	3,207,464	3,130,363
Other Long-term Liabilities	113,136	114,459
Deferred Rent	73,005	75,924
Deferred Income Taxes	427,324	442,067
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 201,931,332 shares and 202,184,572 shares,	2,019	2,022

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respectively)

Additional paid-in capital	1,250,064	1,257,595
Retained earnings	591,912	620,711
Accumulated other comprehensive items, net	(41,215)	(65,732)
Total Iron Mountain Incorporated Stockholders' Equity	1,802,780	1,814,596
Noncontrolling Interests	3,548	3,442
Total Equity	1,806,328	1,818,038
Total Liabilities and Equity	\$ 6,356,854	\$ 6,244,564

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

IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except Per Share Data)

(Unaudited)

	Three Months Ended March 31,	
	2008	2009
Revenues:		
Storage	\$404,317	\$409,857
Service	345,067	313,489
 Total Revenues	 749,384	 723,346
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	347,751	316,980
Selling, general and administrative	222,228	210,393
Depreciation and amortization	69,530	76,280
Loss (Gain) on disposal/writedown of property, plant and equipment, net	3,545	(1,504)
 Total Operating Expenses	 643,054	 602,149
Operating Income	106,330	121,197
Interest Expense, Net (includes Interest Income of \$1,219 and \$789, respectively)	60,019	55,521
Other (Income) Expense, Net	(6,035)	7,155
 Income Before Provision for Income Taxes	 52,346	 58,521
Provision for Income Taxes	18,272	31,577
 Net Income	 34,074	 26,944
Less: Net Income (Loss) Attributable to Noncontrolling Interests	592	(1,855)
 Net Income Attributable to Iron Mountain Incorporated	 \$ 33,482	 \$ 28,799
 Earnings per Share Basic and Diluted:		
Net Income Attributable to Iron Mountain Incorporated per Share Basic	\$ 0.17	\$ 0.14
Net Income Attributable to Iron Mountain Incorporated per Share Diluted	\$ 0.16	\$ 0.14
 Weighted Average Common Shares Outstanding Basic	 200,871	 202,066
Weighted Average Common Shares Outstanding Diluted	203,421	203,312

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)

Iron Mountain Incorporated Stockholders' Equity								
		Comprehensive	Common Stock Voting		Additional	Retained	Accumulated	Noncontrolling
	Total	Income (Loss)	Shares	Amounts	Paid-in	Earnings	Other	Interests
					Capital		Items, Net	
Balance, December 31, 2007	\$ 1,804,544	\$	200,693,217	\$ 2,007	\$ 1,209,512	\$ 509,875	\$ 74,061	\$ 9,089
Issuance of shares under employee stock purchase plan and option plans, including tax benefit of \$970	8,015		273,466	3	8,012			
Comprehensive Income (Loss):								
Currency translation adjustment	(1,612)	(1,612)					(1,937)	325
Market value adjustments for securities, net of tax	(474)	(474)					(474)	
Net income	34,074	34,074				33,482		592
Comprehensive Income		\$ 31,988						
Dividend payments	(130)							(130)
Balance, March 31, 2008	\$ 1,844,417		200,966,683	\$ 2,010	\$ 1,217,524	\$ 543,357	\$ 71,650	\$ 9,876

Iron Mountain Incorporated Stockholders' Equity								
		Comprehensive	Common Stock Voting		Additional	Retained	Accumulated	Noncontrolling
	Total	Income (Loss)	Shares	Amounts	Paid-in	Earnings	Other	Interests
					Capital		Items, Net	
Balance, December 31, 2008	\$ 1,806,328	\$	201,931,332	\$ 2,019	\$ 1,250,064	\$ 591,912	\$ (41,215)	\$ 3,548
Issuance of shares under employee stock purchase plan and option plans, including tax benefit of \$545	7,534		253,240	3	7,531			
Comprehensive Income (Loss):								
Currency translation adjustment	(22,761)	(22,761)					(24,517)	1,756
Net income (loss)	26,944	26,944				28,799		(1,855)
Comprehensive Income		\$ 4,183						
Noncontrolling interests equity contributions	374							374
Dividend payments	(381)							(381)

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Balance, March 31, 2009	\$ 1,818,038	202,184,572	\$ 2,022	\$ 1,257,595	\$ 620,711	\$ (65,732)	\$ 3,442
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The accompanying notes are an integral part of these consolidated financial statements.

IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2008	2009
Net Income	\$ 34,074	\$ 26,944
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	(1,612)	(22,761)
Market Value Adjustments for Securities, Net of Tax	(474)	
Total Other Comprehensive (Loss) Income	(2,086)	(22,761)
Comprehensive Income	31,988	4,183
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	917	(99)
Comprehensive Income Attributable to Iron Mountain Incorporated	\$ 31,071	\$ 4,282

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

Table of Contents**IRON MOUNTAIN INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2008	2009
Cash Flows from Operating Activities:		
Net income	\$ 34,074	\$ 26,944
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation	61,396	67,552
Amortization (includes deferred financing costs and bond discount of \$1,247 and \$1,240, respectively)	9,381	9,968
Stock-based compensation expense	5,007	4,259
Provision for deferred income taxes	7,272	16,058
Loss (Gain) on disposal/writedown of property, plant and equipment, net	3,545	(1,504)
Unrealized (gain) loss on foreign currency and other, net	(3,462)	8,678
Realized gain on foreign currency, net		14,986
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	(24,255)	(27,087)
Prepaid expenses and other current assets	1,297	(8,361)
Accounts payable	(17,731)	(12,486)
Accrued expenses, deferred revenue and other current liabilities	(4,865)	22,922
Other assets and long-term liabilities	862	5,563
Cash Flows from Operating Activities	72,521	127,492
Cash Flows from Investing Activities:		
Capital expenditures	(93,787)	(71,921)
Cash paid for acquisitions, net of cash acquired	(3,779)	(1,432)
Additions to customer relationship and acquisition costs	(2,781)	(2,347)
Proceeds from sales of property and equipment and other, net	31	1,545
Cash Flows from Investing Activities	(100,316)	(74,155)
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(294,728)	(61,889)
Proceeds from revolving credit and term loan facilities and other debt	302,895	2,209
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	(71)	345
Proceeds from exercise of stock options and employee stock purchase plan	1,866	2,680
Excess tax benefits from stock-based compensation	970	545
Payment of debt financing costs	(120)	
Cash Flows from Financing Activities	10,812	(56,110)
Effect of Exchange Rates on Cash and Cash Equivalents	(1,200)	(3,766)
Decrease in Cash and Cash Equivalents	(18,183)	(6,539)
Cash and Cash Equivalents, Beginning of Period	125,607	278,370
Cash and Cash Equivalents, End of Period	\$ 107,424	\$ 271,831
Supplemental Information:		
Cash Paid for Interest	\$ 62,684	\$ 51,611
Cash Paid for Income Taxes	\$ 8,043	\$ 13,595
Non-Cash Investing Activities:		
Capital Leases	\$ 17,338	\$ 13,665

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Accrued Capital Expenditures	\$ 21,850	\$ 25,600
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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.

The consolidated balance sheet presented as of December 31, 2008 has been derived from our audited consolidated financial statements. 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 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, 2008 included in our Annual Report on Form 10-K filed on March 2, 2009.

On January 1, 2009, we adopted Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statement an Amendment of ARB No. 51" ("SFAS No. 160"). The presentation and disclosure requirements of SFAS No. 160 have been applied to all of our financial statements, notes and other financial data retrospectively for all periods presented. The adoption of SFAS No. 160 resulted in an increase to net income attributable to Iron Mountain Incorporated of \$2,381, or \$0.01 per diluted share. SFAS No. 160 includes a prospective requirement allowing losses in excess of a noncontrolling interest's equity to go below zero. Excluding the impacts of the adoption of SFAS No. 160, net income attributable to Iron Mountain Incorporated and diluted earnings per share attributable to Iron Mountain Incorporated would have been \$26,418 and \$0.13 per share, respectively, for the three months ended March 31, 2009.

(2) Summary of Significant Accounting Policies

a. Principles of Consolidation

The accompanying financial statements reflect our financial position and results of operations on a consolidated basis. Financial position and results of operations of Iron Mountain Europe Limited ("IME"), our European subsidiary, are consolidated for the appropriate periods based on its fiscal year ended October 31. All intercompany account balances have been eliminated.

b. Foreign Currency Translation

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. All assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." 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

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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)

between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (a) our 7¹/₄% GBP Senior Subordinated Notes due 2014, (b) our 6³/₄% Euro Senior Subordinated Notes due 2018, (c) the borrowings in certain foreign currencies under our revolving credit agreements, and (d) certain foreign currency denominated intercompany obligations of our foreign subsidiaries to us and between our foreign subsidiaries, are included in other expense (income), net, on our consolidated statements of operations. We recorded a net gain of \$5,931 and a net loss of \$7,489 for the three months ended March 31, 2008 and 2009, respectively.

c. Goodwill and Other Intangible Assets

We apply the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. We currently have no intangible assets that have indefinite lives and which are not amortized, other than goodwill. 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 annual goodwill impairment review as of October 1, 2008, and noted no impairment of goodwill. In making this assessment, we rely on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, transactions and market place data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. As of March 31, 2009, no factors were identified that would alter this assessment. 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 value. Our reporting units at which level we performed our goodwill impairment analysis as of October 1, 2008 were as follows: North America (excluding Fulfillment), Fulfillment, Europe, Worldwide Digital Business (excluding Stratify, Inc. ("Stratify")), Stratify, Latin America and Asia Pacific. Asia Pacific is primarily composed of recent acquisitions (carrying value of goodwill, net amounts to \$47,082 as of March 31, 2009). It 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 Asia Pacific business or the business not achieving the forecasted results could lead to an impairment in future periods.

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. 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. In conjunction with our annual goodwill impairment reviews, we reconcile the sum of the valuations of all of our reporting units to our market

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)**

capitalization as of such dates. The changes in the carrying value of goodwill attributable to each reportable operating segment for the three month period ended March 31, 2009 are as follows:

	North American Physical Business	International Physical Business	Worldwide Digital Business	Total Consolidated
Balance as of December 31, 2008	\$ 1,689,460	\$ 508,795	\$ 254,049	\$ 2,452,304
Adjustments to purchase reserves	(59)			(59)
Fair value and other adjustments(1)	41	1,262	5	1,308
Currency effects	(3,867)	(37,162)		(41,029)
Balance as of March 31, 2009	\$ 1,685,575	\$ 472,895	\$ 254,054	\$ 2,412,524

(1) Fair value and other adjustments primarily includes \$1,432 of cash paid related to prior year's acquisitions.

The components of our amortizable intangible assets at March 31, 2009 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	\$ 530,027	\$ (102,163)	\$ 427,864
Core Technology(1)	50,089	(19,171)	30,918
Non-Compete Agreements(1)	1,666	(1,305)	361
Deferred Financing Costs	52,691	(20,845)	31,846
Total	\$ 634,473	\$ (143,484)	\$ 490,989

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

d. Stock-Based Compensation

We apply the provisions of SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") using the modified prospective method. We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock and shares issued under the employee stock purchase plan based on the requirements of SFAS No. 123R (together, "Employee Stock-Based Awards").

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Stock-based compensation expense, included in the accompanying consolidated statements of operations, for the three months ended March 31, 2008 and 2009 was \$5,007 (\$2,734 after tax or \$0.01 per basic and diluted share) and \$4,259 (\$3,465 after tax or \$0.02 per basic and diluted share), respectively, for Employee Stock-Based Awards.

SFAS No. 123R requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow. This requirement reduces reported

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)**

operating cash flows and increases reported financing cash flows. As a result, net financing cash flows included \$970 and \$545 for the three months ended March 31, 2008 and 2009, 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 10 years, unless the holder's employment is terminated. Beginning in 2007, 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 March 31, 2009, 10-year vesting options represent 10.2% of total outstanding options. Our directors are considered employees under the provisions of SFAS No. 123R.

The weighted average fair value of options granted for the three months ended March 31, 2008 and 2009 was \$9.40 and \$6.43 per share, respectively. The 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 Assumption	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
Expected volatility	25.7%	31.6%
Risk-free interest rate	2.84%	2.09%
Expected dividend yield	None	None
Expected life of the option	6.6 years	6.4 years

Expected volatility was 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. Expected dividend yield was not considered in the option pricing model since we do not pay dividends and have no current plans to do so in the future. The expected life (estimated period of time outstanding) of the stock options granted was estimated using the historical exercise behavior of employees.

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)**

A summary of option activity for the three months ended March 31, 2009 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008	12,210,175	\$ 22.70		
Granted	371,415	17.99		
Exercised	(253,240)	10.84		
Forfeited	(70,759)	26.91		
Expired	(74,477)	25.61		
Outstanding at March 31, 2009	12,183,114	\$ 22.77	7.3	\$ 88,230
Options exercisable at March 31, 2009	5,467,548	\$ 18.40	6.2	\$ 33,776

The aggregate intrinsic value of stock options exercised for the three months ended March 31, 2008 and 2009 was approximately \$6,556 and \$2,527, respectively. The aggregate fair value of stock options vested for the three months ended March 31, 2008 and 2009 was approximately \$6,910 and \$6,822, respectively.

Restricted Stock

Under our various stock option plans, we may also issue grants of restricted stock. We granted restricted stock in July 2005, which had a 3-year vesting period, and December 2006 and December 2007, which had a 5-year vesting period. The fair value of restricted stock is the excess of the market price of our common stock at the date of grant over the exercise price, which is zero. Included in our stock-based compensation expense for the three months ended March 31, 2008 and 2009 is a portion of the cost related to restricted stock granted in July 2005, December 2006 and December 2007.

A summary of restricted stock activity for the three months ended March 31, 2009 is as follows:

	Restricted Stock	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2008	810	\$ 37.53
Granted		
Vested		
Forfeited		
Non-vested at March 31, 2009	810	\$ 37.53

No shares vested during the three months ended March 31, 2008 and 2009.

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 6-month offering periods, the first of which begins June 1 and ends November 30 and the second 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 our ESPP shares purchased. The ESPP was amended and approved by our stockholders on May 26, 2005 to increase the number of shares from 1,687,500 to 3,487,500. In the three months ended March 31, 2008 and 2009, there were no offering periods which ended under the ESPP and no shares were issued. The number of shares available for purchase at March 31, 2009 was 1,070,381.

As of March 31, 2009, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$57,742 and is expected to be recognized over a weighted-average period of 4.2 years.

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

e. **Income Per Share Basic and Diluted**

In accordance with SFAS No. 128, "Earnings per Share," basic net income per common share is calculated by dividing net income attributable to Iron Mountain Incorporated by the weighted average number of common shares outstanding. The calculation of diluted net income per share is consistent with that of basic net income 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.

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 following table presents the calculation of basic and diluted net income per share attributable to Iron Mountain Incorporated:

	Three Months Ended March 31,	
	2008	2009
Net income attributable to Iron Mountain Incorporated	\$ 33,482	\$ 28,799
Weighted-average shares basic	200,871,000	202,066,000
Effect of dilutive potential stock options	2,528,923	1,245,503
Effect of dilutive potential restricted stock	21,251	
Weighted-average shares diluted	203,421,174	203,311,503
Net income per share attributable to Iron Mountain Incorporated basic	\$ 0.17	\$ 0.14
Net income per share attributable to Iron Mountain Incorporated diluted	\$ 0.16	\$ 0.14
Antidilutive stock options, excluded from the calculation	406,628	8,596,703

f. Revenues

Our revenues consist of storage revenues as well as service revenues and are reflected net of sales and value added taxes. Storage revenues, both physical and digital, which are considered a key performance indicator for the information protection and storage services industry, consist of largely recurring periodic charges related to the storage of materials or data (generally on a per unit basis). Service revenues are comprised of charges for related core service activities and a wide array of complementary products and services. Included in core service revenues are: (1) the handling of records including the addition of new records, temporary removal of records from storage, refiling of removed records, destruction of records, and permanent withdrawals from storage; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents; and (4) other recurring services including maintenance and support contracts. Our complementary services revenues include special project work, data restoration projects, fulfillment services, consulting services and product sales (including software licenses, specially designed storage containers and related supplies). Our secure shredding revenues include the sale of recycled paper (included in complementary services), the price of which can fluctuate from period to period, adding to the volatility and reducing the predictability of that revenue stream.

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured. Storage and service revenues are recognized in the month the respective storage or service is provided and customers are generally billed on a monthly basis on

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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)

contractually agreed-upon terms. Amounts related to future storage or prepaid service contracts, including maintenance and support contracts, for customers where storage fees or services are billed in advance are accounted for as deferred revenue and recognized ratably over the applicable storage or service period or when the service is performed. Revenue from the sales of products is recognized when shipped to the customer and title has passed to the customer. Sales of software licenses are recognized at the time of product delivery to our customer or reseller and maintenance and support agreements are recognized ratably over the term of the agreement. Software license sales and maintenance and support accounted for less than 1% of our 2008 and first quarter of 2009 consolidated revenues. Within our Worldwide Digital Business segment, in certain instances, we process and host data for customers. In these instances, the processing fees are deferred and recognized over the estimated service period.

g. Allowance for Doubtful Accounts and Credit Memo Reserves

We maintain an allowance for doubtful accounts and credit memos for estimated losses resulting from the potential inability of our customers to make required payments and disputes regarding billing and service issues. When calculating the allowance, we consider our past loss experience, current and prior trends in our aged receivables and credit memo activity, current economic conditions, and specific circumstances of individual receivable balances. If the financial condition of our customers were to significantly change, resulting in a significant improvement or impairment of their ability to make payments, an adjustment of the allowance may be required. We consider accounts receivable to be delinquent after such time as reasonable means of collection have been exhausted. We charge-off uncollectible balances as circumstances warrant, generally, no later than one year past due.

h. Income Taxes

Our effective tax rates for the three months ended March 31, 2008 and 2009 were 34.9% and 54.0%, respectively. The primary reconciling items between the statutory rate of 35% and our effective rate are state income taxes (net of federal benefit) and differences in the rates of tax at which our foreign earnings are subject. The increase in the effective tax rate in 2009 is primarily due to significant foreign exchange gains and losses in different jurisdictions with different tax rates. For 2009, foreign currency gains were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments while foreign currency losses were recorded in lower tax jurisdictions associated with the marking-to-market of intercompany loan positions, which contributed 13.1% to the 2009 tax rate. 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.

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting basis of assets and liabilities and for loss and credit carryforwards. Valuation allowances are provided when recovery of deferred tax assets is not considered more likely than not. We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of SFAS No. 109, on January 1, 2007.

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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 elected to recognize interest and penalties associated with uncertain tax positions as a component of the provision for income taxes in the accompanying consolidated statements of operations. We recorded \$250 and \$1,250 for gross interest and penalties for the three months ended March 31, 2008 and 2009, respectively. We had \$8,125 and \$9,375 accrued for the payment of interest and penalties as of December 31, 2008 and March 31, 2009, respectively.

i. Fair Value Measurements

We apply the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States and expands disclosures about fair value measurements. Under SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS No. 159"), entities are permitted to choose to measure many financial instruments and certain other items at fair value that previously were not required to be measured at fair value. We did not elect the fair value measurement option under SFAS No. 159 for any of these financial assets or liabilities.

Our financial assets or liabilities are 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 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.

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 following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2009:

Description	Total Carrying Value at March 31, 2009	Fair Value Measurements at March 31, 2009 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money Market Funds(1)	\$ 168,426	\$	\$ 168,426	\$
Time Deposits(1)	20,152		20,152	
Available-for-Sale and Trading Securities	8,035	6,573(2)	1,462(1)	
Derivative Assets(3)	3		3	

- (1) Money market funds and time deposits (including those in certain available-for-sale and trading securities) are measured based on quoted prices for similar assets and/or subsequent transactions.
- (2) Our available-for-sale and trading securities are measured at fair value using quoted market prices.
- (3) Our derivative assets primarily relate to short-term foreign currency contracts that we have entered into to hedge our intercompany exposures denominated in British pounds sterling. We calculate the fair value of such forward contracts by adjusting the spot rate utilized at the balance sheet date for translation purposes by an estimate of the forward points observed in active markets.

SFAS No. 157 also requires disclosure in the financial statements for items measured at fair value on a non-recurring basis. We did not have any items that are measured at fair value under this requirement for the three months ended March 31, 2009.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. On an on-going basis, we evaluate the estimates used, including those related to accounting for acquisitions, allowance for doubtful accounts and credit memos, impairments of tangible and intangible assets, income taxes, stock-based compensation and self-insured liabilities. We base our estimates on historical experience, actuarial estimates, current conditions and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities and are not readily apparent from other sources. Actual results may differ from these estimates.

[Table of Contents](#)**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(3) Derivative Instruments and Hedging Activities**

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that every derivative instrument be recorded in the balance sheet as either an asset or a liability measured at its fair value. Periodically, we acquire derivative instruments that are intended to hedge either cash flows or values which are subject to foreign exchange or other market price risk, and not for trading purposes. We have formally documented our hedging relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking each hedge transaction. Given the recurring nature of our revenues and the long term nature of our asset base, we have the ability and the preference to use long-term, fixed interest rate debt to finance our business, thereby preserving our long term returns on invested capital. We target approximately 75% of our debt portfolio to be fixed with respect to interest rates. Occasionally, we will use interest rate swaps as a tool to maintain our targeted level of fixed rate debt. In addition, we will use borrowings in foreign currencies, either obtained in the U.S. or by our foreign subsidiaries, to naturally hedge foreign currency risk associated with our international investments. Sometimes we enter into currency swaps to temporarily hedge an overseas investment, such as a major acquisition, while we arrange permanent financing or to hedge our exposures due to foreign currency exchange movements related to our intercompany accounts with and between our foreign subsidiaries. As of December 31, 2008 and March 31, 2009, none of our derivative instruments contained credit-risk related contingent features.

Beginning in the fourth quarter of 2007, we entered into a number of forward contracts to hedge our exposures in British pounds sterling. As of March 31, 2009, we had an outstanding forward contract to purchase 104,070 U.S. dollars and sell 73,600 British pounds sterling to hedge our intercompany exposures with IME. At the maturity of the forward contracts we may enter into new forward contracts to hedge movements in the underlying currencies. At the time of settlement, we either pay or receive the net settlement amount from the forward contract and recognize this amount in other (income) expense, net in the accompanying statement of operations as a realized foreign exchange gain or loss. We have not designated these forward contracts as hedges. During the three months ended March 31, 2009, there was \$15,022 in net cash receipts included in cash from operating activities related to settlements associated with these foreign currency forward contracts. The following table provides the fair value of our derivative instruments as of December 31, 2008 and March 31, 2009 and their gains and losses for the three months ended March 31, 2008 and 2009:

	Asset Derivatives			
	December 31, 2008		March 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments under SFAS No. 133				
Foreign exchange contracts	Current assets	\$ 13,675	Current assets	\$ 3
Total		\$ 13,675		\$ 3

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(3) Derivative Instruments and Hedging Activities (Continued)**

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	Location of (Gain) Loss Recognized in Income on Derivative	Amount of (Gain) Loss Recognized in Income on Derivatives Three Months Ended March 31,	
		2008	2009
Foreign exchange contracts	Other (income) expense, net	\$537	\$(1,350)
Total		\$537	\$(1,350)

For the quarters ended March 31, 2008 and 2009, we designated 176,172 and 135,000 Euros, respectively, of our 6³/₄% Euro Senior Subordinated Notes due 2018 issued by Iron Mountain Incorporated ("IMI") as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded \$18,868 (\$12,076, net of tax) of foreign exchange losses for the three months ended March 31, 2008 and \$12,001 (\$7,321, net of tax) of foreign exchange gains for the three months ended March 31, 2009 related to the marking-to-market of such debt to currency translation adjustments which is a component of accumulated other comprehensive items, net included in equity. As of March 31, 2009, net gains of \$11,476 is recorded in accumulated other comprehensive items, net associated with this net investment hedge.

(4) Acquisitions

We account for acquisitions using the purchase method of accounting, and accordingly, the results of operations for each acquisition have been included in our consolidated results from their respective acquisition dates. We completed no acquisitions during the first quarter of 2009. Included in cash paid for acquisitions in the consolidated statement of cash flows for the three months ended March 31, 2009 is contingent and other payments of \$1,432 related to acquisitions made in prior years.

In connection with acquisitions prior to December 31, 2008, we have undertaken certain restructurings of the acquired businesses to realize efficiencies and potential cost savings. The restructuring activities include certain reductions in staffing levels, elimination of duplicate facilities and other costs associated with exiting certain activities of the acquired businesses. The estimated cost of these restructuring activities were recorded as costs of the acquisitions and were provided in accordance with EITF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." We finalize restructuring plans for each business no later than one year from the date of acquisition. Unresolved matters at March 31, 2009 primarily include completion of planned abandonments of facilities and severance contracts in connection with certain acquisitions.

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(4) Acquisitions (Continued)**

The following is a summary of reserves related to such restructuring activities:

	Year Ended December 31, 2008	Three Months Ended March 31, 2009
Reserves, Beginning Balance	\$ 3,602	\$ 8,555
Reserves Established	8,694	
Expenditures	(2,698)	(560)
Adjustments to Goodwill, including Currency Effect(1)	(1,043)	(140)
Reserves, Ending Balance	\$ 8,555	\$ 7,855

(1)

Includes adjustments to goodwill as a result of management finalizing its restructuring plans.

At March 31, 2009, the restructuring reserves related to acquisitions consisted of lease losses on abandoned facilities (\$7,078), severance costs (\$86), and other exit costs (\$691). These accruals are expected to be used prior to March 31, 2010, except for lease losses of \$5,477, severance costs of \$53, and other exit costs of \$72, all of which are based on contracts that extend beyond one year.

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(5) Long-term Debt**

Long-term debt consists of the following:

	December 31, 2008		March 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revolving Credit Facility(1)	\$ 219,388	\$ 219,388	\$ 165,745	\$ 165,745
Term Loan Facility(1)	404,400	404,400	403,375	403,375
8 ⁵ / ₈ % Senior Subordinated Notes due 2013(2)(3)	447,961	423,241	447,956	446,754
7 ¹ / ₄ % GBP Senior Subordinated Notes due 2014(2)(3)	217,185	157,459	213,210	182,694
7 ³ / ₄ % Senior Subordinated Notes due 2015(2)(3)	436,768	398,911	436,540	423,169
6 ⁵ / ₈ % Senior Subordinated Notes due 2016(2)(3)	316,541	272,800	316,665	294,400
7 ¹ / ₂ % CAD Senior Subordinated Notes due 2017 (the "Subsidiary Notes")(2)(4)	143,203	126,018	140,123	133,116
8 ³ / ₄ % Senior Subordinated Notes due 2018(2)(3)	200,000	177,250	200,000	197,750
8% Senior Subordinated Notes due 2018(2)(3)	49,720	42,813	49,727	47,550
6 ³ / ₄ % Euro Senior Subordinated Notes due 2018(2)(3)	356,875	249,834	334,273	272,180
8% Senior Subordinated Notes due 2020(2)(3)	300,000	246,750	300,000	277,875
Real Estate Mortgages, Capital Leases, Seller Notes and Other(5)	151,174	151,174	152,781	152,781
Total Long-term Debt	3,243,215		3,160,395	
Less Current Portion	(35,751)		(30,032)	
Long-term Debt, Net of Current Portion	\$ 3,207,464		\$ 3,130,363	

- (1) The capital stock or other equity interests of most of our U.S. subsidiaries, and up to 66% of the capital stock or other equity interests of our first tier foreign subsidiaries, are pledged to secure these debt instruments, together with all intercompany obligations of foreign subsidiaries owed to us or to one of our U.S. subsidiary guarantors. The fair value of this long-term debt approximates the carrying value (as borrowings under these debt instruments are based on current variable market interest rates as of December 31, 2008 and March 31, 2009).
- (2) The fair values of these debt instruments is based on quoted market prices for these notes on December 31, 2008 and March 31, 2009, respectively.
- (3) Collectively referred to as the Parent Notes. Iron Mountain Incorporated ("IMI") is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior subordinated basis, by substantially all of its direct and indirect wholly owned U.S. subsidiaries (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Iron Mountain Canada Corporation ("Canada Company") and the remainder of our subsidiaries do not guarantee the Parent Notes.

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- (4) Canada Company is the direct obligor on the Subsidiary Notes, which are fully and unconditionally guaranteed, on a senior subordinated basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors.
- (5) We believe the fair value of this debt approximates its carrying value.

On April 16, 2007, we entered into a new credit agreement (the "Credit Agreement") to replace the existing IMI revolving credit and term loan facilities of \$750,000 and the existing IME revolving credit and term loan facilities of 200,000 British pounds sterling. On November 9, 2007, we increased

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(5) Long-term Debt (Continued)**

the aggregate amount available to be borrowed under the Credit Agreement from \$900,000 to \$1,200,000. The Credit Agreement consists of revolving credit facilities, where we can borrow, subject to certain limitations as defined in the Credit Agreement, up to an aggregate amount of \$790,000 (including Canadian dollar and multi-currency revolving credit facilities), and a \$410,000 term loan facility. In the third quarter of 2008, the capacity under our revolving credit facility was decreased from an aggregate amount of \$790,000 to an aggregate amount of \$765,000 due to the bankruptcy of one of our lenders. Our revolving credit facility is supported by a group of 24 banks. Our subsidiaries, Canada Company and Iron Mountain Switzerland GmbH, may borrow directly under the Canadian revolving credit and multi-currency revolving credit facilities, respectively. Additional subsidiary borrowers may be added under the multi-currency revolving credit facility. The revolving credit facility terminates on April 16, 2012. With respect to the term loan facility, quarterly loan payments of approximately \$1,000 are required through maturity on April 16, 2014, at which time the remaining outstanding principal balance of the term loan facility is due. The interest rate on borrowings under the Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin. IMI guarantees the obligations of each of the subsidiary borrowers under the Credit Agreement, and substantially all of our U.S. subsidiaries guarantee the obligations of IMI and the subsidiary borrowers. The capital stock or other equity interests of most of our U.S. subsidiaries, and up to 66% of the capital stock or other equity interests of our first tier foreign subsidiaries, are pledged to secure the Credit Agreement, together with all intercompany obligations of foreign subsidiaries owed to us or to one of our U.S. subsidiary guarantors. As of March 31, 2009, we had \$165,745 of outstanding borrowings under the revolving credit facility, all of which were denominated in Canadian dollars (CAD 207,000); we also had various outstanding letters of credit totaling \$38,805. The remaining availability, based on IMI's leverage ratio, which is calculated based on the last 12 months' earnings before interest, taxes, depreciation and amortization ("EBITDA"), and other adjustments as defined in the Credit Agreement and current external debt, under the revolving credit facility on March 31, 2009, was \$560,450. The interest rate in effect under the revolving credit facility and term loan facility was 2.2% and 2.8%, respectively, as of March 31, 2009. For the three months ended March 31, 2008 and 2009, we recorded commitment fees of \$343 and \$482, respectively, based on the unused balances under our revolving credit facilities.

The Credit Agreement, our indentures and other agreements governing our indebtedness contain certain restrictive financial and operating covenants, including covenants that restrict our ability to complete acquisitions, pay cash dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions. The covenants do not contain a rating trigger. Therefore, a change in our debt rating would not trigger a default under the Credit Agreement and our indentures and other agreements governing our indebtedness. Our revolving credit and term loan facilities, as well as our indentures, use EBITDA based calculations as primary measures of financial performance, including leverage ratios. IMI's revolving credit and term leverage ratio was 3.8 and 3.6 as of December 31, 2008 and March 31, 2009, respectively, compared to a maximum allowable ratio of 5.5 under our Credit Agreement. Similarly, our bond leverage ratio, per the indentures, was 4.5 and 4.4 as of December 31, 2008 and March 31, 2009, respectively, compared to a maximum allowable ratio of 6.5. Noncompliance with these leverage ratios would have a material adverse effect on our financial condition and liquidity. We were in compliance with all debt covenants in material agreements as of March 31, 2009.

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors**

The following data summarizes the consolidating Company on the equity method of accounting as of December 31, 2008 and March 31, 2009 and for the three months ended March 31, 2008 and 2009.

The Parent Notes and the Subsidiary Notes are guaranteed by the subsidiaries referred to below as the "Guarantors." These subsidiaries are 100% owned by the Parent. The guarantees are full and unconditional, as well as joint and several.

Additionally, the Parent guarantees the Subsidiary Notes which were issued by Canada Company. Canada Company does not guarantee the Parent Notes. The other subsidiaries that do not guarantee the Parent Notes or the Subsidiary Notes are referred to below as the "Non-Guarantors."

	December 31, 2008					
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 210,636	\$ 17,069	\$ 50,665	\$	\$ 278,370
Accounts Receivable		373,902	30,451	148,477		552,830
Intercompany Receivable	1,021,450		12,927		(1,034,377)	
Other Current Assets	13,776	81,755	8,793	40,868		145,192
Total Current Assets	1,035,226	666,293	69,240	240,010	(1,034,377)	976,392
Property, Plant and Equipment, Net		1,589,731	158,775	638,248		2,386,754
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable	2,120,482	1,000			(2,121,482)	
Investment in Subsidiaries	1,457,677	1,181,642			(2,639,319)	
Goodwill		1,761,036	164,704	526,564		2,452,304
Other	30,731	324,346	11,543	175,192	(408)	541,404
Total Other Assets, Net	3,608,890	3,268,024	176,247	701,756	(4,761,209)	2,993,708
Total Assets	\$ 4,644,116	\$ 5,524,048	\$ 404,262	\$ 1,580,014	\$ (5,795,586)	\$ 6,356,854
Liabilities and Equity						
Intercompany Payable	\$	\$ 976,173	\$	\$ 58,204	\$ (1,034,377)	\$
Current Portion of Long-term Debt	4,687	18,482		12,582		35,751
Total Other Current Liabilities	56,445	427,570	22,062	187,769		693,846
Long-term Debt, Net of Current Portion	2,775,351	48,452	324,123	59,538		3,207,464
Long-term Notes Payable to Affiliates and Intercompany Payable	1,000	2,120,482			(2,121,482)	
Other Long-term Liabilities	3,853	502,433	19,810	87,777	(408)	613,465
Commitments and Contingencies (See Note 9)						
Total Iron Mountain Incorporated Stockholders' Equity	1,802,780	1,430,456	38,267	1,170,596	(2,639,319)	1,802,780
Noncontrolling Interests				3,548		3,548
Total Equity	1,802,780	1,430,456	38,267	1,174,144	(2,639,319)	1,806,328

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Total Liabilities and Equity	\$4,644,116	\$ 5,524,048	\$ 404,262	\$ 1,580,014	\$ (5,795,586)	\$ 6,356,854
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Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)**

	March 31, 2009					
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 209,451	\$ 20,073	\$ 42,307	\$	\$ 271,831
Accounts Receivable		378,891	31,640	152,125		562,656
Intercompany Receivable	1,031,895		8,617		(1,040,512)	
Other Current Assets	128	85,051	10,217	44,055		139,451
Total Current Assets	1,032,023	673,393	70,547	238,487	(1,040,512)	973,938
Property, Plant and Equipment, Net		1,582,710	155,197	598,446		2,336,353
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable	2,078,710	1,000			(2,079,710)	
Investment in Subsidiaries	1,443,849	1,182,649			(2,626,498)	
Goodwill		1,761,020	161,162	490,342		2,412,524
Other	29,603	318,501	11,086	162,961	(402)	521,749
Total Other Assets, Net	3,552,162	3,263,170	172,248	653,303	(4,706,610)	2,934,273
Total Assets	\$ 4,584,185	\$ 5,519,273	\$ 397,992	\$ 1,490,236	\$ (5,747,122)	\$ 6,244,564
Liabilities and Equity						
Intercompany Payable	\$	\$ 1,000,179	\$	\$ 40,333	\$ (1,040,512)	\$
Current Portion of Long-term Debt	4,611	14,894	1,259	9,268		30,032
Total Other Current Liabilities	62,479	409,744	21,383	140,075		633,681
Long-term Debt, Net of Current Portion	2,697,646	56,004	315,801	60,912		3,130,363
Long-term Notes Payable to Affiliates and Intercompany Payable	1,000	2,078,710			(2,079,710)	
Other Long-term Liabilities	3,853	528,279	20,200	80,520	(402)	632,450
Commitments and Contingencies (See Note 9)						
Total Iron Mountain Incorporated Stockholders' Equity	1,814,596	1,431,463	39,349	1,155,686	(2,626,498)	1,814,596
Noncontrolling Interests				3,442		3,442
Total Equity	1,814,596	1,431,463	39,349	1,159,128	(2,626,498)	1,818,038
Total Liabilities and Equity	\$ 4,584,185	\$ 5,519,273	\$ 397,992	\$ 1,490,236	\$ (5,747,122)	\$ 6,244,564

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)

	Three Months Ended March 31, 2008					Consolidated
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	
Revenues:						
Storage	\$	\$ 284,382	\$ 23,607	\$ 96,328	\$	\$ 404,317
Service		219,978	26,091	98,998		345,067
Total Revenues		504,360	49,698	195,326		749,384
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		225,449	22,797	99,505		347,751
Selling, General and Administrative	45	161,800	9,251	51,132		222,228
Depreciation and Amortization	32	46,023	3,529	19,946		69,530
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		3,245	(9)	309		3,545
Total Operating Expenses	77	436,517	35,568	170,892		643,054
Operating (Loss) Income	(77)	67,843	14,130	24,434		106,330
Interest Expense (Income), Net	52,361	(1,576)	8,080	1,154		60,019
Other Expense (Income), Net	8,574	(1,846)		(12,763)		(6,035)
(Loss) Income Before Provision for Income Taxes	(61,012)	71,265	6,050	36,043		52,346
Provision for Income Taxes		12,690	2,054	3,528		18,272
Equity in the Earnings of Subsidiaries, Net of Tax	(94,494)	(34,938)			129,432	
Net Income	33,482	93,513	3,996	32,515	(129,432)	34,074
Less: Net Income Attributable to Noncontrolling Interests				592		592
Net Income Attributable to Iron Mountain Incorporated	\$ 33,482	\$ 93,513	\$ 3,996	\$ 31,923	\$ (129,432)	\$ 33,482

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)**

	Three Months Ended March 31, 2009					
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Revenues:						
Storage	\$	\$ 306,937	\$ 20,685	\$ 82,235	\$	\$ 409,857
Service		212,770	22,244	78,475		313,489
Total Revenues		519,707	42,929	160,710		723,346
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		213,511	18,906	84,563		316,980
Selling, General and Administrative	20	158,099	7,221	45,053		210,393
Depreciation and Amortization	46	54,887	3,378	17,969		76,280
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		303	(39)	(1,768)		(1,504)
Total Operating Expenses	66	426,800	29,466	145,817		602,149
Operating (Loss) Income	(66)	92,907	13,463	14,893		121,197
Interest Expense (Income), Net	49,778	(6,449)	9,884	2,308		55,521
Other (Income) Expense, Net	(16,358)	3,101		20,412		7,155
(Loss) Income Before Provision for Income Taxes	(33,486)	96,255	3,579	(7,827)		58,521
Provision for Income Taxes		29,538	1,295	744		31,577
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(62,285)	5,313			56,972	
Net Income	28,799	61,404	2,284	(8,571)	(56,972)	26,944
Less: Net Loss Attributable to Noncontrolling Interests				(1,855)		(1,855)
Net Income Attributable to Iron Mountain Incorporated	\$ 28,799	\$ 61,404	\$ 2,284	\$ (6,716)	\$ (56,972)	\$ 28,799

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)**

	Three Months Ended March 31, 2008					Consolidated
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	
Cash Flows from Operating Activities	\$ (44,381)	\$ 93,837	\$ (1,562)	\$ 24,627	\$	\$ 72,521
Cash Flows from Investing Activities:						
Capital expenditures		(66,418)	(2,146)	(25,223)		(93,787)
Cash paid for acquisitions, net of cash acquired		(3,265)		(514)		(3,779)
Intercompany loans to subsidiaries	12,483	(3,769)			(8,714)	
Investment in subsidiaries	(90)	(90)			180	
Additions to customer relationship and acquisition costs		(1,888)	(155)	(738)		(2,781)
Proceeds from sales of property and equipment and other, net		115		(84)		31
Cash Flows from Investing Activities	12,393	(75,315)	(2,301)	(26,559)	(8,534)	(100,316)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt	(262,025)	(10,206)	(19,172)	(3,325)		(294,728)
Proceeds from revolving credit and term loan facilities and other debt	291,267	97	6,564	4,967		302,895
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net				(71)		(71)
Intercompany loans from parent		(11,657)	2,551	392	8,714	
Equity contribution from parent		90		90	(180)	
Proceeds from exercise of stock options and employee stock purchase plan	1,866					1,866
Excess tax benefits from stock-based compensation	970					970
Payment of debt financing	(90)		(30)			(120)
Cash Flows from Financing Activities	31,988	(21,676)	(10,087)	2,053	8,534	10,812
Effect of exchange rates on cash and cash equivalents			(289)	(911)		(1,200)
Decrease in cash and cash equivalents		(3,154)	(14,239)	(790)		(18,183)
Cash and cash equivalents, beginning of period		27,955	15,529	82,123		125,607
Cash and cash equivalents, end of period	\$	\$ 24,801	\$ 1,290	\$ 81,333	\$	\$ 107,424

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(6) Selected Consolidated Financial Statements of Parent, Guarantors, Canada Company and Non-Guarantors (Continued)

	Three Months Ended March 31, 2009					Consolidated
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	
Cash Flows from Operating Activities	\$ (33,145)	\$ 146,351	\$ 2,863	\$ 11,423	\$	\$ 127,492
Cash Flows from Investing Activities:						
Capital expenditures		(54,318)	(2,690)	(14,913)		(71,921)
Cash paid for acquisitions, net of cash acquired		(170)		(1,262)		(1,432)
Intercompany loans to subsidiaries	81,998	(4,283)			(77,715)	
Investment in subsidiaries	(976)	(976)			1,952	
Additions to customer relationship and acquisition costs		(1,609)	(199)	(539)		(2,347)
Proceeds from sales of property and equipment and other, net		167	4	1,374		1,545
Cash Flows from Investing Activities	81,022	(61,189)	(2,885)	(15,340)	(75,763)	(74,155)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt	(51,102)	(4,071)	(324)	(6,392)		(61,889)
Proceeds from revolving credit and term loan facilities and other debt				2,209		2,209
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net				345		345
Intercompany loans from parent		(83,252)	4,051	1,486	77,715	
Equity contribution from parent		976		976	(1,952)	
Proceeds from exercise of stock options and employee stock purchase plan	2,680					2,680
Excess tax benefits from stock-based compensation	545					545
Cash Flows from Financing Activities	(47,877)	(86,347)	3,727	(1,376)	75,763	(56,110)
Effect of exchange rates on cash and cash equivalents			(701)	(3,065)		(3,766)
(Decrease) Increase in cash and cash equivalents		(1,185)	3,004	(8,358)		(6,539)
Cash and cash equivalents, beginning of period		210,636	17,069	50,665		278,370
Cash and cash equivalents, end of period	\$	\$ 209,451	\$ 20,073	\$ 42,307	\$	\$ 271,831

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(7) Segment Information

Beginning January 1, 2009, we changed the composition of our segments to not allocate certain corporate and centrally controlled costs, which primarily include human resources, information technology and finance costs, as well as all stock-based compensation, which benefit the enterprise as a whole. These are now reflected as Corporate costs and are not allocated to our operating segments. Therefore, the presentation of all historical segment reporting has been changed to conform to our new management reporting.

Corporate and our five operating segments are as follows:

North American Physical Business throughout the United States and Canada, the storage of paper documents, as well as all other non-electronic media such as microfilm and microfiche, master audio and videotapes, film, X-rays and blueprints, including healthcare information services, vital records services, service and courier operations, and the collection, handling and disposal of sensitive documents for corporate customers ("Hard Copy"); the storage and rotation of backup computer media as part of corporate disaster recovery plans, including service and courier operations ("Data Protection"); information destruction services ("Destruction"); and the storage, assembly, and detailed reporting of customer marketing literature and delivery to sales offices, trade shows and prospective customers' sites based on current and prospective customer orders, which we refer to as the "Fulfillment" business

Worldwide Digital Business information protection and storage services for electronic records conveyed via telecommunication lines and the Internet, including online backup and recovery solutions for server data and personal computers, as well as email archiving, third party technology escrow services that protect intellectual property assets such as software source code, and electronic discovery services for the legal market that offers in-depth discovery and data investigation solutions

Europe information protection and storage services throughout Europe, including Hard Copy, Data Protection and Destruction (in the U.K.)

Latin America information protection and storage services throughout Mexico, Brazil, Chile, Argentina and Peru, including Hard Copy and Data Protection

Asia Pacific information protection and storage services throughout Australia and New Zealand, including Hard Copy, Data Protection and Destruction; and in certain cities in India, Singapore, Hong Kong-SAR, China, Indonesia, Malaysia, Sri Lanka and Taiwan, including Hard Copy and Data Protection

Corporate consists of costs related to staff functions, including finance, human resources and information technology, which benefit the enterprise as a whole. These costs are primarily related to the general management of these functions on a corporate level and the design and development of programs, policies and procedures that are then implemented in the individual segments, with each segment bearing its own cost of implementation. Corporate also includes stock-based employee compensation expense associated with all Employee Stock-Based Awards.

The Latin America, Asia Pacific and Europe operating segments have been aggregated given their similar economic characteristics, products, customers and processes and reported as one reportable

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(7) Segment Information (Continued)**

segment, "International Physical Business." The Worldwide Digital Business does not meet the quantitative criteria for a reportable segment; however, management determined that it would disclose such information on a voluntary basis.

An analysis of our business segment information and reconciliation to the consolidated financial statements is as follows:

	North American Physical Business	International Physical Business	Worldwide Digital Business	Corporate	Total Consolidated
Three Months Ended March 31, 2008					
Total Revenues	\$ 504,479	\$ 191,182	\$ 53,723	\$	\$ 749,384
Depreciation and Amortization	35,505	18,602	7,861	7,562	69,530
Depreciation	33,228	15,388	5,250	7,530	61,396
Amortization	2,277	3,214	2,611	32	8,134
Contribution	171,028	41,752	7,635	(41,010)	179,405
Total Assets(1)	4,026,522	1,721,254	439,472	139,331	6,326,579
Expenditures for Segment Assets(2)	47,815	32,641	8,571	11,320	100,347
Capital Expenditures	42,480	31,389	8,598	11,320	