

IRON MOUNTAIN INC
Form 10-Q
October 31, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

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
(State or other Jurisdiction of
Incorporation or Organization)

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

One Federal Street, Boston, Massachusetts 02110
(Address of Principal Executive Offices, Including Zip Code)

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

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

Number of shares of the registrant's Common Stock outstanding at October 24, 2014: 193,704,227

Table of Contents

IRON MOUNTAIN INCORPORATED

Index

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1 Unaudited Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets at December 31, 2013 and September 30, 2014 (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Three Months Ended September 30, 2013 and 2014 (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Nine Months Ended September 30, 2013 and 2014 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2013 and 2014 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Equity for the Nine Months Ended September 30, 2013 and 2014 (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2014 (Unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>9</u>
<u>Item 4 Controls and Procedures</u>	<u>58</u>
<u>Item 4 Controls and Procedures</u>	<u>84</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6 Exhibits</u>	<u>85</u>
<u>Signatures</u>	<u>86</u>
	<u>87</u>

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, 2013	September 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 120,526	\$ 183,988
Restricted cash	33,860	33,860
Accounts receivable (less allowances of \$34,645 and \$34,353 as of December 31, 2013 and September 30, 2014, respectively)	616,797	618,996
Deferred income taxes	17,623	10,636
Prepaid expenses and other	144,801	128,906
Total Current Assets	933,607	976,386
Property, Plant and Equipment:		
Property, plant and equipment	4,631,067	4,665,309
Less Accumulated depreciation	(2,052,807)	(2,104,605)
Property, Plant and Equipment, net	2,578,260	2,560,704
Other Assets, net:		
Goodwill	2,463,352	2,421,065
Customer relationships and acquisition costs	605,484	601,295
Deferred financing costs	45,607	50,962
Other	26,695	25,927
Total Other Assets, net	3,141,138	3,099,249
Total Assets	\$ 6,653,005	\$ 6,636,339
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 52,583	\$ 60,799
Accounts payable	216,456	141,645
Accrued expenses	461,338	1,163,236
Deferred revenue	238,724	232,628
Total Current Liabilities	969,101	1,598,308
Long-term Debt, net of current portion	4,119,139	4,331,686

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Other Long-term Liabilities	68,219	72,354
Deferred Rent	104,244	105,369
Deferred Income Taxes	340,568	60,960
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 191,426,920 shares and 193,678,594 shares as of December 31, 2013 and September 30, 2014, respectively)	1,914	1,937
Additional paid-in capital	980,164	1,017,428
Earnings in excess of distributions (Distributions in excess of earnings)	67,820	(516,361)
Accumulated other comprehensive items, net	(8,660)	(47,232)
Total Iron Mountain Incorporated Stockholders' Equity	1,041,238	455,772
Noncontrolling Interests	10,496	11,890
Total Equity	1,051,734	467,662
Total Liabilities and Equity	\$ 6,653,005	\$ 6,636,339

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

Table of Contents

IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except Per Share Data)

(Unaudited)

	Three Months Ended September 30,	
	2013	2014
Revenues:		
Storage rental	\$ 445,317	\$ 469,064
Service	309,997	313,633
Total Revenues	755,314	782,697
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	310,665	335,506
Selling, general and administrative	225,205	216,337
Depreciation and amortization	79,659	89,194
(Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	(173)	184
Total Operating Expenses	615,356	641,221
Operating Income (Loss)	139,958	141,476
Interest Expense, Net (includes Interest Income of \$1,075 and \$1,158 for the three months ended September 30, 2013 and 2014, respectively)	64,485	63,220
Other Expense (Income), Net	45,953	22,508
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	29,520	55,748
Provision (Benefit) for Income Taxes	24,190	54,890
(Gain) Loss from Sale of Real Estate, Net of Tax		
Income (Loss) from Continuing Operations	5,330	858
(Loss) Income from Discontinued Operations, Net of Tax	(571)	
Net Income (Loss)	4,759	858
Less: Net Income (Loss) Attributable to Noncontrolling Interests	910	792
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 3,849	\$ 66
Earnings (Losses) per Share Basic:		
Income (Loss) from Continuing Operations	\$ 0.03	\$ 0.00

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Total (Loss) Income from Discontinued Operations	\$	(0.00)	\$	0.00
--------------------------------------------------	----	--------	----	------

Net Income (Loss) Attributable to Iron Mountain Incorporated	\$	0.02	\$	0.00
--------------------------------------------------------------	----	------	----	------

Earnings (Losses) per Share Diluted:

Income (Loss) from Continuing Operations	\$	0.03	\$	0.00
------------------------------------------	----	------	----	------

Total (Loss) Income from Discontinued Operations	\$	(0.00)	\$	0.00
--------------------------------------------------	----	--------	----	------

Net Income (Loss) Attributable to Iron Mountain Incorporated	\$	0.02	\$	0.00
--------------------------------------------------------------	----	------	----	------

Weighted Average Common Shares Outstanding Basic		191,332		193,360
--------------------------------------------------	--	---------	--	---------

Weighted Average Common Shares Outstanding Diluted		192,268		194,905
----------------------------------------------------	--	---------	--	---------

Dividends Declared per Common Share	\$	0.2700	\$	4.0960
-------------------------------------	----	--------	----	--------

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)**

	Nine Months Ended September 30,	
	2013	2014
Revenues:		
Storage rental	\$ 1,329,357	\$ 1,394,842
Service	927,059	944,873
Total Revenues	2,256,416	2,339,715
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	952,797	1,007,612
Selling, general and administrative	673,187	644,924
Depreciation and amortization	238,788	264,568
(Gain) Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	(528)	1,229
Total Operating Expenses	1,864,244	1,918,333
Operating Income (Loss)	392,172	421,382
Interest Expense, Net (includes Interest Income of \$2,118 and \$4,062 for the nine months ended September 30, 2013 and 2014, respectively)	190,656	187,733
Other Expense (Income), Net	63,967	22,987
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	137,549	210,662
Provision (Benefit) for Income Taxes	88,144	(98,151)
(Gain) Loss from Sale of Real Estate, Net of Tax	(1,417)	(7,468)
Income (Loss) from Continuing Operations	50,822	316,281
Income (Loss) from Discontinued Operations, Net of Tax	1,515	(938)
Net Income (Loss)	52,337	315,343
Less: Net Income (Loss) Attributable to Noncontrolling Interests	2,934	1,973
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 49,403	\$ 313,370
Earnings (Losses) per Share Basic:		
Income (Loss) from Continuing Operations	\$ 0.27	\$ 1.64

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Total Income (Loss) from Discontinued Operations	\$	0.01	\$	(0.00)
--------------------------------------------------	----	------	----	--------

Net Income (Loss) Attributable to Iron Mountain Incorporated	\$	0.26	\$	1.63
--------------------------------------------------------------	----	------	----	------

Earnings (Losses) per Share Diluted:

Income (Loss) from Continuing Operations	\$	0.26	\$	1.63
------------------------------------------	----	------	----	------

Total Income (Loss) from Discontinued Operations	\$	0.01	\$	(0.00)
--------------------------------------------------	----	------	----	--------

Net Income (Loss) Attributable to Iron Mountain Incorporated	\$	0.26	\$	1.62
--------------------------------------------------------------	----	------	----	------

Weighted Average Common Shares Outstanding Basic		190,789		192,540
--------------------------------------------------	--	---------	--	---------

Weighted Average Common Shares Outstanding Diluted		192,315		193,833
----------------------------------------------------	--	---------	--	---------

Dividends Declared per Common Share	\$	0.8100	\$	4.6527
-------------------------------------	----	--------	----	--------

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)**

	Three Months Ended September 30,	
	2013	2014
Net Income (Loss)	\$ 4,759	\$ 858
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	17,023	(45,423)
Market Value Adjustments for Securities		(291)
Total Other Comprehensive Income (Loss)	17,023	(45,714)
Comprehensive Income (Loss)	21,782	(44,856)
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	733	(25)
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 21,049	\$ (44,831)

	Nine Months Ended September 30,	
	2013	2014
Net Income (Loss)	\$ 52,337	\$ 315,343
Other Comprehensive (Loss) Income:		
Foreign Currency Translation Adjustments	(25,811)	(39,109)
Market Value Adjustments for Securities		257
Total Other Comprehensive (Loss) Income	(25,811)	(38,852)
Comprehensive Income (Loss)	26,526	276,491
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	1,934	1,693
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 24,592	\$ 274,798

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

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

Table of Contents

IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands, except Share Data)

(Unaudited)

	Iron Mountain Incorporated Stockholders' Equity						
	Total	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Earnings in in Excess of Distributions (Distributions in Excess of Earnings)	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2012	\$ 1,157,148	190,005,788	\$ 1,900	\$ 942,199	\$ 180,258	\$ 20,314	\$ 12,477
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$2,499	40,256	1,207,072	12	40,244			
Parent cash dividends declared	(156,693)				(156,693)		
Currency translation adjustment	(25,811)					(24,811)	(1,000)
Net income (loss)	52,337				49,403		2,934
Noncontrolling interests equity contributions	743						743
Noncontrolling interests dividends	(1,708)						(1,708)
Balance, September 30, 2013	\$ 1,066,272	191,212,860	\$ 1,912	\$ 982,443	\$ 72,968	\$ (4,497)	\$ 13,446

	Iron Mountain Incorporated Stockholders' Equity						
	Total	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Earnings in in Excess of Distributions (Distributions in Excess of Earnings)	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2013	\$ 1,051,734	191,426,920	\$ 1,914	\$ 980,164	\$ 67,820	\$ (8,660)	\$ 10,496
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$40	52,838	2,251,674	23	52,815			
Parent cash dividends declared	(197,551)				(197,551)		
Special distribution in connection with conversion to REIT (see Note 9)	(700,000)				(700,000)		
Currency translation adjustment	(39,109)					(38,829)	(280)
Market value adjustments for securities	257					257	
Net income (loss)	315,343				313,370		1,973
Noncontrolling interests dividends	(1,032)						(1,032)
Purchase of noncontrolling interests	(20,376)			(17,653)			(2,723)
Divestiture of noncontrolling interests	5,558			2,102			3,456
Balance, September 30, 2014	\$ 467,662	193,678,594	\$ 1,937	\$ 1,017,428	\$ (516,361)	\$ (47,232)	\$ 11,890

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)

	Nine Months Ended September 30,	
	2013	2014
Cash Flows from Operating Activities:		
Net income (loss)	\$ 52,337	\$ 315,343
(Income) loss from discontinued operations	(1,515)	938
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	210,678	227,876
Amortization (includes deferred financing costs and bond discount of \$5,283 and \$5,535, for the nine months ended September 30, 2013 and 2014, respectively)	33,393	42,227
Stock-based compensation expense	23,016	23,129
Provision (Benefit) for deferred income taxes	61,327	(258,411)
Loss on early extinguishment of debt, net	43,318	
(Gain) Loss on disposal/write-down of property, plant and equipment, net (including real estate)	(2,375)	(8,218)
Foreign currency transactions and other, net	43,763	37,292
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	(37,867)	(9,361)
Prepaid expenses and other	(60,601)	25,309
Accounts payable	19,172	(27,307)
Accrued expenses and deferred revenue	(54,914)	(77,102)
Other assets and long-term liabilities	3,897	10,137
Cash Flows from Operating Activities Continuing Operations	333,629	301,852
Cash Flows from Operating Activities Discontinued Operations	953	
Cash Flows from Operating Activities	334,582	301,852
Cash Flows from Investing Activities:		
Capital expenditures	(204,872)	(277,386)
Cash paid for acquisitions, net of cash acquired	(122,681)	(46,366)
Investment in restricted cash	(1)	
Additions to customer relationship and acquisition costs	(16,573)	(25,847)
Proceeds from sales of property and equipment and other, net (including real estate)	2,402	18,307
Cash Flows from Investing Activities Continuing Operations	(341,725)	(331,292)
Cash Flows from Investing Activities Discontinued Operations	(4,937)	
Cash Flows from Investing Activities	(346,662)	(331,292)
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(3,447,542)	(8,225,563)
Proceeds from revolving credit and term loan facilities and other debt	3,445,387	8,061,747
Early retirement of senior subordinated notes	(685,134)	(247,275)
Net proceeds from sales of senior notes	782,307	642,417
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	1,066	(14,715)
Parent cash dividends	(155,027)	(157,018)
Proceeds from exercise of stock options and employee stock purchase plan	14,726	37,356
Excess tax benefits from stock-based compensation	2,499	40

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Payment of debt financing and stock issuance costs	(8,087)	(2,156)
Cash Flows from Financing Activities - Continuing Operations	(49,805)	94,833
Cash Flows from Financing Activities - Discontinued Operations		
Cash Flows from Financing Activities	(49,805)	94,833
Effect of Exchange Rates on Cash and Cash Equivalents	(9,499)	(1,931)
(Decrease) Increase in Cash and Cash Equivalents	(71,384)	63,462
Cash and Cash Equivalents, Beginning of Period	243,415	120,526
Cash and Cash Equivalents, End of Period	\$ 172,031	\$ 183,988
Supplemental Information:		
Cash Paid for Interest	\$ 196,811	\$ 210,770
Cash Paid for Income Taxes	\$ 88,154	\$ 124,251
Non-Cash Investing and Financing Activities:		
Capital Leases	\$ 48,909	\$ 18,903
Accrued Capital Expenditures	\$ 30,419	\$ 30,484
Dividends Payable	\$ 54,705	\$ 795,671

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

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(1) General

The interim consolidated financial statements are presented herein and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. Iron Mountain Incorporated, a Delaware corporation ("IMI"), and its subsidiaries ("we" or "us") store records, primarily paper documents and data backup media, and provide information management services in various locations throughout North America, Europe, Latin America and Asia Pacific. We have a diversified customer base consisting 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 United States Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to those rules and regulations, but we believe that the disclosures included herein are adequate to make the information presented not misleading. The Consolidated Financial Statements and Notes thereto, which are included herein, should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2013 included in our Current Report on Form 8-K filed with the SEC on May 5, 2014.

We previously disclosed that, as part of our plan to convert to a real estate investment trust ("REIT") for federal income tax purposes and elect REIT status effective January 1, 2014 (the "Conversion Plan"), we sought private letter rulings ("PLRs") from the U.S. Internal Revenue Service (the "IRS") relating to numerous technical tax issues, including classification of our steel racking structures as qualified real estate assets. We submitted the PLR requests in the third quarter of 2012, and on June 25, 2014, we announced that we received the favorable PLRs from the IRS necessary for our conversion to a REIT. After receipt of the PLRs, our board of directors unanimously approved our conversion to a REIT for our taxable year beginning January 1, 2014. As such, we intend to elect REIT status effective January 1, 2014.

On June 2, 2011, we sold (the "Digital Sale") 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"). Additionally, on April 27, 2012, we sold our records management operations in Italy. The financial position, operating results and cash flows of the Digital Business and our Italian operations, including the gain on the sale of the Digital Business and the loss on the sale of our Italian operations, for all periods presented, have been reported as discontinued operations for financial reporting purposes. See Note 10 for a further discussion of these events.

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

a. Principles of Consolidation

The accompanying financial statements reflect our financial position, results of operations, comprehensive income (loss), equity and cash flows on a consolidated basis. All intercompany transactions and account balances have been eliminated.

b. Cash, Cash Equivalents and Restricted Cash

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

We have restricted cash associated with a collateral trust agreement with our insurance carrier related to our workers' compensation self-insurance program. The restricted cash subject to this agreement was \$33,860 as of both December 31, 2013 and September 30, 2014, 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 the functional currencies for our operations outside the U.S., with the exception of certain foreign holding companies and our financing centers in Switzerland, whose functional currency is 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 in the accompanying Consolidated Balance Sheets. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (1) our previously outstanding 7¹/₄% GBP Senior Subordinated Notes due 2014 (the "7¹/₄% Notes"), (2) our 6³/₄% Euro Senior Subordinated Notes due 2018 (the "6³/₄% Notes"), (3) the borrowings in certain foreign currencies under our revolving credit facility and (4) certain foreign currency denominated intercompany obligations of our foreign subsidiaries to us and between our foreign subsidiaries, which are not considered permanently invested, are included in other expense (income), net, in the accompanying Consolidated Statements of Operations. The total gain or loss on foreign currency transactions amounted to a net loss of \$2,612 and \$22,543 for the three and nine months ended September 30, 2013, respectively. The total gain or loss on foreign currency transactions amounted to a net loss of \$23,500 and \$25,591 for the three and nine months ended September 30, 2014, 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

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)

that are not deemed to have indefinite lives are amortized over their useful lives. We annually, or more frequently if events or circumstances warrant, assess whether a change in the lives over which our intangible assets are amortized is necessary.

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, 2013 and concluded there was no impairment of goodwill at such date. As of December 31, 2013 and September 30, 2014, no factors were identified that would alter our October 1, 2013 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.

Our reporting units at which level we performed our goodwill impairment analysis as of October 1, 2013 were as follows: (1) North America; (2) United Kingdom, Ireland, Norway, Belgium, France, Germany, Luxembourg, Netherlands and Spain ("Western Europe"); (3) the remaining countries in Europe in which we operate, excluding Russia and the Ukraine ("Emerging Markets"); (4) Latin America; (5) Australia, China, Hong Kong and Singapore ("Asia Pacific"); and (6) India, Russia and the Ukraine ("Emerging Market Joint Ventures"). Based on our goodwill impairment assessment, all of our reporting units with goodwill had estimated fair values as of October 1, 2013 that exceeded their carrying values by greater than 15%. As of December 31, 2013, the carrying value of goodwill, net amounted to \$1,849,440, \$375,954, \$88,599, \$93,149 and \$56,210 for North America, Western Europe, Emerging Markets, Latin America and Asia Pacific, respectively. Our Emerging Market Joint Ventures reporting unit had no goodwill as of December 31, 2013.

Beginning January 1, 2014, as a result of the changes in our reportable segments associated with our reorganization (see Note 7 for a description of our reportable operating segments), we now have 12 reporting units. Our North American Records and Information Management Business segment includes the following three reporting units: (1) North American Records and Information Management; (2) technology escrow services that protect and manage source code ("Intellectual Property Management") and (3) 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 ("Fulfillment Services"). The North American Data Management Business segment is a separate reporting unit. The Emerging Businesses reporting unit (which primarily relates to our data center business in the United States and which is a component of Corporate and Other) is also a reporting unit. Additionally, the International Business segment consists of the following seven reporting units: (1) United Kingdom, Ireland, Norway, Austria, Belgium, France, Germany, Luxembourg, Netherlands, Spain and Switzerland ("New Western Europe"); (2) the remaining countries in Europe in which we operate, excluding Russia, the Ukraine and Denmark ("New Emerging Markets"); (3) Latin America; (4) Australia and Singapore; (5) China and Hong Kong ("Greater China"); (6) India; and (7) Russia, the Ukraine and Denmark. We have reassigned goodwill associated with the reporting units impacted by the reorganization among the new reporting units on a relative fair value basis. The fair value of each of our new reporting units was determined

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)**

based on the application of preliminary fair value multiples of revenue and earnings, which is our best estimate and preliminary assessment of the goodwill allocations to each of the new reporting units on a relative fair value basis.

The carrying value of goodwill, net for each of our reporting units as of September 30, 2014 is as follows:

	Carrying Value as of September 30, 2014
North American Records and Information Management(1)	\$ 1,385,908
Intellectual Property Management(1)	50,439
Fulfillment Services(1)	8,407
North American Data Management(1)	361,190
Emerging Businesses	
New Western Europe	371,049
New Emerging Markets	90,393
Latin America	86,463
Australia and Singapore	63,234
Greater China	2,853
India	
Russia, Ukraine and Denmark	1,129
Total	\$ 2,421,065

(1)

We will finalize our preliminary estimates of fair value for these new reporting units once we finalize multi-year cash flow forecasts of such reporting units and conclude on fair value of each new reporting unit based on the combined weighting of both fair value multiples and discounted cash flow valuation techniques. To the extent final fair values of our new reporting units differ from our preliminary estimates, we will reassign goodwill amongst the new reporting units in a future period in which final information as of January 1, 2014 is available to complete the fair values and the corresponding allocation of goodwill amongst the new reporting units.

We concluded that we had an interim triggering event and, therefore, we performed an interim goodwill impairment test as of January 1, 2014 on the basis of these new reporting units during the first quarter of 2014. We concluded that the goodwill for each of our new reporting units was not impaired as of such date. While we continue to refine our preliminary estimates of fair value of certain of our new reporting units for purposes of reallocating goodwill, we do not believe that any such changes to preliminary fair value estimates will result in a change in our conclusion that there was no goodwill impairment as of January 1, 2014.

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 changes in the carrying value of goodwill attributable to each reportable operating segment for the nine months ended September 30, 2014 are as follows:

	North American Records and Information Management Business	North American Data Management Business	International Business	Total Consolidated
Gross Balance as of December 31, 2013	\$ 1,688,280	\$ 422,070	\$ 673,335	\$ 2,783,685
Non-deductible goodwill acquired during the year			33,292	33,292
Fair value and other adjustments(1)	(26,898)	(6,724)	(1,829)	(35,451)
Currency effects	(8,311)	(2,078)	(30,744)	(41,133)
Gross Balance as of September 30, 2014	\$ 1,653,071	\$ 413,268	\$ 674,054	\$ 2,740,393
Accumulated Amortization Balance as of December 31, 2013	\$ 208,729	\$ 52,181	\$ 59,423	\$ 320,333
Currency effects	(412)	(103)	(490)	(1,005)
Accumulated Amortization Balance as of September 30, 2014	\$ 208,317	\$ 52,078	\$ 58,933	\$ 319,328
Net Balance as of December 31, 2013	\$ 1,479,551	\$ 369,889	\$ 613,912	\$ 2,463,352
Net Balance as of September 30, 2014	\$ 1,444,754	\$ 361,190	\$ 615,121	\$ 2,421,065
Accumulated Goodwill Impairment Balance as of December 31, 2013	\$ 85,909	\$	\$ 46,500	\$ 132,409

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Accumulated Goodwill Impairment Balance as of September 30, 2014	\$	85,909	\$	46,500	\$	132,409
---------------------------------------------------------------------	----	--------	----	--------	----	---------

-
- (1) Total fair value and other adjustments primarily include \$(32,752) in net adjustments to deferred income taxes and \$(1,399) related to property, plant and equipment and other assumed liabilities, as well as \$(1,300) of cash received related to certain 2013 acquisitions.

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 as of September 30, 2014 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	\$ 902,893	\$ (301,598)	\$ 601,295
Core Technology(1)	3,649	(3,514)	135
Trademarks and Non-Compete Agreements(1)	6,254	(4,819)	1,435
Deferred Financing Costs	66,960	(15,998)	50,962
Total	\$ 979,756	\$ (325,929)	\$ 653,827

(1)

Included in Other Assets, net in the accompanying Consolidated Balance Sheets.

Amortization expense associated with amortizable intangible assets (including deferred financing costs) was \$10,404 and \$33,393 for the three and nine months ended September 30, 2013, respectively. Amortization expense associated with amortizable intangible assets (including deferred financing costs) was \$14,269 and \$42,227 for the three and nine months ended September 30, 2014, 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 ("RSUs"), performance units ("PUs") and shares of stock issued under our employee stock purchase plan ("ESPP") (together, "Employee Stock-Based Awards").

Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2013 was \$9,423 (\$6,590 after tax, or \$0.03 per basic and diluted share) and \$23,016 (\$17,576 after tax, or \$0.09 per basic and diluted share), respectively. Stock-based compensation expense for Employee Stock-Based Awards for the three and nine months ended September 30, 2014 was \$8,671 (\$6,132 after tax, or \$0.03 per basic and diluted share) and \$23,129 (\$16,683 after tax, or \$0.09 per basic and diluted share), respectively.

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)**

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,	
	2013	2014	2013	2014
Cost of sales (excluding depreciation and amortization)	\$ 115	\$ 177	\$ 257	\$ 556
Selling, general and administrative expenses	9,308	8,494	22,759	22,573
Total stock-based compensation	\$ 9,423	\$ 8,671	\$ 23,016	\$ 23,129

The benefits associated with the tax deductions in excess of recognized compensation cost are required to be reported as financing activities in the accompanying Consolidated Statements of Cash Flows. This requirement reduces reported operating cash flows and increases reported financing cash flows. As a result, net financing cash flows from continuing operations included \$2,499 and \$40 for the nine months ended September 30, 2013 and 2014, respectively, from the benefits (deficiency) of tax deductions compared to recognized compensation cost. The tax benefit of any resulting excess tax deduction increases the Additional Paid-in Capital ("APIC") pool. Any resulting tax deficiency is deducted from the APIC pool.

Stock Options

Under our various stock option plans, options were generally granted with exercise prices equal to the market price of the stock on the date of grant; however, in certain limited instances, options were granted at prices greater than 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 from the date of grant and generally have a contractual life of ten years from the date of grant, unless the holder's employment is terminated sooner. Certain of the options we issue become exercisable ratably over a period of ten years from the date of grant and have a contractual life of 12 years from the date of grant, unless the holder's employment is terminated sooner. As of September 30, 2014, ten-year vesting options represented 7.5% of total outstanding options. As of September 30, 2014, three-year vesting options represented 31.5% of total outstanding options. Our non-employee 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 one year from the date of grant.

The weighted average fair value of options granted for the nine months ended September 30, 2013 and 2014 was \$7.69 and \$5.60 per share, respectively. These values were estimated on the date of grant

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)**

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,	
	2013	2014
Expected volatility	33.8%	33.9%
Risk-free interest rate	1.13%	2.06%
Expected dividend yield	3%	4%
Expected life	6.3 years	6.8 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. Expected dividend yield is considered in the option pricing model and represents our current annualized expected per share dividends over the current trade price of our common stock. The expected life (estimated period of time outstanding) of the stock options granted is estimated using the historical exercise behavior of employees.

A summary of option activity for the nine months ended September 30, 2014 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Average Intrinsic Value
Outstanding at December 31, 2013	5,145,739	\$ 24.09		
Granted	525,268	30.56		
Adjustment associated with special dividends	360,814	N/A		
Exercised	(1,928,507)	23.32		
Forfeited	(171,925)	24.37		
Expired	(1,131)	30.15		
Outstanding at September 30, 2014	3,930,258	\$ 23.10	5.28	\$ 37,529
Options exercisable at September 30, 2014	2,872,682	\$ 22.00	4.28	\$ 30,599
Options expected to vest	1,001,076	\$ 26.07	7.97	\$ 6,589

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 aggregate intrinsic value of stock options exercised for the three and nine months ended September 30, 2013 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Aggregate intrinsic value of stock options exercised	\$ 318	\$ 10,194	\$ 10,414	\$ 18,727
<i>Restricted Stock and Restricted Stock Units</i>				

Under our various equity compensation plans, we may also grant restricted stock or RSUs. Our restricted stock and RSUs generally have a vesting period of between three and five years from the date of grant. All RSUs accrue dividend equivalents associated with the underlying stock as we declare dividends. Dividends will generally be paid to holders of RSUs in cash upon the vesting date of the associated RSU and will be forfeited if the RSU does not vest. We accrued approximately \$378 and \$1,476 of cash dividends on RSUs for the three and nine months ended September 30, 2013, respectively. We accrued approximately \$680 and \$1,530 of cash dividends on RSUs for the three and nine months ended September 30, 2014, respectively. We paid approximately \$121 and \$674 of cash dividends on RSUs for the three and nine months ended September 30, 2013, respectively. We paid approximately \$124 and \$1,178 of cash dividends on RSUs for the three and nine months ended September 30, 2014, respectively. 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 RSU activity for the nine months ended September 30, 2014 is as follows:

	Restricted Stock and RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2013	1,435,230	\$ 29.76
Granted	692,167	27.91
Vested	(606,358)	31.53
Forfeited	(176,184)	31.41
Non-vested at September 30, 2014	1,344,855	\$ 27.79

The total fair value of restricted stock vested during the three and nine months ended September 30, 2013 was \$0 and \$1, respectively. The total fair value of restricted stock vested during the three and nine months ended September 30, 2014 was \$0 and \$1, respectively. The total fair value of RSUs vested during the three and nine months ended September 30, 2013 was \$2,145 and \$14,221, respectively. The total fair value of RSUs vested during the three and nine months ended September 30, 2014 was \$1,566 and \$19,114 respectively.

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)***Performance Units*

Under our various equity compensation plans, we may also make awards of PUs. For the majority of PUs, the number of PUs earned is determined based on our performance against predefined targets of revenue or revenue growth and return on invested capital ("ROIC"). The number of PUs earned may range from 0% to 150% (for PUs granted prior to 2014) and 0% to 200% (for PUs granted in 2014) of the initial award. The number of PUs earned is determined based on our actual performance as compared to the targets at the end of either the one-year performance period (for PUs granted prior to 2014) or the three-year performance period (for PUs granted in 2014). Certain PUs granted in 2013 and 2014 will be earned based on a market condition associated with the total return on our common stock in relation to a subset of the S&P 500 rather than the revenue growth and ROIC targets noted above. The number of PUs earned based on this market condition may range from 0% to 200% of the initial award. All of our PUs will be settled in shares of our common stock and are subject to cliff vesting three years from the date of the original PU grant. For those PUs subject to a one-year performance period, employees who subsequently terminate their employment after the end of the one-year performance period and on or after attaining age 55 and completing 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 (but delivery of the shares remains deferred). As a result, PUs subject to a one-year performance period are generally expensed over the shorter of (1) the vesting period, (2) achievement of the retirement criteria, which may occur as early as January 1 of the year following the year of grant or (3) a maximum of three years. Outstanding PUs accrue dividend equivalents associated with the underlying stock as we declare dividends. Dividends will generally be paid to holders of PUs in cash upon the settlement date of the associated PU and will be forfeited if the PU does not vest. We accrued approximately \$146 and \$535 of cash dividends on PUs for the three and nine months ended September 30, 2013, respectively. We accrued approximately \$240 and \$532 of cash dividends on PUs for the three and nine months ended September 30, 2014, respectively. There were no cash dividends paid on PUs for the three and nine months ended September 30, 2013. We paid approximately \$0 and \$312 of cash dividends on PUs for the three and nine months ended September 30, 2014, respectively.

During the nine months ended September 30, 2014, we issued 173,260 PUs. Our PUs are earned based on our performance against revenue or revenue growth and ROIC targets during their applicable performance period; therefore, we forecast the likelihood of achieving the predefined revenue or revenue growth and ROIC targets in order to calculate the expected PUs to be earned. We record a compensation charge based on either the forecasted PUs to be earned (during the applicable performance period) or the actual PUs earned (at the one-year anniversary date for PUs granted prior to 2014, and at the three-year anniversary date for PUs granted in 2014) over the vesting period for each of the awards. For the 2013 and 2014 PUs that will be earned based on a market condition, we utilized a Monte Carlo simulation to fair value these awards at the date of grant, and such fair value will be expensed over the three-year performance period. The total fair value of earned PUs that vested during the three and nine months ended September 30, 2013 was \$88 and \$996, respectively. The total fair value of earned PUs that vested during the three and nine months ended September 30,

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)**

2014 was \$0 and \$6,296, respectively. As of September 30, 2014, we expected 100% achievement of the predefined revenue and ROIC targets associated with the awards of PUs made in 2014.

A summary of PU activity for the nine months ended September 30, 2014 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted- Average Grant-Date Fair Value
Non-vested at December 31, 2013	334,548	(23,732)	310,816	\$ 33.18
Granted	173,260	(49,776)	123,484	23.13
Vested	(194,389)	(24,269)	(218,658)	28.80
Forfeited	(29,922)		(29,922)	29.44
Non-vested at September 30, 2014	283,497	(97,777)	185,720	\$ 32.26

(1)

Represents an increase or decrease in the number of original PUs awarded based on either (a) the final performance criteria achievement at the end of the defined performance period of such PUs or (b) a change in estimated awards based on the forecasted performance against the predefined targets.

Employee Stock Purchase Plan

We offer an ESPP in which participation is available to substantially all U.S. and Canadian employees who meet certain service eligibility requirements. 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 have historically had two six-month offering periods per year, the first of which generally runs from June 1 through November 30 and the second of which generally runs from December 1 through 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 purchase price at the end of the offering. Participating employees may withdraw from an offering before the purchase date and obtain a refund of the amounts withheld as payroll deductions. At the end of the offering period, outstanding options under the ESPP 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 expense for the ESPP shares purchased. For the nine months ended September 30, 2013 and 2014, there were 74,732 shares and 69,567 shares, respectively, purchased under the ESPP. As of September 30, 2014, we have 930,433 shares available under the ESPP.

As of September 30, 2014, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$40,654 and is expected to be recognized over a weighted-average period of 2.0 years.

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)**

We generally issue shares of our common stock for the exercises of stock options, restricted stock, RSUs, PUs and shares of our common stock 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Income (Loss) from continuing operations	\$ 5,330	\$ 858	\$ 50,822	\$ 316,281
Total (loss) income from discontinued operations (see Note 10)	\$ (571)	\$	\$ 1,515	\$ (938)
Net income (loss) attributable to Iron Mountain Incorporated	\$ 3,849	\$ 66	\$ 49,403	\$ 313,370
Weighted-average shares basic	191,332,000	193,360,000	190,789,000	192,540,000
Effect of dilutive potential stock options	597,275	1,023,890	1,109,935	823,036
Effect of dilutive potential restricted stock, RSUs and PUs	338,617	520,644	416,231	470,060
Weighted-average shares diluted	192,267,892	194,904,534	192,315,166	193,833,096
Earnings (Losses) per share basic:				
Income (Loss) from continuing operations	\$ 0.03	\$ 0.00	\$ 0.27	\$ 1.64

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Total (loss) income from discontinued operations (see Note 10)	\$	(0.00)	\$	0.00	\$	0.01	\$	(0.00)
----------------------------------------------------------------	----	--------	----	------	----	------	----	--------

Net income (loss) attributable to Iron Mountain Incorporated basic	\$	0.02	\$	0.00	\$	0.26	\$	1.63
--------------------------------------------------------------------	----	------	----	------	----	------	----	------

Earnings (Losses) per share diluted:								
Income (Loss) from continuing operations	\$	0.03	\$	0.00	\$	0.26	\$	1.63

Total (loss) income from discontinued operations (see Note 10)	\$	(0.00)	\$	0.00	\$	0.01	\$	(0.00)
----------------------------------------------------------------	----	--------	----	------	----	------	----	--------

Net income (loss) attributable to Iron Mountain Incorporated diluted	\$	0.02	\$	0.00	\$	0.26	\$	1.62
----------------------------------------------------------------------	----	------	----	------	----	------	----	------

Antidilutive stock options, RSUs and PUs, excluded from the calculation		2,014,108		609,385		864,521		1,149,441
-------------------------------------------------------------------------	--	-----------	--	---------	--	---------	--	-----------

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)

g.
Revenues

Our revenues consist of storage rental revenues as well as service revenues and are reflected net of sales and value added taxes. Storage rental revenues, which are considered a key driver of financial performance for the storage and information management services industry, consist primarily of recurring periodic rental charges related to the storage of materials or data (generally on a per unit basis). Service revenues include charges for related service activities, which include: (1) the handling of records, including the addition of new records, temporary removal of records from storage, refiling of removed records and the destruction of records; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents and the related sale of recycled paper, the price of which can fluctuate from period to period; (4) other services, including the scanning, imaging and document conversion services of active and inactive records, or Document Management Solutions ("DMS"), which relate to physical and digital records, and project revenues; (5) customer termination and permanent withdrawal fees; (6) data restoration projects; (7) special project work; (8) Fulfillment Services; (9) consulting services; and (10) technology services and product sales (including specially designed storage containers and related supplies).

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 rental and service revenues are recognized in the month the respective storage rental or service is provided, and customers are generally billed on a monthly basis on contractually agreed-upon terms. Amounts related to future storage rental or prepaid service contracts for customers where storage rental fees or services are billed in advance are accounted for as deferred revenue and recognized ratably over the period the applicable storage rental or service is provided or performed. Revenues from the sales of products, which are included as a component of service revenues, are recognized when products are shipped and title has passed to the customer. Revenues from the sales of products have historically not been significant.

h.
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 potential 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.

i.
Income Taxes

As noted previously, on June 25, 2014, we announced that we received the favorable PLRs from the IRS necessary for our conversion to a REIT. In the PLRs, the IRS addressed and favorably ruled on our assets and revenue model, including regarding our steel racking structures as real estate for

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)

REIT purposes under the Internal Revenue Code of 1986, as amended (the "Code"), our global operations and our transition plans from a C-corporation to a REIT. The PLRs are subject to certain qualifications and are based upon certain representations and statements made by us. If such representations and statements are untrue or incomplete in any material respect (including as a result of a material change in relevant facts), we may not be able to rely on the PLRs.

After receipt of the PLRs, our board of directors unanimously approved our conversion to a REIT for our taxable year beginning January 1, 2014. As such, we intend to elect REIT status effective January 1, 2014.

As a REIT, we are generally permitted to deduct from our federal taxable income the dividends we pay to our stockholders. The income represented by such dividends is not subject to federal taxation at the entity level but is taxed, if at all, at the stockholder level. Nevertheless, the income of our domestic taxable REIT subsidiaries ("TRS"), which hold our domestic operations that may not be REIT-compliant as currently operated and structured, is subject, as applicable, to federal and state corporate income tax. In addition, we and our subsidiaries continue to be subject to foreign income taxes in jurisdictions in which they hold assets or conduct operations, regardless of whether held or conducted through subsidiaries disregarded for federal tax purposes or TRS. We will also be subject to a separate corporate income tax on any gains recognized during a specified period (generally ten years) following the REIT conversion that are attributable to "built-in" gains with respect to the assets that we owned on January 1, 2014; this built-in gains tax will also be imposed on our depreciation recapture recognized into income in 2014 and subsequent taxable years as a result of accounting method changes commenced in our pre-REIT period. If we fail to maintain qualification for taxation as a REIT, we will be subject to federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state, local and foreign taxes on our income and property in addition to taxes owed with respect to our TRS operations. In particular, while state income tax regimes often parallel the federal income tax regime for REITs, many states do not completely follow federal rules and some do not follow them at all.

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. Our effective tax rate is subject to variability in the future due to, among other items: (1) our conversion to a REIT; (2) changes in the mix of income from foreign jurisdictions; (3) tax law changes; (4) volatility in foreign exchange gains (losses); (5) the timing of the establishment and reversal of tax reserves; and (6) our ability to utilize foreign tax credits and net operating losses that we generate. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We are subject to examination by various tax authorities in jurisdictions in which we have business operations or a taxable presence. We regularly assess the likelihood of additional assessments by tax authorities and provide for these matters as appropriate. Although we believe our tax estimates are appropriate, the final determination of tax audits and any related litigation could result in changes in our estimates.

Accounting for income taxes requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting bases of

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)

assets and liabilities and for loss and credit carryforwards. Valuation allowances are provided when recovery of deferred tax assets does not meet the more likely than not standard as defined in GAAP.

On September 13, 2013, the U.S. Department of the Treasury and the IRS released final tangible property regulations under Sections 162(a) and 263(a) of the Code regarding the deduction and capitalization of expenditures related to tangible property. In addition, proposed regulations under Section 168 of the Code regarding dispositions of tangible property have also been released. These final and proposed regulations are generally effective for our tax year beginning on January 1, 2014. Early adoption was available, and we adopted the regulations in 2013. The impact from these regulations will not have a material impact on our consolidated results of operations, cash flows and financial position.

We have elected to recognize interest and penalties associated with uncertain tax positions as a component of the provision (benefit) for income taxes in the accompanying Consolidated Statements of Operations. We recorded an increase of \$1,014 and \$1,735 for gross interest and penalties for the three and nine months ended September 30, 2013, respectively. We recorded an increase of \$246 and \$581 for gross interest and penalties for the three and nine months ended September 30, 2014, respectively. We had \$4,874 and \$5,453 accrued for the payment of interest and penalties as of December 31, 2013 and September 30, 2014, respectively.

Our effective tax rate for each of the three and nine months ended September 30, 2013 was 81.9% and 64.1%, respectively. The primary reconciling items between the federal statutory rate of 35% and our overall effective tax rate in the three and nine months ended September 30, 2013 were differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates and state income taxes (net of federal tax benefit), and the repatriation in the fourth quarter of 2013, as discussed below. During the three months ended September 30, 2013, foreign currency gains were recorded in lower tax jurisdictions associated with our marking-to-market of intercompany loans while foreign currency losses were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments, which decreased our 2013 effective tax rate by 47.0%. During the three and nine months ended September 30, 2013, the repatriation discussed below increased our 2013 effective tax rate by 87.1% and 18.5%, respectively. On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "ATRA") was signed into law. In part, the ATRA retroactively reinstated and extended the controlled foreign corporation look-through rule, which provides for the exception from January 1, 2012 to December 31, 2013 of certain foreign earnings from U.S. federal taxation as Subpart F income. As a result, our income tax provision for the first quarter of 2013 included a discrete tax benefit of \$4,025 relating to the previously expired period from January 1, 2012 to December 31, 2012. Also, during the three and nine months ended September 30, 2013, we incurred nondeductible transaction costs related to our conversion to a REIT, which increased our 2013 effective tax rate by 10.1% and 4.7%, respectively.

During the three months ended September 30, 2013, we developed a plan to utilize both current and carryforward foreign tax credits by repatriating approximately \$253,000 (approximately \$53,000 of which was previously subject to U.S. taxes) from our foreign earnings. Due to uncertainty in our ability to fully utilize foreign tax credit carryforwards, we previously did not recognize a full benefit for such foreign tax credit carryforwards in our tax provision. We completed this plan in the fourth quarter of 2013. As a result, we recorded an increase in our tax provision from continuing operations in the

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)**

amount of approximately \$71,400 in the three months ended September 30, 2013. This increase was offset by decreases of approximately \$23,500 from 2013 foreign tax credits and approximately \$21,900 from the reversal of valuation allowances related to foreign tax credit carryforwards, resulting in a net increase of approximately \$26,000 in our tax provision from continuing operations.

As a result of our REIT conversion, we recorded a net tax benefit of \$212,151 during the nine months ended September 30, 2014 for the revaluation of certain deferred tax assets and liabilities associated with the REIT conversion. Also, in the third quarter of 2014, we recorded an increase to the tax provision of \$26,390 related to certain amended tax returns filed principally to reflect tax accounting method changes consistent with our REIT conversion. The primary other reconciling items between the federal statutory rate of 35% and our overall effective tax rate in the three and nine months ended September 30, 2014 was an increase of \$13,226 and \$49,310, respectively, in our tax provision from the repatriation discussed below and other net tax adjustments related to the REIT conversion including a tax benefit of \$7,993 and \$41,828, respectively, primarily related to the dividends paid deduction. Our effective tax rate will be significantly lower in 2014 as a result of the REIT conversion. As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial reduction of federal income tax expense. As a REIT, substantially all of our income tax expense will be incurred based on the earnings generated by our foreign subsidiaries and our U.S. TRSs.

The following table presents a reconciliation of significant components of deferred tax assets and liabilities from December 31, 2013 to September 30, 2014:

	December 31, 2013	Revaluation Associated with REIT Conversion	Current Year Activity(1)	September 30, 2014
Deferred Tax Assets:				
Accrued liabilities	\$ 75,731	\$ (48,087)	\$ 3,701	\$ 31,345
Deferred rent	25,624	(25,749)	1,976	1,851
Net operating loss carryforwards	81,124	(34,912)	14,050	60,262
Foreign tax credits	10,229	(9,207)	(1,022)	
Stock compensation	16,745	(17,942)	1,197	
Federal benefit of unrecognized tax benefits	20,263		(4,813)	15,450
Foreign currency and other adjustments	23,938	(34,552)	20,837	10,223
Valuation allowance	(40,278)		(2,732)	(43,010)
	213,376	(170,449)	33,194	76,121
Deferred Tax Liabilities:				
Other assets, principally due to differences in amortization	(367,936)	273,268	3,668	(91,000)
Plant and equipment, principally due to differences in depreciation	(168,385)	109,332	23,608	(35,445)
	(536,321)	382,600	27,276	(126,445)
Net Deferred Tax Asset/(Liability)	\$ (322,945)	\$ 212,151	\$ 60,470	\$ (50,324)

(1)

Current year activity primarily consists of additional deferred tax assets and liabilities recognized due to changes in current year taxable temporary differences, purchase accounting and return to accrual adjustments related to the 2013 tax return.

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)

We had not previously provided incremental federal and certain state income taxes on net tax over book outside basis differences related to the earnings of our foreign subsidiaries because our intent, prior to our conversion to a REIT, was to reinvest our current and future undistributed earnings of certain foreign subsidiaries indefinitely outside the U.S. As a result of our conversion to a REIT, it is no longer our intent to indefinitely reinvest our current and future undistributed foreign earnings outside the U.S., and, therefore, in the second and third quarters of 2014, we recognized an increase in our tax provision from continuing operations in the amount of \$36,084 and \$13,226, respectively, representing incremental federal and state income taxes and foreign withholding taxes on such foreign earnings of \$49,310 in total. As a REIT, future repatriation of incremental undistributed earnings of our foreign subsidiaries should not be subject to federal or state income tax, with the exception of foreign withholding taxes in limited instances; however, such future repatriations will require distribution as per REIT distribution rules which are then taxable, as appropriate, at the stockholder level.

j.

Concentrations of Credit Risk

Financial instruments that potentially subject us to market risk consist principally of cash and cash equivalents (including money market funds and time deposits), restricted cash (primarily U.S. Treasuries) and accounts receivable. The only significant concentrations of liquid investments as of both December 31, 2013 and September 30, 2014 relate to cash and cash equivalents and restricted cash held on deposit with one global bank and one "Triple A" rated money market fund, and three global banks and three "Triple A" rated money market funds, respectively, all of which we consider to be large, highly-rated investment-grade institutions. As per our risk management investment policy, we limit exposure to concentration of credit risk by limiting the amount invested in any one mutual fund to a maximum of \$50,000 or in any one financial institution to a maximum of \$75,000. As of December 31, 2013 and September 30, 2014, our cash and cash equivalents and restricted cash balance was \$154,386 and \$217,848, respectively, including money market funds and time deposits amounting to \$36,613 and \$97,608, respectively. The money market funds are invested substantially in U.S. Treasuries, repurchase agreements and certificates of deposit.

k.

Fair Value Measurements

Entities are permitted under GAAP to elect to measure many financial instruments and certain other items at either fair value or cost. We did not elect the fair value measurement option.

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

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

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

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)**

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.

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2013 and September 30, 2014, respectively:

Description	Total Carrying Value at December 31, 2013	Fair Value Measurements at December 31, 2013 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money Market Funds(1)	\$ 33,860	\$	\$ 33,860	\$
Time Deposits(1)	2,753		2,753	
Trading Securities	13,386	12,785(2)	601(1)	
Derivative Assets(3)	72		72	
Derivative Liabilities(3)	5,592		5,592	

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)

Description	Total Carrying Value at September 30, 2014	Fair Value Measurements at September 30, 2014 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money Market Funds(1)	\$ 79,795	\$	\$ 79,795	\$
Time Deposits(1)	17,813		17,813	
Trading Securities	12,798	12,068(2)	730(1)	
Derivative Assets(3)	3		3	
Derivative Liabilities(3)	11,293		11,293	

- (1) Money market funds and time deposits (including certain trading securities) are measured based on quoted prices for similar assets and/or subsequent transactions.
- (2) Securities are measured at fair value using quoted market prices.
- (3) Our derivative assets and liabilities primarily relate to short- term (six months or less) foreign currency contracts that we have entered into to hedge our intercompany exposures denominated in British pounds sterling, Euro and Australian dollars. 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.

Disclosures are required in the financial statements for items measured at fair value on a non-recurring basis. We did not have any material items that are measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2013 and 2014.

I.
Use of Estimates

The preparation of financial statements in conformity with GAAP 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 ongoing basis, we evaluate the estimates used. 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)****(2) Summary of Significant Accounting Policies (Continued)**

m.

Accumulated Other Comprehensive Items, Net

The changes in accumulated other comprehensive items, net for the three months ended September 30, 2013 and 2014, respectively, are as follows:

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of June 30, 2013	\$ (21,697)	\$	\$ (21,697)
Other comprehensive income:			
Foreign currency translation adjustments	17,200		17,200
Total other comprehensive income	17,200		17,200
Balance as of September 30, 2013	\$ (4,497)	\$	\$ (4,497)

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of June 30, 2014	\$ (3,809)	\$ 1,474	\$ (2,335)
Other comprehensive loss:			
Foreign currency translation adjustments	(44,606)		(44,606)
Market value adjustments for securities		(291)	(291)
Total other comprehensive loss	(44,606)	(291)	(44,897)
Balance as of September 30, 2014	\$ (48,415)	\$ 1,183	\$ (47,232)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

The changes in accumulated other comprehensive items, net for the nine months ended September 30, 2013 and 2014, respectively, are as follows:

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2012	\$ 20,314	\$	\$ 20,314
Other comprehensive loss:			
Foreign currency translation adjustments	(24,811)		(24,811)
 Total other comprehensive loss	 (24,811)		 (24,811)
 Balance as of September 30, 2013	 \$ (4,497)	 \$	 \$ (4,497)

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)**

	Foreign Currency Translation Adjustments	Market Value Adjustments for Securities	Total
Balance as of December 31, 2013	\$ (9,586)	\$ 926	\$ (8,660)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(38,829)		(38,829)
Market value adjustments for securities		257	257
Total other comprehensive (loss) income	(38,829)	257	(38,572)
Balance as of September 30, 2014	\$ (48,415)	\$ 1,183	\$ (47,232)

n.

Other Expense (Income), Net

Other expense (income), net consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Foreign currency transaction losses (gains), net	\$ 2,612	\$ 23,500	\$ 22,543	\$ 25,591
Debt extinguishment expense, net	43,662		43,662	
Other, net	(321)	(992)	(2,238)	(2,604)
	\$ 45,953	\$ 22,508	\$ 63,967	\$ 22,987

o.

Property, Plant and Equipment and Long-Lived Assets

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

We develop various software applications for internal use. Computer software costs associated with internal use software are expensed as incurred until certain capitalization criteria are met. Payroll and related costs for employees directly associated with, and devoting time to, the development of internal use computer software projects (to the extent time is spent directly on the project) are capitalized. During the three and nine months ended September 30, 2013, we capitalized \$9,326 and \$32,073, respectively, of costs associated with the development of internal use computer software projects. During the three and nine months ended September 30, 2014, we capitalized \$4,769 and \$14,527, respectively, of costs associated with the development of internal use computer software projects. Capitalization begins when the design stage of the application has been completed and it is probable that the project will be completed and used to perform the function intended. Capitalization ends when the asset is ready for its intended use. Depreciation begins when the software is placed in service. Computer software costs that are capitalized are periodically evaluated for impairment.

We review long-lived assets and all amortizable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to their carrying amount. The operations are generally

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)

distinguished by the business segment and geographic region in which they operate. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

As a result of our conversion to a REIT and in accordance with SEC rules applicable to REITs, we no longer report (gain) loss from the sale of real estate as a component of operating income, but we will continue to report it as a component of income (loss) from continuing operations. We will continue to report the (gain) loss of property, plant and equipment (excluding real estate), along with any impairment, write-downs or involuntary conversions related to real estate, as a component of operating income. Previously reported amounts have been reclassified to conform to this presentation.

Consolidated gain on disposal/write-down of property, plant and equipment, net (excluding real estate) was \$528 for the nine months ended September 30, 2013 and consisted primarily of gains associated with the retirement of leased vehicles accounted for as capital lease assets associated primarily with our North American Records and Information Management Business. Consolidated loss on disposal/write-down of property, plant and equipment, net (excluding real estate) was \$1,229 for the nine months ended September 30, 2014 and consisted primarily of losses associated with the disposal of certain equipment associated with our North American Records and Information Management Business and International Business.

Consolidated gain on sale of real estate was \$1,417, net of tax of \$430, for the nine months ended September 30, 2013 associated with the sale of a building in the United Kingdom. Consolidated gain on sale of real estate was \$7,468, net of tax of \$1,991, for the nine months ended September 30, 2014 associated with the sale of two buildings in the United Kingdom.

P.
New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)* ("ASU 2014-08"). ASU 2014-08 changes the criteria for a disposal to qualify as a discontinued operation and requires additional disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals that have not been reported in the financial statements previously issued. We adopted ASU 2014-08 effective April 1, 2014.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 provides additional guidance for management to reassess revenue recognition as it relates to: (1) transfer of control, (2) variable consideration, (3) allocation of transaction price based on relative standalone selling price, (3) licenses, (4) time value of money and (5) contract costs. Further disclosures will be required to provide a better understanding of revenue that has been recognized and revenue that is expected to be recognized in the future from existing

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)

contracts. ASU 2014-09 is effective for us on January 1, 2017, with no early adoption permitted. We are currently evaluating the impact ASU 2014-09 will have on our consolidated financial statements.

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

q.

Immaterial Restatement

During the second quarter of 2014, we identified contract billing inaccuracies arising from a single location which occurred over numerous years that resulted in an overstatement of our prior years' reported revenue by \$10,000 in the aggregate. Of this amount, \$1,300 relates to the year ended December 31, 2013, \$1,300 relates to the year ended December 31, 2012 and the remaining \$7,400 relates to the periods prior to December 31, 2011. We have determined that no prior period financial statement was materially misstated as a result of these billing inaccuracies. As a result, we have restated beginning retained earnings as of December 31, 2012 for the cumulative impact of these billing inaccuracies, net of tax, prior to December 31, 2012 in the amount of \$5,300. Additionally, we have restated our 2012 and 2013 Consolidated Statements of Equity, our 2013 Consolidated Balance Sheet and each of our Consolidated Statements of Operations and our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 to reflect the impact of these billing inaccuracies in those particular periods. There was no change to the following lines of the Consolidated Statement of Cash Flows for the nine months ended September 30, 2013: (1) cash flows from operating activities, (2) cash flows from investing activities and (3) cash flows from financing activities.

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 sets forth the effect of the immaterial restatement to certain line items of our Consolidated Statement of Operations for the three and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Storage Rental	\$	\$
Service	(325)	(975)
Total Revenues	\$ (325)	\$ (975)
Operating (Loss) Income	\$ (325)	\$ (975)
(Loss) Income from Continuing Operations before Provision (Benefit) for Income Taxes and (Loss) Gain on Sale of Real Estate	\$ (325)	\$ (975)
(Benefit) Provision for Income Taxes	\$ (127)	\$ (381)
(Loss) Income from Continuing Operations	\$ (198)	\$ (594)
Net (Loss) Income	\$ (198)	\$ (594)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net (Loss) Income Attributable to Iron Mountain Incorporated	\$	(198)	\$	(594)
--------------------------------------------------------------	----	-------	----	-------

Earnings (Losses) per Share Basic:

(Loss) Income from Continuing Operations	\$	(0.00)	\$	(0.00)
------------------------------------------	----	--------	----	--------

Net (Loss) Income Attributable to Iron Mountain Incorporated	\$	(0.00)	\$	(0.00)
--------------------------------------------------------------	----	--------	----	--------

Earnings (Losses) per Share Diluted:

(Loss) Income from Continuing Operations	\$	(0.00)	\$	(0.00)
------------------------------------------	----	--------	----	--------

Net (Loss) Income Attributable to Iron Mountain Incorporated	\$	(0.00)	\$	(0.00)
--------------------------------------------------------------	----	--------	----	--------

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 sets forth the effect of the immaterial restatement to certain line items of our Consolidated Balance Sheet as of December 31, 2013:

	December 31, 2013
Deferred Revenue	\$ 10,000
Total Current Liabilities	\$ 10,000
Deferred Income Tax Liabilities	\$ (3,900)
Retained Earnings	\$ (6,100)
Total Iron Mountain Incorporated Stockholders' Equity	\$ (6,100)
Total Equity	\$ (6,100)

Prospectively, we will process an immaterial restatement of our Consolidated Statements of Operations for the annual periods ended December 31, 2013 and 2012 when those statements are reproduced on a comparative basis in our Annual Report on Form 10-K for the year ending December 31, 2014. The effects of such restatement on previously reported annual amounts for the years ended December 31, 2013 and 2012 will be to reduce service revenues by \$1,300 and \$1,300, respectively and reduce net income from continuing operations by \$800 and \$786, respectively.

r.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Accrued Expenses

Accrued expenses with items greater than 5% of total current liabilities are shown separately and consist of the following:

	December 31, 2013	September 30, 2014
Interest	\$ 71,971	\$ 47,462
Payroll and vacation	91,519	69,638
Incentive compensation	58,562	50,648
Dividend (Note 9)	55,142	795,671
Self-insured liabilities	32,850	32,674
Other	151,294	167,143
Accrued expenses	\$ 461,338	\$ 1,163,236

(3) Derivative Instruments and Hedging Activities

Every derivative instrument is required to 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 that 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

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)**

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 may use interest rate swaps as a tool to maintain our targeted level of fixed rate debt. In addition, we may use borrowings in foreign currencies, either obtained in the U.S. or by our foreign subsidiaries, to 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 exposure due to foreign currency exchange movements related to our intercompany accounts with and between our foreign subsidiaries. As of December 31, 2013 and September 30, 2014, none of our derivative instruments contained credit-risk related contingent features.

We have entered into a number of separate forward contracts to hedge our exposures in Euros and Australian dollars. As of September 30, 2014, we had (1) outstanding forward contracts to purchase 194,500 Euros and sell \$257,479 U.S. dollars to hedge our intercompany exposures with our European operations and (2) an outstanding forward contract to purchase \$59,201 U.S. dollars and sell 68,000 Australian dollars to hedge our intercompany exposures with our Australian operations. 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 Consolidated Statements of Operations as a realized foreign exchange gain or loss. At the end of each month, we mark the outstanding forward contracts to market and record an unrealized foreign exchange gain or loss for the mark-to-market valuation. We have not designated the forward contracts as hedges. During the three and nine months ended September 30, 2013, there was \$4,764 in net cash disbursements and \$11,511 in net cash receipts, respectively, included in cash from operating activities from continuing operations related to settlements associated with foreign currency forward contracts. During the three and nine months ended September 30, 2014, there was \$9,536 in net cash receipts and \$4,993 in net cash payments, respectively, included in cash from operating activities from continuing operations related to settlements associated with foreign currency forward contracts.

Our policy is to record the fair value of each derivative instrument on a gross basis. The following table provides the fair value of our derivative instruments as of December 31, 2013 and September 30, 2014 and their gains and losses for the three and nine months ended September 30, 2013 and 2014:

Derivatives Not Designated as Hedging Instruments	Asset Derivatives			
	December 31, 2013		September 30, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Prepaid expenses and other	\$ 72	Prepaid expenses and other	\$ 3
Total		\$ 72		\$ 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	Liability Derivatives			
	December 31, 2013		September 30, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Accrued expenses	\$ 5,592	Accrued expenses	\$ 11,293
Total		\$ 5,592		\$ 11,293

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Income on Derivative	Amount of (Gain) Loss Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2014	2013	2014
Foreign exchange contracts	Other expense (income), net	\$ 14,164	\$ (4,025)	\$ (6,059)	\$ 10,625
Total		\$ 14,164	\$ (4,025)	\$ (6,059)	\$ 10,625

We have designated a portion of the 6³/₄% Notes as a hedge of net investment of certain of our Euro denominated subsidiaries. For the nine months ended September 30, 2013 and 2014, we designated on average 107,667 and 51,481 Euros, respectively, of the 6³/₄% Notes as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded foreign exchange losses of \$5,467 (\$3,333, net of tax) and foreign exchange losses of \$3,374 (\$2,057, net of tax) related to the change in fair value of such debt due to currency translation adjustments, which is a component of accumulated other comprehensive items, net included in Iron Mountain Incorporated Stockholders' Equity for the three and nine months ended September 30, 2013, respectively. We recorded foreign exchange gains of \$3,729 (\$3,729, net of tax) and foreign exchange gains of \$4,537 (\$4,480, net of tax) related to the change in fair value of such debt due to currency translation adjustments, which is a component of accumulated other comprehensive items, net included in Iron Mountain Incorporated Stockholders' Equity for the three and nine months ended September 30, 2014, respectively. As of September 30, 2014, cumulative net gains of \$11,964, net of tax are recorded in accumulated other comprehensive items, net associated with this net investment hedge.

(4) Acquisitions

We account for acquisitions using the acquisition method of accounting, and, accordingly, the assets and liabilities acquired were recorded at their estimated fair values and the results of operations for each acquisition have been included in our consolidated results from their respective acquisition dates. Cash consideration for our various acquisitions was primarily provided through borrowings under our credit facilities and cash equivalents on-hand. The unaudited pro forma results of operations (including revenue and earnings) for the current and prior periods are not presented due to the insignificant impact of the 2013 and 2014 acquisitions on our consolidated results of operations. Noteworthy 2014 acquisitions include the following:

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

In January 2014, in order to enhance our international operations, we acquired Tape Management Services Pty Ltd, a storage and data management company with operations in Australia, for approximately \$15,300.

In February 2014, in order to enhance our international operations, we acquired RM Arşiv Yönetim Hizmetleri Ticaret Anonim Şirketi, a storage rental and records management business with operations in Turkey, for approximately \$21,200, of which \$16,750 was paid in the first quarter of 2014, with the remainder to be paid out based upon a customary working capital adjustment and whether we make claims for indemnification against the former owners of the business.

In April 2014, in order to enhance our international operations, we acquired the stock of OSG Polska sp. z.o.o., a storage rental and records management business with operations in Poland, for approximately \$13,700.

A summary of the cumulative consideration paid and the preliminary allocation of the purchase price paid for acquisitions in the first nine months of 2014 is as follows:

Cash Paid (gross of cash acquired)	\$ 48,667(1)
Fair Value of Previously Held Equity Interest	794
Total Consideration	49,461
Fair Value of Identifiable Assets Acquired:	
Cash, Accounts Receivable, Prepaid Expenses, Deferred Income Taxes and Other	5,847
Property, Plant and Equipment(2)	14,009
Customer Relationship Assets(3)	26,315
Other Assets	858
Liabilities Assumed and Deferred Income Taxes(4)	(30,860)
Total Fair Value of Identifiable Net Assets Acquired	16,169
Goodwill Initially Recorded	\$ 33,292

(1) Included in cash paid for acquisitions in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 are net cash acquired of \$(1,296) and contingent and other payments of \$(1,005) related to acquisitions made in previous years.

(2) Consists primarily of racking structures, leasehold improvements and computer hardware and software.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

- (3) The weighted average lives of customer relationship assets associated with acquisitions to date in 2014 was approximately 12 years.
- (4) Consists primarily of accounts payable, accrued expenses, notes payable, deferred revenue and deferred income taxes.

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(4) Acquisitions (Continued)

Allocations of the purchase price paid for acquisitions made in 2014 were based on estimates of the fair value of net assets acquired and are subject to adjustment. We are not aware of any information that would indicate that the final purchase price allocations for 2014 acquisitions will differ meaningfully from preliminary estimates. The purchase price allocations of 2014 acquisitions are subject to finalization of the assessment of the fair value of intangible assets (primarily customer relationship assets), property, plant and equipment (primarily racking structures), operating leases, contingencies and income taxes (primarily deferred income taxes).

In September 2014, we purchased our joint venture partners' noncontrolling interests in the businesses we operate in Russia, the Ukraine and Denmark. The purchase price of approximately \$24,500 is comprised of \$17,900 paid at closing, \$2,100 payable in 2017 and \$4,500 payable in 2020. The components of the purchase price payable in 2017 and 2020 are reflected as non-cash items within our Consolidated Statement of Cash Flows for the nine months ended September 30, 2014. Of the \$17,900 paid at closing, approximately \$11,950 was associated with the underlying shares owned by our joint venture partners and approximately \$5,950 was associated with the payment of outstanding loans between the joint venture and the joint venture partners.

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

Long-term debt comprised the following:

	December 31, 2013		September 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revolving Credit Facility(1)	\$ 675,717	\$ 675,717	\$ 277,316	\$ 277,316
Term Loan(1)			250,000	250,000
7 ¹ / ₄ % GBP Senior Subordinated Notes due 2014 (the "7 ¹ / ₄ % Notes")(2)(3)	247,808	248,117		
6 ³ / ₄ % Euro Senior Subordinated Notes due 2018 (the "6 ³ / ₄ % Notes")(2)(3)	350,272	355,071	321,528	322,613
7 ³ / ₄ % Senior Subordinated Notes due 2019 (the "7 ³ / ₄ % Notes")(2)(3)	400,000	446,000	400,000	425,500
8 ³ / ₈ % Senior Subordinated Notes due 2021 (the "8 ³ / ₈ % Notes")(2)(3)	411,518	444,470	411,615	426,670
6 ¹ / ₈ % CAD Senior Notes due 2021 (the "Senior Subsidiary Notes")(2)(4)	187,960	187,960	179,040	180,383
6 ¹ / ₈ % GBP Senior Notes due 2022 (the "6 ¹ / ₈ % Notes")(2)(5)			649,180	652,491
6% Senior Notes due 2023 (the "6% Notes")(2)(3)	600,000	614,820	600,000	616,500
5 ³ / ₄ % Senior Subordinated Notes due 2024 (the "5 ³ / ₄ % Notes")(2)(3)	1,000,000	930,000	1,000,000	987,500
Real Estate Mortgages, Capital Leases and Other(6)	298,447	298,447	303,806	303,806
Total Long-term Debt	4,171,722		4,392,485	
Less Current Portion	(52,583)		(60,799)	
Long-term Debt, Net of Current Portion	\$ 4,119,139		\$ 4,331,686	

(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 (including promissory notes) of subsidiaries owed to us or to one of our U.S. subsidiary guarantors. In addition, Iron Mountain Canada Operations ULC ("Canada Company") has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it, to secure the Canadian dollar subfacility under the Revolving Credit Facility (defined below). The fair value (Level 3 of fair value hierarchy described at Note 2.k.) of these debt instruments approximates the carrying value (as borrowings under these debt instruments are based on current variable market interest rates (plus a margin that is subject to change based on our consolidated leverage ratio)), as of December 31, 2013 and September 30, 2014, respectively.

(2) The fair values (Level 1 of fair value hierarchy described at Note 2.k.) of these debt instruments are based on quoted market prices for these notes on December 31, 2013 and September 30, 2014, respectively.

(3)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Collectively, the "Parent Notes." IMI is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior or senior subordinated basis, as the case may be, by substantially all of its direct and indirect 100% owned U.S. subsidiaries (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Canada Company and the remainder of our subsidiaries do not guarantee the Parent Notes.

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(5) Debt (Continued)

- (4) Canada Company is the direct obligor on the Senior Subsidiary Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements.
- (5) Iron Mountain Europe PLC ("IME") is the direct obligor on the 6¹/₈% Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements.
- (6) We believe the fair value (Level 3 of fair value hierarchy described at Note 2.k.) of this debt approximates its carrying value.

On August 7, 2013, we amended our existing credit agreement. The revolving credit facilities (the "Revolving Credit Facility") under our credit agreement, as amended (the "Credit Agreement"), allow IMI and certain of its U.S. and foreign subsidiaries to borrow in U.S. dollars and (subject to sublimits) a variety of other currencies (including Canadian dollars, British pounds sterling, Euros, Brazilian reais and Australian dollars, among other currencies) in an aggregate outstanding amount not to exceed \$1,500,000. In addition, the Credit Agreement included an option to allow us to request additional commitments of up to \$500,000, in the form of term loans or through increased commitments under the Revolving Credit Facility. On August 25, 2014, we entered into an incremental term loan activation notice under the Credit Agreement pursuant to which we increased the maximum amount permitted to be borrowed under the Credit Agreement from \$1,500,000 to \$1,900,000, and on September 24, 2014, we borrowed \$250,000 of the increased borrowings in the form of a term loan under the Credit Agreement (the "Term Loan"). Commencing on December 31, 2014, the Term Loan will begin amortizing in quarterly installments in an amount equal to \$625 per quarter, with the remaining balance due on June 27, 2016. The Term Loan may be prepaid without penalty or premium, in whole or in part, at any time. The Credit Agreement continues to include an option to allow us to request additional commitments of up to \$250,000, in the form of term loans or through increased commitments under the Revolving Credit Facility.

The Credit Agreement terminates on June 27, 2016, at which point all obligations become due. IMI and the Guarantors guarantee all obligations under the Credit Agreement, and have pledged the capital stock or other equity interests of most of their U.S. subsidiaries, up to 66% of the capital stock or other equity interests of their first-tier foreign subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by them to secure the Credit Agreement. In addition, Canada Company has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it to secure the Canadian dollar subfacility under the Revolving Credit Facility. The interest rate on borrowings under the Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin, which varies based on our consolidated leverage ratio. Additionally, the Credit Agreement requires the payment of a commitment fee on the unused portion of the Revolving Credit Facility, which fee ranges from between 0.3% to 0.5% based on certain financial ratios and fees associated with outstanding letters of credit. As of September 30, 2014, we had \$277,316 and \$250,000 of outstanding borrowings under the Revolving Credit Facility and the Term Loan, respectively. Of the \$277,316 of outstanding borrowings under the Revolving Credit Facility, \$130,250 was denominated in U.S. dollars, 60,000 was denominated in

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(5) Debt (Continued)

Canadian dollars, 63,715 was denominated in Euros and 14,500 was denominated in Australian dollars. In addition, we also had various outstanding letters of credit totaling \$8,587. The remaining amount available for borrowing under the Revolving Credit Facility as of September 30, 2014, based on IMI's leverage ratio, the last 12 months' earnings before interest, taxes, depreciation and amortization and rent expense ("EBITDAR"), other adjustments as defined in the Credit Agreement and current external debt, was \$1,214,097 (which amount represents the maximum availability as of such date). The average interest rate in effect under the Credit Agreement was 2.6% as of September 30, 2014. The average interest rate in effect under the Revolving Credit Facility was 2.7% and ranged from 2.3% to 4.9% as of September 30, 2014 and the interest rate in effect under the Term Loan as of September 30, 2014 was 2.4%.

For the three and nine months ended September 30, 2013, we recorded commitment fees and letters of credit fees of \$977 and \$2,133, respectively, based on the unused balances under the Revolving Credit Facility and outstanding letters of credit. In addition, we recorded a charge of \$43,662 to other expense (income), net in the third quarter of 2013 which consisted of a charge of \$5,544 related to the amendment of our revolving credit and term loan facilities, representing a write-off of deferred financing costs and a charge of \$38,118 related to the early extinguishment of (1) 175,000 CAD aggregate principal amount outstanding of the 7¹/₂% CAD Senior Subordinated Notes due 2017, (2) \$50,000 aggregate principal amount outstanding of the 8% Senior Subordinated Notes due 2018, (3) \$300,000 aggregate principal amount outstanding of the 8% Senior Subordinated Notes due 2020, and (4) \$137,500 aggregate principal amount of the 8³/₈% Notes. For the three and nine months ended September 30, 2014, we recorded commitment fees and letters of credit fees of \$700 and \$1,867, respectively, based on the unused balances under the Revolving Credit Facility and outstanding letters of credit.

In January 2014, we redeemed the 150,000 British pounds sterling (approximately \$247,000) in aggregate principal amount outstanding of the 7¹/₄% Notes at 100% of par, plus accrued and unpaid interest, utilizing borrowings under our Revolving Credit Facility and cash on-hand.

In September 2014, IME completed a private offering of 400,000 British pounds sterling in aggregate principal amount of the 6¹/₈% Notes, which were issued at 100% of par. The net proceeds to IME of 394,000 British pounds sterling (approximately \$642,000 based on an exchange rate of 1.63), after paying the initial purchasers' commissions and expenses, were used to repay amounts outstanding under our Revolving Credit Facility and for general corporate purposes.

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, our indentures or other agreements governing our indebtedness. The Credit Agreement uses EBITDAR-based calculations as the primary measures of financial performance, including leverage and fixed charge coverage ratios. IMI's Credit Agreement net total lease adjusted leverage ratio was 5.0 and 5.2 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 6.5, and its net

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(5) Debt (Continued)

secured debt lease adjusted leverage ratio was 2.2 and 2.0 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 4.0. IMI's bond leverage ratio (which is not lease adjusted), per the indentures, was 5.1 and 5.3 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 6.5. IMI's Credit Agreement fixed charge coverage ratio was 2.5 as of both December 31, 2013 and September 30, 2014 compared to a minimum allowable ratio of 1.5 under the Credit Agreement. Noncompliance with these leverage and fixed charge coverage ratios would have a material adverse effect on our financial condition and liquidity.

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

The following data summarizes the consolidating results of IMI on the equity method of accounting as of December 31, 2013 and September 30, 2014 and for the three and nine months ended September 30, 2013 and 2014 and are prepared on the same basis as the consolidated financial statements.

The Parent Notes, Senior Subsidiary Notes and the 6¹/₈% Notes are guaranteed by the subsidiaries referred to below as the Guarantors. These subsidiaries are 100% owned by IMI. The guarantees are full and unconditional, as well as joint and several.

Additionally, IMI and the Guarantors guarantee the Senior Subsidiary Notes, which were issued by Canada Company, and the 6¹/₈% Notes, which were issued by IME. Canada Company and IME do not guarantee the Parent Notes. The subsidiaries that do not guarantee the Parent Notes, the Senior Subsidiary Notes and the 6¹/₈% Notes, including IME but excluding Canada Company, are referred to below as the Non-Guarantors.

In the normal course of business we periodically change the ownership structure of our subsidiaries to meet the requirements of our business. In the event of such changes, we recast the prior period financial information within this footnote to conform to the current period presentation in the period such changes occur. Generally, these changes do not alter the designation of the underlying subsidiaries as Guarantors or Non-Guarantors. However, they may change whether the underlying subsidiary is owned by the Parent, a Guarantor, Canada Company or a Non-Guarantor. If such a change occurs, the amount of investment in subsidiaries in the below balance sheets and equity in the earnings (losses) of subsidiaries, net of tax in the below statements of operations with respect to the relevant Parent, Guarantors, Canada Company, Non-Guarantors and Eliminations columns also would change.

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)****CONSOLIDATED BALANCE SHEETS**

	December 31, 2013					
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$ 1,243	\$ 10,366	\$ 1,094	\$ 107,823	\$	\$ 120,526
Restricted Cash	33,860					33,860
Accounts Receivable		358,118	38,928	219,751		616,797
Intercompany Receivable	761,501		1,607		(763,108)	
Other Current Assets	1,120	98,717	5,995	56,622	(30)	162,424
Total Current Assets	797,724	467,201	47,624	384,196	(763,138)	933,607
Property, Plant and Equipment, Net	1,019	1,569,248	172,246	835,747		2,578,260
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable	1,775,570	1,000	2,672		(1,779,242)	
Investment in Subsidiaries	1,564,405	1,313,835	31,130	70,788	(2,980,158)	
Goodwill		1,638,534	187,259	637,559		2,463,352
Other	38,862	376,939	11,257	250,842	(114)	677,786
Total Other Assets, Net	3,378,837	3,330,308	232,318	959,189	(4,759,514)	3,141,138
Total Assets	\$ 4,177,580	\$ 5,366,757	\$ 452,188	\$ 2,179,132	\$ (5,522,652)	\$ 6,653,005
Liabilities and Equity						
Intercompany Payable	\$	\$ 581,029	\$	\$ 182,079	\$ (763,108)	\$
Current Portion of Long-term Debt		30,236		22,377	(30)	52,583
Total Other Current Liabilities	125,705	540,169	29,513	221,131		916,518
Long-term Debt, Net of Current Portion	3,009,597	508,382	289,105	312,055		4,119,139
Long-term Notes Payable to Affiliates and Intercompany Payable	1,000	1,772,144		6,098	(1,779,242)	
Other Long-term Liabilities	40	388,645	31,652	92,808	(114)	513,031
Commitments and Contingencies (See Note 8)						
Total Iron Mountain Incorporated						
Stockholders' Equity	1,041,238	1,546,152	101,918	1,332,088	(2,980,158)	1,041,238
Noncontrolling Interests				10,496		10,496

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Total Equity	1,041,238	1,546,152	101,918	1,342,584	(2,980,158)	1,051,734
--------------	-----------	-----------	---------	-----------	-------------	-----------

Total Liabilities and Equity	\$ 4,177,580	\$ 5,366,757	\$ 452,188	\$ 2,179,132	\$ (5,522,652)	\$ 6,653,005
------------------------------	--------------	--------------	------------	--------------	----------------	--------------

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)****CONSOLIDATED BALANCE SHEETS (Continued)**

	September 30, 2014					
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 52,970	\$ 4,602	\$ 126,416	\$	\$ 183,988
Restricted Cash		33,860				33,860
Accounts Receivable		371,347	36,451	211,198		618,996
Intercompany Receivable		243,568			(243,568)	
Other Current Assets		132	76,797	3,282	59,365	(34)
						139,542
Total Current Assets		277,560	501,114	44,335	396,979	(243,602)
Property, Plant and Equipment, Net		885	1,575,573	160,045	824,201	2,560,704
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable		2,788,541	295	2,542		(2,791,378)
Investment in Subsidiaries		935,928	675,718	30,726	89,929	(1,732,301)
Goodwill			1,604,911	178,372	637,782	2,421,065
Other		35,452	375,729	10,361	256,642	678,184
Total Other Assets, Net		3,759,921	2,656,653	222,001	984,353	(4,523,679)
Total Assets	\$	\$ 4,038,366	\$ 4,733,340	\$ 426,381	\$ 2,205,533	\$ (4,767,281)
						\$ 6,636,339

Liabilities and Equity						
Intercompany Payable	\$	\$ 93,005	\$ 2,049	\$ 148,514	\$ (243,568)	\$
Current Portion of Long-term Debt			32,502	28,331	(34)	60,799
Total Other Current Liabilities		848,451	444,651	32,851	211,556	1,537,509
Long-term Debt, Net of Current Portion		2,733,143	340,207	239,601	1,018,735	4,331,686
Long-term Notes Payable to Affiliates and Intercompany Payable		1,000	2,788,368		2,010	(2,791,378)
Other Long-term Liabilities			120,472	31,225	86,986	238,683
Commitments and Contingencies (See Note 8)						

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Total Iron Mountain Incorporated						
Stockholders' Equity	455,772	914,135	120,655	697,511	(1,732,301)	455,772
Noncontrolling Interests				11,890		11,890

Total Equity	455,772	914,135	120,655	709,401	(1,732,301)	467,662
--------------	---------	---------	---------	---------	-------------	---------

Total Liabilities and Equity	\$ 4,038,366	\$ 4,733,340	\$ 426,381	\$ 2,205,533	\$ (4,767,281)	\$ 6,636,339
------------------------------	--------------	--------------	------------	--------------	----------------	--------------

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)****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30, 2013					Consolidated
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	
Revenues:						
Storage Rental	\$	\$ 293,262	\$ 32,258	\$ 119,797	\$	\$ 445,317
Service		190,421	17,236	102,340		309,997
Intercompany Service				17,890	(17,890)	
Total Revenues		483,683	49,494	240,027	(17,890)	755,314
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		186,946	5,575	118,144		310,665
Intercompany Service Cost of Sales			17,890		(17,890)	
Selling, General and Administrative	77	159,668	3,412	62,048		225,205
Depreciation and Amortization	80	49,222	3,039	27,318		79,659
Loss (Gain) on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), net	5	(66)		(112)		(173)
Total Operating Expenses	162	395,770	29,916	207,398	(17,890)	615,356
Operating (Loss) Income	(162)	87,913	19,578	32,629		139,958
Interest Expense (Income), Net	52,070	(3,556)	9,192	6,779		64,485
Other Expense (Income), Net	67,524	5,921	5,473	(32,965)		45,953
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(119,756)	85,548	4,913	58,815		29,520
Provision (Benefit) for Income Taxes		1,297	4,560	18,333		24,190
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(123,605)	(39,094)	(2,742)	(353)	165,794	
Income (Loss) from Continuing Operations	3,849	123,345	3,095	40,835	(165,794)	5,330
Income (Loss) from Discontinued Operations, Net of Tax		35		(606)		(571)
Net Income (Loss)	3,849	123,380	3,095	40,229	(165,794)	4,759
Less: Net Income (Loss) Attributable to Noncontrolling Interest				910		910
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 3,849	\$ 123,380	\$ 3,095	\$ 39,319	\$ (165,794)	\$ 3,849

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net Income (Loss)	\$	3,849	\$	123,380	\$	3,095	\$	40,229	\$	(165,794)	\$	4,759
Other Comprehensive Income (Loss):												
Foreign Currency Translation Adjustments		(3,333)		(345)		9,189		11,512				17,023
Equity in Other Comprehensive Income (Loss) of Subsidiaries		20,533		20,978		(2,637)		9,189		(48,063)		
 Total Other Comprehensive Income (Loss)		 17,200		 20,633		 6,552		 20,701		 (48,063)		 17,023
 Comprehensive Income (Loss)		 21,049		 144,013		 9,647		 60,930		 (213,857)		 21,782
Comprehensive Income (Loss) Attributable to Noncontrolling Interests								733				733
 Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	 \$	 21,049	 \$	 144,013	 \$	 9,647	 \$	 60,197	 \$	 (213,857)	 \$	 21,049

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)****CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

	Three Months Ended September 30, 2014					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage Rental	\$	\$ 302,695	\$ 31,540	\$ 134,829	\$	\$ 469,064
Service		186,906	17,582	109,145		313,633
Intercompany Service				16,679	(16,679)	
Total Revenues		489,601	49,122	260,653	(16,679)	782,697
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		197,079	5,181	133,246		335,506
Intercompany Service Cost of Sales			16,679		(16,679)	
Selling, General and Administrative	58	143,555	3,505	69,219		216,337
Depreciation and Amortization	46	54,040	2,989	32,119		89,194
(Gain) Loss on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), net		(12)	11	185		184
Total Operating Expenses	104	394,662	28,365	234,769	(16,679)	641,221
Operating (Loss) Income	(104)	94,939	20,757	25,884		141,476
Interest Expense (Income), Net	46,571	(9,730)	8,544	17,835		63,220
Other (Income) Expense, Net	(22,468)	(212,113)	(31)	257,120		22,508
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(24,207)	316,782	12,244	(249,071)		55,748
Provision (Benefit) for Income Taxes		53,142	3,249	(1,501)		54,890
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(24,273)	240,121	(432)	(8,996)	(206,420)	
Net Income (Loss)	66	23,519	9,427	(238,574)	206,420	858
Less: Net Income (Loss) Attributable to Noncontrolling Interests				792		792
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 66	\$ 23,519	\$ 9,427	\$ (239,366)	\$ 206,420	\$ 66
Net Income (Loss)	\$ 66	\$ 23,519	\$ 9,427	\$ (238,574)	\$ 206,420	\$ 858

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	3,729		(4,560)	(44,592)		(45,423)
Market Value Adjustments for Securities		(291)				(291)
Equity in Other Comprehensive (Loss) Income of Subsidiaries	(48,626)	(48,335)	(874)	(4,560)	102,395	
Total Other Comprehensive (Loss) Income	(44,897)	(48,626)	(5,434)	(49,152)	102,395	(45,714)
Comprehensive (Loss) Income						
Comprehensive (Loss) Income	(44,831)	(25,107)	3,993	(287,726)	308,815	(44,856)
Comprehensive (Loss) Income Attributable to Noncontrolling Interests				(25)		(25)
Comprehensive (Loss) Income Attributable to Iron Mountain Incorporated						
	\$ (44,831)	\$ (25,107)	\$ 3,993	\$ (287,701)	\$ 308,815	\$ (44,831)

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)****CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

	Nine Months Ended September 30, 2013					Consolidated
	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	
Revenues:						
Storage Rental	\$	\$ 877,709	\$ 98,057	\$ 353,591	\$	\$ 1,329,357
Service		569,125	17,236	340,698		927,059
Intercompany Service				17,890	(17,890)	
Total Revenues		1,446,834	115,293	712,179	(17,890)	2,256,416
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		573,237	19,713	359,847		952,797
Intercompany Service Cost of Sales			17,890		(17,890)	
Selling, General and Administrative	140	478,523	12,357	182,167		673,187
Depreciation and Amortization	242	144,904	9,378	84,264		238,788
Loss (Gain) on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), net	5	(554)	21			(528)
Total Operating Expenses	387	1,196,110	59,359	626,278	(17,890)	1,864,244
Operating (Loss) Income	(387)	250,724	55,934	85,901		392,172
Interest Expense (Income), Net	155,430	(15,678)	30,148	20,756		190,656
Other Expense (Income), Net	38,320	4,669	5,427	15,551		63,967
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	(194,137)	261,733	20,359	49,594		137,549
Provision (Benefit) for Income Taxes		53,034	9,695	25,415		88,144
(Gain) Loss from Sale of Real Estate, Net of Tax				(1,417)		(1,417)
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(243,540)	(32,424)	(6,345)	(10,664)	292,973	
Income (Loss) from Continuing Operations	49,403	241,123	17,009	36,260	(292,973)	50,822
Income (Loss) from Discontinued Operations, Net of Tax		140		1,375		1,515
Net Income (Loss)	49,403	241,263	17,009	37,635	(292,973)	52,337
Less: Net Income (Loss) Attributable to Noncontrolling Interest				2,934		2,934
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 49,403	\$ 241,263	\$ 17,009	\$ 34,701	\$ (292,973)	\$ 49,403

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net Income (Loss)	\$ 49,403	\$ 241,263	\$ 17,009	\$ 37,635	\$ (292,973)	\$ 52,337
Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	(2,056)	620	(9,302)	(15,073)		(25,811)
Equity in Other Comprehensive (Loss) Income of Subsidiaries	(22,755)	(23,097)	(2,637)	(9,302)	57,791	
Total Other Comprehensive (Loss) Income	(24,811)	(22,477)	(11,939)	(24,375)	57,791	(25,811)
Comprehensive Income (Loss)	24,592	218,786	5,070	13,260	(235,182)	26,526
Comprehensive Income (Loss) Attributable to Noncontrolling Interests				1,934		1,934
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 24,592	\$ 218,786	\$ 5,070	\$ 11,326	\$ (235,182)	\$ 24,592

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)****CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

	Nine Months Ended September 30, 2014					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage Rental	\$	\$ 904,707	\$ 93,246	\$ 396,889	\$	\$ 1,394,842
Service		563,949	51,323	329,601		944,873
Intercompany Service				49,231	(49,231)	
Total Revenues		1,468,656	144,569	775,721	(49,231)	2,339,715
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		596,327	17,745	393,540		1,007,612
Intercompany Service Cost of Sales			49,231		(49,231)	
Selling, General and Administrative	122	432,831	10,348	201,623		644,924
Depreciation and Amortization	179	159,002	8,967	96,420		264,568
Loss (Gain) on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), net		820	12	397		1,229
Total Operating Expenses	301	1,188,980	86,303	691,980	(49,231)	1,918,333
Operating (Loss) Income	(301)	279,676	58,266	83,741		421,382
Interest Expense (Income), Net	141,410	(17,586)	25,927	37,982		187,733
Other (Income) Expense, Net	(15,643)	(204,392)	(51)	243,073		22,987
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	(126,068)	501,654	32,390	(197,314)		210,662
(Benefit) Provision for Income Taxes		(116,186)	9,359	8,676		(98,151)
(Gain) Loss from Sale of Real Estate, Net of Tax		(197)		(7,271)		(7,468)
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(439,438)	180,061	(1,073)	(23,032)	283,482	
Income (Loss) from Continuing Operations	313,370	437,976	24,104	(175,687)	(283,482)	316,281
(Loss) Income from Discontinued Operations, Net of Tax		(960)		22		(938)
Net Income (Loss)	313,370	437,016	24,104	(175,665)	(283,482)	315,343
Less: Net Income (Loss) Attributable to Noncontrolling Interests				1,973		1,973
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$ 313,370	\$ 437,016	\$ 24,104	\$ (177,638)	\$ (283,482)	\$ 313,370

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net Income (Loss)	\$ 313,370	\$ 437,016	\$ 24,104	\$ (175,665)	\$ (283,482)	\$ 315,343
Other Comprehensive Income (Loss):						
Foreign Currency Translation Adjustments	4,480	84	(4,997)	(38,676)		(39,109)
Market Value Adjustments for Securities		257				257
Equity in Other Comprehensive (Loss) Income of Subsidiaries	(43,052)	(44,290)	(371)	(4,997)	92,710	
Total Other Comprehensive (Loss) Income	(38,572)	(43,949)	(5,368)	(43,673)	92,710	(38,852)
Comprehensive Income (Loss)	274,798	393,067	18,736	(219,338)	(190,772)	276,491
Comprehensive Income (Loss) Attributable to Noncontrolling Interests				1,693		1,693
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 274,798	\$ 393,067	\$ 18,736	\$ (221,031)	\$ (190,772)	\$ 274,798

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)****CONSOLIDATED STATEMENTS OF CASH FLOWS****Nine Months Ended September 30, 2013**

	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Cash Flows from Operating Activities Continuing Operations	\$ (152,158)	\$ 348,463	\$ 25,662	\$ 111,662	\$	\$ 333,629
Cash Flows from Operating Activities Discontinued Operations		(129)		1,082		953
Cash Flows from Operating Activities	(152,158)	348,334	25,662	112,744		334,582
Cash Flows from Investing Activities:						
Capital expenditures		(132,376)	(2,104)	(70,392)		(204,872)
Cash paid for acquisitions, net of cash acquired		(23,338)		(99,343)		(122,681)
Intercompany loans to subsidiaries	231,195	214,640			(445,835)	
Investment in subsidiaries	(16,300)	(16,300)			32,600	
Investment in restricted cash	(1)					(1)
Additions to customer relationship and acquisition costs		(13,475)	(393)	(2,705)		(16,573)
Proceeds from sales of property and equipment and other, net (including real estate)		31	(3,175)	5,546		2,402
Cash Flows from Investing Activities Continuing Operations	214,894	29,182	(5,672)	(166,894)	(413,235)	(341,725)
Cash Flows from Investing Activities Discontinued Operations		(4,937)				(4,937)
Cash Flows from Investing Activities	214,894	24,245	(5,672)	(166,894)	(413,235)	(346,662)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt		(3,350,589)	(81,485)	(15,468)		(3,447,542)
Proceeds from revolving credit and term loan facilities and other debt		3,188,391	169,615	87,381		3,445,387
Early retirement of senior subordinated notes	(514,239)		(170,895)			(685,134)
Net proceeds from sales of senior notes	591,000		191,307			782,307
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net				1,066		1,066
Intercompany loans from parent		(228,216)	(226,605)	8,986	445,835	
Equity contribution from parent		16,300		16,300	(32,600)	
Parent cash dividends	(155,027)					(155,027)
Proceeds from exercise of stock options and employee stock purchase plan	14,726					14,726
Excess tax benefits from stock-based compensation	2,499					2,499
Payment of debt financing costs and stock issuance costs	(1,695)	(5,596)	(554)	(242)		(8,087)
Cash Flows from Financing Activities Continuing Operations	(62,736)	(379,710)	(118,617)	98,023	413,235	(49,805)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Cash Flows from Financing Activities Discontinued Operations

Cash Flows from Financing Activities	(62,736)	(379,710)	(118,617)	98,023	413,235	(49,805)
Effect of exchange rates on cash and cash equivalents			(4,479)	(5,020)		(9,499)
(Decrease) Increase in cash and cash equivalents		(7,131)	(103,106)	38,853		(71,384)
Cash and cash equivalents, beginning of period		13,472	103,346	126,597		243,415
Cash and cash equivalents, end of period	\$	\$ 6,341	\$ 240	\$ 165,450	\$	\$ 172,031

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)****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****Nine Months Ended September 30, 2014**

	Parent	Guarantors	Canada Company	Non- Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Cash Flows from Operating Activities Continuing Operations	\$ (154,848)	\$ 291,455	\$ 43,186	\$ 122,059	\$	\$ 301,852
Cash Flows from Operating Activities Discontinued Operations						
Cash Flows from Operating Activities	(154,848)	291,455	43,186	122,059		301,852
Cash Flows from Investing Activities:						
Capital expenditures		(171,331)	(4,800)	(101,255)		(277,386)
Cash paid for acquisitions, net of cash acquired		1,117		(47,483)		(46,366)
Intercompany loans to subsidiaries	541,044	768,486			(1,309,530)	
Investment in subsidiaries	(19,508)	(19,508)			39,016	
Additions to customer relationship and acquisition costs		(20,607)	(767)	(4,473)		(25,847)
Proceeds from sales of property and equipment and other, net (including real estate)		2,406	64	15,837		18,307
Cash Flows from Investing Activities Continuing Operations	521,536	560,563	(5,503)	(137,374)	(1,270,514)	(331,292)
Cash Flows from Investing Activities Discontinued Operations						
Cash Flows from Investing Activities	521,536	560,563	(5,503)	(137,374)	(1,270,514)	(331,292)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt		(7,571,268)	(518,520)	(135,775)		(8,225,563)
Proceeds from revolving credit and term loan facilities and other debt		7,391,058	480,387	190,302		8,061,747
Early retirement of senior subordinated notes	(247,275)					(247,275)
Net proceeds from sales of senior notes				642,417		642,417
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net		5,716		(20,431)		(14,715)
Intercompany loans from parent		(653,034)	3,571	(660,067)	1,309,530	
Equity contribution from parent		19,508		19,508	(39,016)	
Parent cash dividends	(157,018)					(157,018)
Proceeds from exercise of stock options and employee stock purchase plan	37,356					37,356
Excess tax benefits from stock-based compensation	40					40
Payment of debt financing costs and stock issuance costs	(1,034)	(499)	(12)	(611)		(2,156)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Cash Flows from Financing Activities - Continuing Operations	(367,931)	(808,519)	(34,574)	35,343	1,270,514	94,833
Cash Flows from Financing Activities - Discontinued Operations						
Cash Flows from Financing Activities	(367,931)	(808,519)	(34,574)	35,343	1,270,514	94,833
Effect of exchange rates on cash and cash equivalents		(895)	399	(1,435)		(1,931)
(Decrease) Increase in cash and cash equivalents	(1,243)	42,604	3,508	18,593		63,462
Cash and cash equivalents, beginning of period	1,243	10,366	1,094	107,823		120,526
Cash and cash equivalents, end of period	\$	\$ 52,970	\$ 4,602	\$ 126,416	\$	\$ 183,988

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(7) Segment Information

As a result of the restructuring of our operations late in 2013 and early in 2014, we evaluated changes to our internal financial reporting to better align our internal reporting to how we will manage our business going forward. This evaluation resulted in changes to our reportable segments effective January 1, 2014 and, as a result, we have restated previously reported segment information. As a result of the changes to our reportable segments, the former North American Business segment has been separated into two unique reportable segments, which we refer to as (1) North American Records and Information Management Business segment and (2) North American Data Management Business segment. In addition, the Emerging Businesses segment, which was previously reported as a component of the former North American Business segment, is now reported as a component of the Corporate and Other segment.

Our three reportable operating segments and Corporate and Other are described as follows:

North American Records and Information Management Business storage and information management services throughout the United States and Canada, including the storage of paper documents, as well as other 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 ("Records Management"); information destruction services ("Destruction"); DMS; Fulfillment Services; and Intellectual Property Management.

North American Data Management Business the storage and rotation of backup computer media as part of corporate disaster recovery plans throughout the United States and Canada, including service and courier operations ("Data Protection & Recovery"); server and computer backup services; digital content repository systems to house, distribute, and archive key media assets; and storage, safeguarding and electronic or physical delivery of physical media of all types, primarily for entertainment and media industry clients.

International Business storage and information management services throughout Europe, Latin America and Asia Pacific, including Records Management, Data Protection & Recovery, Destruction and DMS. Our European operations provide Records Management, Data Protection & Recovery and DMS throughout Europe, and Destruction services are primarily provided in the United Kingdom and Ireland. Our Latin America operations provide Records Management, Data Protection & Recovery, Destruction and DMS throughout Argentina, Brazil, Chile, Colombia, Mexico and Peru. Our Asia Pacific operations provide Records Management, Data Protection & Recovery, Destruction and DMS throughout Australia, with Records Management and Data Protection & Recovery services also provided in certain cities in India, Singapore, Hong Kong-SAR and China.

Corporate and Other consists of our data center business in the United States, the primary product offering of our Emerging Businesses segment, as well as costs related to executive and 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 and Other also includes stock-based employee compensation expense associated with all Employee Stock-Based Awards.

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)

An analysis of our business segment information and reconciliation to the accompanying Consolidated Financial Statements is as follows:

	North American Records and Information Management Business	North American Data Management Business	International Business	Corporate and Other	Total Consolidated
Three Months Ended September 30, 2013					
Total Revenues	\$ 441,347	\$ 100,347	\$ 210,433	\$ 3,187	\$ 755,314
Depreciation and Amortization	41,410	5,147	25,282	7,820	79,659
Depreciation	37,959	5,095	19,923	7,787	70,764
Amortization	3,451	52	5,359	33	8,895
Adjusted OIBDA	167,380	60,860	55,662	(43,737)	240,165
Expenditures for Segment Assets	19,437	2,615	90,654	12,127	124,833
Capital Expenditures	12,469	1,890	20,146	12,127	46,632
Cash Paid for Acquisitions, Net of Cash Acquired			69,889		69,889
Additions to Customer Relationship and Acquisition Costs	6,968	725	619		8,312
Three Months Ended September 30, 2014					
Total Revenues	450,279	96,735	232,165	3,518	782,697
Depreciation and Amortization	47,686	2,377	30,474	8,657	89,194
Depreciation	42,958	2,281	22,908	8,612	76,759
Amortization	4,728	96	7,566	45	12,435
Adjusted OIBDA	177,890	54,399	54,790	(51,688)	235,391
Expenditures for Segment Assets	47,047	2,727	34,207	13,297	97,278
Capital Expenditures	41,854	2,727	32,241	11,819	88,641
Cash Paid for Acquisitions, Net of Cash Acquired					
Additions to Customer Relationship and Acquisition Costs	5,193		1,966	1,478	8,637
Nine Months Ended September 30, 2013					
Total Revenues	1,327,052	298,654	620,689	10,021	2,256,416
Depreciation and Amortization	123,747	13,861	78,251	22,929	238,788
Depreciation	113,758	13,407	60,683	22,830	210,678
Amortization	9,989	454	17,568	99	28,110
Adjusted OIBDA	499,274	180,358	156,469	(136,440)	699,661
Total Assets(1)	3,481,751	658,051	1,992,135	248,842	6,380,779
Expenditures for Segment Assets	110,625	10,675	171,974	50,852	344,126
Capital Expenditures	74,327	9,767	69,926	50,852	204,872
Cash Paid for Acquisitions, Net of Cash Acquired	23,338		99,343		122,681
Additions to Customer Relationship and Acquisition Costs	12,960	908	2,705		16,573
Nine Months Ended September 30, 2014					
Total Revenues	1,348,682	291,010	690,185	9,838	2,339,715
Depreciation and Amortization	135,999	12,345	91,032	25,192	264,568
Depreciation	121,923	12,122	68,728	25,103	227,876
Amortization	14,076	223	22,304	89	36,692
Adjusted OIBDA	518,626	167,687	169,257	(149,806)	705,764
Total Assets(1)	3,641,820	647,845	2,040,923	305,751	6,636,339
Expenditures for Segment Assets	137,761	13,047	149,024	49,767	349,599
Capital Expenditures	119,093	12,936	97,068	48,289	277,386
Cash Paid for Acquisitions, Net of Cash Acquired	(1,077)	(40)	47,483		46,366
	19,745	151	4,473	1,478	25,847

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Additions to Customer Relationship and Acquisition
Costs

- (1) Excludes all intercompany receivables or payables and investment in subsidiary balances.

The accounting policies of the reportable segments are the same as those described in Note 2. Adjusted OIBDA for each segment is defined as operating income before depreciation, amortization, intangible impairments, (gain) loss on disposal/write-down of property, plant and equipment, net (excluding real estate) and REIT Costs (defined below) directly attributable to the segment. Internally,

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)**

we use Adjusted OIBDA as the basis for evaluating the performance of, and allocating resources to, our operating segments.

A reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes and (gain) loss on sale of real estate on a consolidated basis is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Adjusted OIBDA	\$ 240,165	\$ 235,391	\$ 699,661	\$ 705,764
Less: Depreciation and Amortization	79,659	89,194	238,788	264,568
(Gain) Loss on Disposal/Write-down of Property, Plant and Equipment (Excluding Real Estate), Net	(173)	184	(528)	1,229
REIT Costs(1)	20,721	4,537	69,229	18,585
Interest Expense, Net	64,485	63,220	190,656	187,733
Other Expense (Income), Net	45,953	22,508	63,967	22,987
Income (Loss) from Continuing Operations before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	\$ 29,520	\$ 55,748	\$ 137,549	\$ 210,662

(1)

Includes costs associated with our 2011 proxy contest, the previous work of the former Strategic Review Special Committee of the board of directors and costs associated with our conversion to a REIT, excluding REIT compliance costs beginning January 1, 2014 which we expect to recur in future periods ("REIT Costs").

(8) Commitments and Contingencies

a.

Litigation General

We are involved in litigation from time to time in the ordinary course of business. A portion of the defense and/or settlement costs associated with such litigation is covered by various commercial liability insurance policies purchased by us and, in limited cases, indemnification from third parties. Our policy is to establish reserves for loss contingencies when the losses are both probable and reasonably estimable. We record legal costs associated with loss contingencies as expenses in the period in which they are incurred. The matters described below represent our significant loss contingencies. We have evaluated each matter and, if both probable and estimable, accrued an amount that represents our estimate of any probable loss associated with such matter. In addition, we have estimated a reasonably possible range for all loss contingencies including those described below. We believe it is reasonably possible that we could incur aggregate losses in addition to amounts currently accrued for all matters up to an additional \$7,700 over the next several years, of which certain amounts would be covered by insurance or indemnity arrangements.

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(8) Commitments and Contingencies (Continued)

b.

Government Contract Billing Matter

Since October 2001, we have provided services to the U.S. Government under several General Services Administration ("GSA") multiple award schedule contracts (the "Schedules"). From October 1, 2001 through September 30, 2014, we billed approximately \$82,900 under the Schedules. The earliest of the Schedules was renewed in October 2006 with certain modifications to its terms. The Schedules contain a price reductions clause ("Price Reductions Clause") that requires us to offer to reduce the prices billed under the Schedules to correspond to the prices billed to certain benchmark commercial customers. In 2011, we initiated an internal review covering the contract period commencing in October 2006, and we discovered potential non-compliance with the Price Reductions Clause. We voluntarily disclosed the potential non-compliance for that period to the GSA and its Office of Inspector General ("OIG") in June 2011.

In April 2012, the U.S. Government sent us a subpoena seeking information that substantially overlaps with the subjects that are covered by the voluntary disclosure process that we initiated with the GSA and OIG in June 2011, except that the subpoena seeks information dating back to 2000, including the initial GSA schedule period of 2001 to 2006, and seeks information about non-GSA federal and state and local customers. Despite the substantial overlap, the subpoena relates to a separate inquiry, under the civil False Claims Act, that has been initiated independent of the GSA and OIG voluntary disclosure matter. In June 2014, we learned that the government subpoena and investigation are the result of a pending, sealed *qui tam* lawsuit brought against us on behalf of the United States and the State of California.

We have provided the U.S. Government with information regarding our pricing practices, as well as the proposed pricing adjustment, and we continue to review this matter with them. The U.S. Government, however, may request additional pricing adjustments, refunds, civil penalties, up to treble damages and/or interest.

Given the above, it is reasonably possible that an adjustment to our estimates may be required in the future as a result of updated facts and circumstances. To the extent that an adjustment to our estimates is necessary in a future period, we will assess, at that time, whether the adjustment is a result of a change in estimate or the correction of an error. A change in estimate would be reflected as an adjustment through the then-current period statement of operations. A correction of an error would require a quantitative and qualitative analysis to determine the approach to correcting the error. A correction of an error could be reflected in the then-current period statement of operations or as a restatement of prior period financial information, depending upon the underlying facts and circumstances and our quantitative and qualitative analysis.

c.

Commonwealth of Massachusetts Assessment

During the third quarter of 2012, we applied for an abatement of assessments from the Commonwealth of Massachusetts. The assessments, issued in the second quarter of 2012, related to a corporate excise audit of the 2004 through 2006 tax years in the aggregate amount of \$8,191, including tax, interest and penalties through the assessment date. The applications for abatement were denied during the third quarter of 2012. On October 19, 2012 we filed petitions with the Massachusetts

Table of Contents

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(8) Commitments and Contingencies (Continued)

Appellate Tax Board challenging the assessments. We intend to defend this matter vigorously at the Massachusetts Appellate Tax Board. In addition, during the second quarter of 2013, Massachusetts assessed tax for the 2007 and 2008 tax years in the aggregate amount of \$4,120, including tax, interest and penalties through the assessment date. The assessment is for issues consistent with those assessed in the earlier years. In the third quarter of 2013, we filed an application for abatement for the 2007 and 2008 tax years, which Massachusetts denied on October 15, 2013. On December 13, 2013, we filed a petition with the Massachusetts Appellate Tax Board to challenge the assessment for the 2007 and 2008 tax years and will vigorously defend the matter. Additionally, the state is auditing us for the 2009-2011 tax years.

d.

Italy Fire

On November 4, 2011, we experienced a fire at a facility we leased in Aprilia, Italy. The facility primarily stored archival and inactive business records for local area businesses. Despite quick response by local fire authorities, damage to the building was extensive, and the building and its contents were a total loss. We continue to assess the impact of the fire, and, although our warehouse legal liability insurer has reserved its rights to contest coverage related to certain types of potential claims, we believe we carry adequate insurance. We have been sued by three customers, and all three of those matters have been settled. We have also received correspondence from other customers, under various theories of liabilities. We deny any liability with respect to the fire and we have referred these claims to our warehouse legal liability insurer for an appropriate response. We do not expect that this event will have a material impact on our consolidated financial condition, results of operations or cash flows. As discussed in Note 10, we sold our Italian operations on April 27, 2012, and we indemnified the buyers related to certain obligations and contingencies associated with the fire.

Our policy related to business interruption insurance recoveries is to record gains within other expense (income), net in our Consolidated Statements of Operations and proceeds received within cash flows from operating activities in our Consolidated Statements of Cash Flows. Such amounts are recorded in the period the cash is received. Our policy with respect to involuntary conversion of property, plant and equipment is to record any gain or loss within (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net within operating income in our Consolidated Statements of Operations and proceeds received within cash flows from investing activities within our Consolidated Statements of Cash Flows. Losses are recorded when incurred and gains are recorded in the period when the cash received exceeds the carrying value of the related property, plant and equipment. As a result of the sale of the Italian operations, statements of operation and cash flow impacts related to the fire will be reflected as discontinued operations.

e.

Argentina Fire

On February 5, 2014, we experienced a fire at a facility we own in Buenos Aires, Argentina. As a result of the quick response by local fire authorities, the fire was contained before the entire facility was destroyed and all employees were safely evacuated; however, a number of first responders lost their lives, or in some cases, were severely injured. The cause of the fire is currently being investigated. We believe we carry adequate insurance and are in the process of assessing the impact of the fire but do not expect that this event will have a material impact to our consolidated financial condition, results of operations or cash flows. Revenues from our operations at this facility represent less than 0.5% of our consolidated revenues.

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(9) Stockholders' Equity Matters**

In February 2010, our board of directors adopted a dividend policy under which we have paid, and in the future intend to pay, quarterly cash dividends on our common stock. Declaration and payment of future quarterly dividends is at the discretion of our board of directors.

On September 15, 2014, we announced the declaration by our board of directors of a special distribution of \$700,000 (the "Special Distribution"), payable to stockholders of record as of September 30, 2014 (the "Record Date"). The Special Distribution represents the remaining amount of our undistributed earnings and profits attributable to all taxable periods ending on or prior to December 31, 2013, which in accordance with tax rules applicable to REIT conversions we are required to pay to our stockholders on or before December 31, 2014 in connection with our conversion to a REIT. The Special Distribution also includes certain items of taxable income that we expect to recognize in 2014, such as depreciation recapture in respect of accounting method changes commenced in our pre-REIT period as well as foreign earnings and profits repatriated as dividend income. The Special Distribution follows an initial distribution of \$700,000 paid to stockholders in November 2012.

The Special Distribution will be paid in a combination of common stock and cash. The Special Distribution is payable on November 4, 2014 (the "Payment Date") to stockholders of record as of the Record Date. Stockholders had the right to elect to be paid their pro rata portion of the Special Distribution in all common stock or all cash, with the total cash payment to stockholders limited to no more than \$140,000, or 20% of the total Special Distribution, not including cash paid in lieu of fractional shares. Based on stockholder elections, we will pay \$140,000 of the Special Distribution in cash, not including cash paid in lieu of fractional shares, with the balance payable in the form of common stock. Our shares of common stock were valued for purposes of the Special Distribution based upon the average closing price on the three trading days following October 24, 2014, or \$35.55 per share, and as such, we will issue approximately 15,750,000 shares of common stock in the Special Distribution. These shares impact weighted average shares outstanding from the date of issuance, and thus will impact our earnings per share data prospectively from the Payment Date.

In fiscal year 2013 and in the first nine months of 2014, our board of directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 14, 2013	\$ 0.2700	March 25, 2013	\$ 51,460	April 15, 2013
June 6, 2013	0.2700	June 25, 2013	51,597	July 15, 2013
September 11, 2013	0.2700	September 25, 2013	51,625	October 15, 2013
December 16, 2013	0.2700	December 27, 2013	51,683	January 15, 2014
March 14, 2014	0.2700	March 25, 2014	51,812	April 15, 2014
May 28, 2014	0.2700	June 25, 2014	52,033	July 15, 2014
September 15, 2014	0.4750	September 25, 2014	91,993	October 15, 2014
September 15, 2014	3.6200	September 30, 2014	700,000	November 4, 2014

In December 2013, our board of directors approved, and we entered into, a REIT Status Protection Rights Agreement (the "Rights Agreement") which provides for a dividend of one preferred stock purchase right (a "Right") for each share of our common stock outstanding on December 20, 2013. Each Right entitles the holder to purchase from us one one-thousandth of a share of our Series A Junior Participating Preferred Stock for a purchase price of \$114.00, subject to adjustment as

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(9) Stockholders' Equity Matters (Continued)**

provided in the Rights Agreement and our Amended Certificate of Designations for our Series A Junior Participating Preferred Stock, each of which was filed with our Current Report on Form 8-K filed with the SEC on December 9, 2013. We anticipate that we will seek stockholder approval to impose ownership limitations in our charter documents, as is customary for REITs. The Rights Agreement is intended to help protect our status as a REIT under the Code until the approval of those ownership limitations by our stockholders, or, if earlier, until the Rights expire, which will be no later than December 9, 2014.

(10) Discontinued Operations*Digital Operations*

On June 2, 2011, we sold the Digital Business to Autonomy pursuant to the Digital Sale Agreement. In the Digital Sale, Autonomy purchased (1) the shares of certain of IMI's subsidiaries through which we conducted the Digital Business and (2) certain assets of IMI and its subsidiaries relating to the Digital Business. The Digital Sale qualified as discontinued operations and, as a result, the financial position, operating results and cash flows of the Digital Business, for all periods presented, have been reported as discontinued operations for financial reporting purposes.

The table below summarizes certain results of operations of the Digital Business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Income (Loss) Before Provision (Benefit) for Income Taxes of Discontinued Operations	\$ 58	\$	\$ 161	\$ (960)
Provision (Benefit) for Income Taxes	23		21	
Income (Loss) from Discontinued Operations, Net of Tax	\$ 35	\$	\$ 140	\$ (960)

During the nine months ended September 30, 2014, we recognized a loss before provision for income taxes of discontinued operations of \$960 associated with the Digital Business, primarily related to settlements of legal matters directly related to the disposed business.

Italian Operations

We sold our Italian operations on April 27, 2012, and we agreed to indemnify the buyers of our Italian operations for certain possible obligations and contingencies associated with the fire in Italy discussed more fully in Note 8(d). Our Italian operations were previously included within the International Business segment. For all periods presented, the financial position, operating results and cash flows of our Italian operations have been reported as discontinued operations for financial reporting purposes.

Table of Contents**IRON MOUNTAIN INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In Thousands, Except Share and Per Share Data)****(Unaudited)****(10) Discontinued Operations (Continued)**

The table below summarizes certain results of our Italian operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
(Loss) Income Before Provision (Benefit) for Income Taxes of Discontinued Operations	\$ (233)	\$	\$ 2,315	\$ 22
Provision (Benefit) for Income Taxes	373		940	
(Loss) Income from Discontinued Operations, Net of Tax	\$ (606)	\$	\$ 1,375	\$ 22

During the nine months ended September 30, 2013, we recognized income before provision for income taxes of discontinued operations of \$2,315 associated with our Italian operations, which primarily represents the recovery of insurance proceeds in excess of carrying value.

(11) Restructuring

In the third quarter of 2013, we implemented a plan that calls for certain organizational realignments to advance our growth strategy and reduce operating costs. As a result, we recorded restructuring costs of \$3,460 in the nine months ended September 30, 2014, primarily related to employee severance and associated benefits. Of the total restructuring costs incurred in the nine months ended September 30, 2014, \$1,647, \$360 and \$1,453 are reflected in the results of operations of our North American Records & Information Management Business, North American Data Management Business and Corporate and Other segments, respectively. In our Consolidated Statements of Operations for the nine months ended September 30, 2014, \$2,175 and \$1,285 of these restructuring costs are recorded in selling, general and administrative expenses and cost of sales, respectively. We expect to incur an additional \$838 of employee severance and associated benefit costs in the remainder of 2014 in connection with this organizational realignment primarily in our Corporate and Other segment.

(12) Subsequent Events

In October 2014, in order to enhance our international operations, we acquired Keepers Brasil Ltda ("Keepers"), a storage rental and data management business with operations in Sao Paulo, Brazil, for approximately \$46,200. The purchase price includes \$5,425 being held in escrow to secure indemnification obligations of the former owners of the business to us.

Table of Contents

IRON MOUNTAIN INCORPORATED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2014 should be read in conjunction with our Consolidated Financial Statements and Notes thereto for the three and nine months ended September 30, 2014, included herein, and for the year ended December 31, 2013, included in our Current Report on Form 8-K filed with the United States Securities and Exchange Commission ("SEC") on May 5, 2014 (our "Current Report").

FORWARD-LOOKING STATEMENTS

We have made statements in this Quarterly Report on Form 10-Q that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 and other securities laws. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, investment objectives, plans and current expectations, such as our (1) commitment to future dividend payments, (2) expected 2014 consolidated internal revenue growth rate and capital expenditures in 2014, (3) expected target leverage ratio, (4) estimate of the amount of our cash dividend to be paid in the last quarter of 2014 and (5) anticipated benefits from our organizational realignment. These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements. Although we believe that our forward-looking statements are based on reasonable assumptions, our expected results may not be achieved, and actual results may differ materially from our expectations.

In addition, important factors that could cause actual results to differ from expectations include, among others:

the cost to comply with current and future laws, regulations and customer demands relating to privacy issues;

the impact of litigation or disputes that may arise in connection with incidents in which we fail to protect our customers' information;

changes in the price for our storage and information management services relative to the cost of providing such storage and information management services;

changes in customer preferences and demand for our storage and information management services;

the adoption of alternative technologies and shifts by our customers to storage of data through non-paper based technologies;

the cost or potential liabilities associated with real estate necessary for our business;

the performance of business partners upon whom we depend for technical assistance or management expertise outside the U.S.;

changes in the political and economic environments in the countries in which our international subsidiaries operate;

claims that our technology violates the intellectual property rights of a third party;

changes in the cost of our debt;

the impact of alternative, more attractive investments on dividends;

our ability or inability to complete acquisitions on satisfactory terms and to integrate acquired companies efficiently; and

Table of Contents

other trends in competitive or economic conditions affecting our financial condition or results of operations not presently contemplated.

Other risks may adversely impact us, as described more fully under "Item 1A. Risk Factors," included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed with the SEC on February 28, 2014 and July 31, 2014, respectively.

You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations, which may or may not occur. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures we have made in this document, as well as our other periodic reports filed with the SEC.

Non-GAAP Measures

Adjusted Operating Income Before Depreciation, Amortization, Intangible Impairments, (Gain) Loss on Disposal/Write-Down of Property, Plant and Equipment, Net (Excluding Real Estate), and REIT Costs ("Adjusted OIBDA")

Adjusted OIBDA is defined as operating income before depreciation, amortization, intangible impairments, (gain) loss on disposal/write-down of property, plant and equipment, net (excluding real estate), and REIT Costs (as defined below). Adjusted OIBDA Margin is calculated by dividing Adjusted OIBDA by total revenues. We use multiples of current or projected Adjusted OIBDA in conjunction with our discounted cash flow models to determine our overall enterprise valuation and to evaluate acquisition targets. We believe Adjusted OIBDA and Adjusted OIBDA Margin provide our current and potential investors with relevant and useful information regarding our ability to generate cash flow to support business investment. These measures are an integral part of the internal reporting system we use to assess and evaluate the operating performance of our business. Adjusted OIBDA does not include certain items that we believe are not indicative of our core operating results, specifically: (1) (gain) loss on disposal/write-down of property, plant and equipment, net (excluding real estate); (2) (gain) loss on sale of real estate, net of tax; (3) intangible impairments; (4) REIT Costs; (5) other expense (income), net; (6) income (loss) from discontinued operations, net of tax; (7) gain (loss) on sale of discontinued operations, net of tax; and (8) net income (loss) attributable to noncontrolling interests.

Adjusted OIBDA also does not include interest expense, net and the provision (benefit) for income taxes. These expenses are associated with our capitalization and tax structures, which we do not consider when evaluating the operating profitability of our core operations. Finally, Adjusted OIBDA does not include depreciation and amortization expenses, in order to eliminate the impact of capital investments, which we evaluate by comparing capital expenditures to incremental revenue generated and as a percentage of total revenues. Adjusted OIBDA and Adjusted OIBDA Margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America ("GAAP"), such as operating or net income (loss) or cash flows from operating activities from continuing operations (as determined in accordance with GAAP).

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Reconciliation of Operating Income to Adjusted OIBDA (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Operating Income	\$ 139,958	\$ 141,476	\$ 392,172	\$ 421,382
Add: Depreciation and Amortization	79,659	89,194	238,788	264,568
Gain (Loss) on Disposal/Write-down of Property, Plant and Equipment, Net (Excluding Real Estate)	(173)	184	(528)	1,229
REIT Costs(1)	20,721	4,537	69,229	18,585
Adjusted OIBDA	\$ 240,165	\$ 235,391	\$ 699,661	\$ 705,764

-
- (1) Includes costs associated with our 2011 proxy contest, the previous work of the former Strategic Review Special Committee of the board of directors and costs associated with our conversion to a real estate investment trust ("REIT"), excluding REIT compliance costs beginning January 1, 2014 which we expect to recur in future periods ("REIT Costs").

Adjusted Earnings per Share from Continuing Operations ("Adjusted EPS")

Adjusted EPS is defined as reported earnings per share from continuing operations excluding: (1) (gain) loss on disposal/write-down of property, plant and equipment, net (excluding real estate); (2) (gain) loss on sale of real estate, net of tax; (3) intangible impairments; (4) REIT Costs; (5) other expense (income), net; and (6) the tax impact of reconciling items and discrete tax items. We do not believe these excluded items to be indicative of our ongoing operating results, and they are not considered when we are forecasting our future results. We believe Adjusted EPS is of value to our current and potential investors when comparing our results from past, present and future periods.

Reconciliation of Reported EPS Fully Diluted from Continuing Operations to Adjusted EPS Fully Diluted from Continuing Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013(1)	2014	2013(1)	2014
Reported EPS Fully Diluted from Continuing Operations	\$ 0.03	\$	\$ 0.26	\$ 1.63
Add: Gain (Loss) on Disposal/Write-down of Property, Plant and Equipment, net (Excluding Real Estate)				0.01
(Gain) Loss on Sale of Real Estate, net of tax			(0.01)	(0.04)
Other Expense, net	0.24	0.12	0.33	0.12
REIT Costs	0.11	0.02	0.36	0.10
Tax Impact of Reconciling Items and Discrete Tax Items	0.05	0.21	0.25	(0.72)
Adjusted EPS Fully Diluted from Continuing Operations	\$ 0.43	\$ 0.35	\$ 1.19	\$ 1.10

-
- (1)

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

The Adjusted EPS for the three and nine months ended September 30, 2013 has been restated to reflect a structural tax rate of approximately 15%. The Adjusted EPS for the three and nine months ended September 30, 2014 reflects a structural tax rate of approximately 16%.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions

Table of Contents

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 ongoing basis, we evaluate the estimates used. 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. Our critical accounting policies include the following, which are listed in no particular order:

Revenue Recognition

Accounting for Acquisitions

Impairment of Tangible and Intangible Assets

Income Taxes

Further detail regarding our critical accounting policies can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Current Report, and the Consolidated Financial Statements and the Notes included therein. We have determined that no material changes concerning our critical accounting policies have occurred since December 31, 2013, except in relation to income taxes as a result of our conversion to a REIT, as further discussed at Note 2(i) to Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)* ("ASU 2014-08"). ASU 2014-08 changes the criteria for a disposal to qualify as a discontinued operation and requires additional disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals that have not been reported in the financial statements previously issued. We adopted ASU 2014-08 effective April 1, 2014.

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

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

Table of Contents

Overview

The following discussions set forth, for the periods indicated, management's discussion and analysis of financial condition and results of operations. Significant trends and changes are discussed for the three and nine month periods ended September 30, 2014 within each section. Trends and changes that are consistent within the three and nine month periods are not repeated and are discussed in a year-to-date basis.

REIT Conversion

We previously disclosed that, as part of our plan to convert to a REIT for federal income tax purposes and elect REIT status effective January 1, 2014 (the "Conversion Plan"), we sought private letter rulings ("PLRs") from the U.S. Internal Revenue Service (the "IRS") relating to numerous technical tax issues, including classification of our steel racking structures as qualified real estate assets. We submitted the PLR requests in the third quarter of 2012, and on June 25, 2014, we announced that we received the favorable PLRs from the IRS necessary for our conversion to a REIT. After receipt of the PLRs, our board of directors unanimously approved our conversion to a REIT for our taxable year beginning January 1, 2014. As such, we intend to elect REIT status effective January 1, 2014.

We currently estimate the operating and capital expenditures associated with the Conversion Plan through the end of 2014 to be approximately \$180.0 million to \$185.0 million (which excludes an estimated \$15.0 million in REIT compliance costs which we expect to incur in 2014 and future years). Of these amounts, approximately \$153.3 million was incurred through 2013, including approximately \$35.9 million of capital expenditures. Additionally, we incurred approximately \$5.1 million (including approximately \$0.6 million of capital expenditures) and \$22.7 million (including approximately \$4.1 million of capital expenditures) in the three and nine months ended September 30, 2014, respectively.

Restructuring

In the third quarter of 2013, we implemented a plan that calls for certain organizational realignments to advance our growth strategy and reduce operating costs. As a result, we recorded restructuring costs of approximately \$3.5 million in the nine months ended September 30, 2014, primarily related to employee severance and associated benefits. Of the total restructuring costs incurred in the nine months ended September 30, 2014, \$1.6 million, \$0.4 million and \$1.5 million are reflected in the results of operations of our North American Records and Information Management Business, North American Data Management Business and Corporate and Other segments, respectively. In our Consolidated Statements of Operations for the nine months ended September 30, 2014, \$2.2 million and \$1.3 million of these restructuring costs are recorded in selling, general and administrative expenses and cost of sales, respectively. We expect to incur an additional \$0.8 million of employee severance and associated benefit costs in the remainder of 2014 in connection with this organizational realignment primarily in our Corporate and Other segment.

General

As a result of the restructuring of our operations late in 2013 and early in 2014, we evaluated changes to our internal financial reporting to better align our internal reporting to how we will manage our business going forward. This evaluation resulted in changes to our reportable segments effective January 1, 2014 and, as a result, we have restated previously reported segment information. As a result of the changes to our reportable segments, the former North American Business segment has been separated into two unique reportable segments, which we refer to as (1) the North American Records and Information Management Business segment and (2) North American Data Management Business segment. In addition, the Emerging Businesses segment, which was previously reported as a component

Table of Contents

of the former North American Business segment, is now reported as a component of the Corporate and Other segment.

Our revenues consist of storage rental revenues as well as service revenues. Storage rental revenues, which are considered a key driver of financial performance for the storage and information management services industry, consist primarily of recurring periodic rental charges related to the storage of materials or data (generally on a per unit basis) that are typically retained by customers for many years. Service revenues include charges for related service activities, which include: (1) the handling of records, including the addition of new records, temporary removal of records from storage, refile of removed records and the destruction of records; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents and the related sale of recycled paper, the price of which can fluctuate from period to period; (4) other services, including the scanning, imaging and document conversion services of active and inactive records, or Document Management Solutions ("DMS"), which relate to physical and digital records, and project revenues; (5) customer termination and permanent withdrawal fees; (6) data restoration projects; (7) special project work; (8) 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 ("Fulfillment Services"); (9) consulting services; and (10) technology services and product sales (including specially designed storage containers and related supplies). Our service revenue growth has been negatively impacted by declining activity rates as stored records are becoming less active. The amount of information available to customers through the Internet or their own information systems has been steadily increasing in recent years. As a result, while customers continue to store their records with us, they are less likely than they have been in the past to retrieve records for research purposes, thereby reducing service activity levels.

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 rental and service revenues are recognized in the month the respective storage rental or service is provided, and customers are generally billed on a monthly basis on contractually agreed-upon terms. Amounts related to future storage rental or prepaid service contracts for customers where storage rental fees or services are billed in advance are accounted for as deferred revenue and recognized ratably over the period the applicable storage rental or service is provided or performed. Revenues from the sales of products, which are included as a component of service revenues, are recognized when products are shipped and title has passed to the customer. Revenues from the sales of products have historically not been significant.

Cost of sales (excluding depreciation and amortization) consists primarily of wages and benefits for field personnel, facility occupancy costs (including rent and utilities), transportation expenses (including vehicle leases and fuel), other product cost of sales and other equipment costs and supplies. Of these, wages and benefits and facility occupancy costs are the most significant. Trends in total wages and benefits in dollars and as a percentage of total consolidated revenue are influenced by changes in headcount and compensation levels, achievement of incentive compensation targets, workforce productivity and variability in costs associated with medical insurance and workers' compensation. Trends in facility occupancy costs are impacted by the total number of facilities we occupy, the mix of properties we own versus properties we occupy under operating leases, fluctuations in per square foot occupancy costs, and the levels of utilization of these properties.

The expansion of our international businesses has impacted the major cost of sales components. Our international operations are more labor intensive than our operations in North America and, therefore, labor costs are a higher percentage of segment revenue than in our North American operations.

Selling, general and administrative expenses consist primarily of wages and benefits for management, administrative, information technology, sales, account management and marketing

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

personnel, as well as expenses related to communications and data processing, travel, professional fees, bad debts, training, office equipment and supplies. Trends in total wage and benefit dollars as a percentage of total consolidated revenue are influenced by changes in headcount and compensation levels, achievement of incentive compensation targets, workforce productivity and variability in costs associated with medical insurance. The overhead structure of our expanding international operations, as compared to our North American operations, is more labor intensive and has not achieved the same level of overhead leverage, which may result in an increase in selling, general and administrative expenses, as a percentage of consolidated revenue, as our international operations become a more meaningful percentage of our consolidated results.

Our depreciation and amortization charges result primarily from the capital-intensive nature of our business. The principal components of depreciation relate to storage systems, which include racking structures, building and leasehold improvements, computer systems hardware and software and buildings. Amortization relates primarily to customer relationship acquisition costs and is impacted by the nature and timing of acquisitions.

Our consolidated revenues and expenses are subject to variations caused by the net effect of foreign currency translation on revenues and expenses incurred by our entities outside the U.S. It is difficult to predict the future fluctuations of foreign currency exchange rates and how those fluctuations will impact our Consolidated Statement of Operations. Due to the expansion of our international operations, some of these fluctuations have become material on individual balances. However, because both the revenues and expenses are denominated in the local currency of the country in which they are derived or incurred, the impact of currency fluctuations on our operating income and operating margin is partially mitigated. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percentage change in the results from one period to another period in this report using constant currency presentation. The constant currency growth rates are calculated by translating the 2013 results at the 2014 average exchange rates.

The following table is a comparison of underlying average exchange rates of the foreign currencies that had the most significant impact on our U.S. dollar-reported revenues and expenses:

	Average Exchange Rates for the Three Months Ended September 30,		Percentage Strengthening / (Weakening) of Foreign Currency
	2013	2014	
Australian dollar	\$ 0.916	\$ 0.925	1.0%
Brazilian real	\$ 0.437	\$ 0.440	0.7%
British pound sterling	\$ 1.551	\$ 1.670	7.7%
Canadian dollar	\$ 0.963	\$ 0.919	(4.6)%
Euro	\$ 1.325	\$ 1.325	0.0%

	Average Exchange Rates for the Nine Months Ended September 30,		Percentage Strengthening / (Weakening) of Foreign Currency
	2013	2014	
Australian dollar	\$ 0.982	\$ 0.918	(6.5)%
Brazilian real	\$ 0.474	\$ 0.437	(7.8)%
British pound sterling	\$ 1.546	\$ 1.669	8.0%
Canadian dollar	\$ 0.977	\$ 0.914	(6.4)%
Euro	\$ 1.317	\$ 1.356	3.0%

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Results of Operations

Comparison of Three and Nine Months Ended September 30, 2014 to Three and Nine Months Ended September 30, 2013 (in thousands):

	Three Months Ended September 30,		Dollar Change	Percentage Change
	2013	2014		
Revenues	\$ 755,314	\$ 782,697	\$ 27,383	3.6%
Operating Expenses	615,356	641,221	25,865	4.2%
Operating Income	139,958	141,476	1,518	1.1%
Other Expenses, Net	134,628	140,618	5,990	4.4%
Income from Continuing Operations	5,330	858	(4,472)	(83.9)%
Loss from Discontinued Operations, Net of Tax	(571)		571	100.0%
Net Income	4,759	858	(3,901)	(82.0)%
Net Income Attributable to Noncontrolling Interests	910	792	(118)	13.0%
Net Income Attributable to Iron Mountain Incorporated	\$ 3,849	\$ 66	\$ (3,783)	(98.3)%
Adjusted OIBDA(1)	\$ 240,165	\$ 235,391	\$ (4,774)	(2.0)%
Adjusted OIBDA Margin(1)	31.8%	30.1%		

	Nine Months Ended September 30,		Dollar Change	Percentage Change
	2013	2014		
Revenues	\$ 2,256,416	\$ 2,339,715	\$ 83,299	3.7%
Operating Expenses	1,864,244	1,918,333	54,089	2.9%
Operating Income	392,172	421,382	29,210	7.4%
Other Expenses, Net	341,350	105,101	(236,249)	(69.2)%
Income from Continuing Operations	50,822	316,281	265,459	522.3%
Income (Loss) from Discontinued Operations, Net of Tax	1,515	(938)	(2,453)	(161.9)%
Net Income	52,337	315,343	263,006	502.5%

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Net Income Attributable to Noncontrolling Interests	2,934	1,973	(961)	32.8%
-----------------------------------------------------	-------	-------	-------	-------

Net Income Attributable to Iron Mountain Incorporated	\$ 49,403	\$ 313,370	\$ 263,967	534.3%
-------------------------------------------------------	-----------	------------	------------	--------

Adjusted OIBDA(1)	\$ 699,661	\$ 705,764	\$ 6,103	0.9%
-------------------	------------	------------	----------	------

Adjusted OIBDA Margin(1)	31.0%	30.2%
--------------------------	-------	-------

(1) See "Non-GAAP Measures Adjusted Operating Income Before Depreciation, Amortization, Intangible Impairments, (Gain) Loss on Disposal/Write-Down of Property, Plant and Equipment, Net (Excluding Real Estate) and REIT Costs ('Adjusted OIBDA')" in this Quarterly Report on Form 10-Q for the definition, reconciliation and a discussion of why we believe these measures provide relevant and useful information to our current and potential investors.

Table of Contents**REVENUES**

Consolidated revenues consists of the following (in thousands):

	Three Months Ended September 30,			Percentage Change		
	2013	2014	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
Storage Rental	\$ 445,317	\$ 469,064	\$ 23,747	5.3%	5.6%	2.2%
Service	309,997	313,633	3,636	1.2%	1.2%	(2.7)%
Total Revenues	\$ 755,314	\$ 782,697	\$ 27,383	3.6%	3.8%	0.2%

	Nine Months Ended September 30,			Percentage Change		
	2013	2014	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
Storage Rental	\$ 1,329,357	\$ 1,394,842	\$ 65,485	4.9%	5.6%	1.7%
Service	927,059	944,873	17,814	1.9%	2.5%	(1.7)%
Total Revenues	\$ 2,256,416	\$ 2,339,715	\$ 83,299	3.7%	4.3%	0.3%

(1) Constant currency growth rates are calculated by translating the 2013 results at the 2014 average exchange rates.

(2) Our internal revenue growth rate represents the weighted average year-over-year growth rate of our revenues after removing the effects of acquisitions, divestitures and foreign currency exchange rate fluctuations. We calculate internal revenue growth in local currency for our international operations.

Consolidated storage rental revenues increased \$23.7 million, or 5.3%, to \$469.1 million and \$65.5 million, or 4.9%, to \$1,394.8 million for the three and nine months ended September 30, 2014, respectively, from \$445.3 million and \$1,329.4 million for the three and nine months ended September 30, 2013, respectively. The growth rate for the three and nine months ended September 30, 2014 consists primarily of internal revenue growth of 2.2% and 1.7%, respectively. Acquisitions contributed 3.4% and 3.9% of the increase in reported storage rental revenues in the three and nine months ended September 30, 2014, respectively, over the same periods in 2013. Foreign currency exchange rate fluctuations decreased our reported storage rental revenues by 0.3% and 0.7% for the three and nine months ended September 30, 2014, respectively, compared to the same prior year periods. Our consolidated storage rental revenue growth in the first nine months of 2014 was driven by sustained storage rental internal growth of 1.1% and 5.9% in our North American Data Management and International Business segments, respectively. Global records management net volumes as of September 30, 2014 increased by 5.5% over the ending volume at September 30, 2013, supported by 11.7% volume increases in the International business, which was driven by growth from both emerging and developed markets as well as recent acquisitions.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Consolidated service revenues increased \$3.6 million, or 1.2%, to \$313.6 million and \$17.8 million, or 1.9%, to \$944.9 million for the three and nine months ended September 30, 2014, respectively, from \$310.0 million and \$927.1 million for the three and nine months ended September 30, 2013, respectively. Service revenue internal growth was negative 2.7% and negative 1.7% for the three and nine months ended September 30, 2014, respectively. The negative service revenue internal growth for the three and nine months ended September 30, 2014 reflects a trend toward reduced retrieval/re-file activity and the related transportation revenues within our North American Records and Information Management segment, as well as continued declines in service revenue activity levels in our North American Data Management segment as the business becomes more archival in nature. Foreign currency exchange rate fluctuations decreased our reported total service revenues by 0.6% for the nine

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

months ended September 30, 2014 compared to the same prior year period. Acquisitions contributed an increase of 3.9% and 4.2% of total reported service revenues in the three and nine months ended September 30, 2014, respectively, compared to the same prior year periods.

For the reasons stated above, our consolidated revenues increased \$27.4 million, or 3.6%, to \$782.7 million and \$83.3 million, or 3.7%, to \$2,339.7 million for the three and nine months ended September 30, 2014, respectively, from \$755.3 million and \$2,256.4 million for the three and nine months ended September 30, 2013, respectively. Internal revenue growth was 0.2% and 0.3% for the three and nine months ended September 30, 2014, respectively. For the three and nine months ended September 30, 2014, foreign currency exchange rate fluctuations decreased our reported consolidated revenues by 0.2% and 0.6%, respectively, compared to the same prior year periods, primarily due to the weakening of the Australian dollar, Brazilian real and Canadian dollar, offset by an increase of the British pound sterling and the Euro against the U.S. dollar, based on an analysis of weighted average rates for the comparable periods. Acquisitions contributed an increase of 3.6% and 4.0% of total reported revenues in the three and nine months ended September 30, 2014, respectively, compared to the same prior year periods.

Internal Growth Eight-Quarter Trend

	2012		2013			2014		
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Storage Rental Revenue	3.2%	2.5%	2.3%	2.3%	1.3%	1.4%	1.6%	2.2%
Service Revenue	(2.4)%	(6.5)%	(1.9)%	(0.9)%	(4.4)%	(0.7)%	(1.9)%	(2.7)%
Total Revenue	0.8%	(1.4)%	0.5%	1.0%	(1.1)%	0.5%	0.1%	0.2%

We expect our consolidated internal revenue growth rate for 2014 to be approximately 0% to 1%. During the past eight quarters our storage rental revenue internal growth rate has ranged between 1.3% and 3.2%. Storage rental revenue internal growth rates have been stable over the past eight quarters. Recently, we initiated sales force programs focused on increasing volume through new sales and improved customer retention. Volume growth, exclusive of acquisitions, in the North American Records and Information Management segment has been relatively flat over this period, and, as a result, storage rental revenue internal growth has been driven primarily by net price increases in recent periods. Within our International Business segment, the developed markets are generating consistent low-to-mid single-digit storage rental revenue growth, and the emerging markets are producing strong double-digit storage rental revenue growth by capturing the first-time outsourcing trends for physical records storage and management in those markets. The internal revenue growth rate for service revenue is inherently more volatile than the storage rental revenue internal growth rate due to the more discretionary nature of certain services we offer, such as large special projects, and, as a commodity, the volatility of pricing for recycled paper. These revenues, which are often event-driven and impacted to a greater extent by economic downturns as customers defer or cancel the purchase of certain services as a way to reduce their short-term costs, may be difficult to replicate in future periods. The internal growth rate for total service revenues reflects the following: (1) consistent pressures on activity-based service revenues related to the handling and transportation of items in storage in the North American Records and Information Management Business and the North American Data Management Business segments and secure shredding revenues; and (2) softness in some of our other service lines, such as fulfillment services.

Table of Contents**OPERATING EXPENSES****Cost of Sales**

Consolidated cost of sales (excluding depreciation and amortization) consists of the following expenses (in thousands):

	Three Months Ended September 30,			Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2013	2014	Dollar Change	Actual	Constant Currency	2013	2014	
	Labor	\$ 155,525	\$ 166,133	\$ 10,608	6.8%	7.5%	20.6%	
Facilities	100,027	107,966	7,939	7.9%	7.7%	13.2%	13.8%	0.6%
Transportation	29,471	30,506	1,035	3.5%	4.1%	3.9%	3.9%	0.0%
Product Cost of Sales and Other	25,642	30,901	5,259	20.5%	20.6%	3.4%	3.9%	0.5%
	\$ 310,665	\$ 335,506	\$ 24,841	8.0%	8.3%	41.1%	42.9%	1.8%

	Nine Months Ended September 30,			Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2013	2014	Dollar Change	Actual	Constant Currency	2013	2014	
	Labor	\$ 469,864	\$ 501,025	\$ 31,161	6.6%	8.0%	20.8%	
Facilities	310,070	330,227	20,157	6.5%	6.9%	13.7%	14.1%	0.4%
Transportation	92,292	89,338	(2,954)	(3.2)%	(2.2)%	4.1%	3.8%	(0.3)%
Product Cost of Sales and Other	80,571	87,022	6,451	8.0%	8.8%	3.6%	3.7%	0.1%
	\$ 952,797	\$ 1,007,612	\$ 54,815	5.8%	6.7%	42.2%	43.1%	0.9%

Labor

Labor expense increased to 21.4% of consolidated revenues in the nine months ended September 30, 2014 compared to 20.8% in the comparable prior year period. Labor expense for the nine months ended September 30, 2014 increased by 8.0% on a constant currency basis compared to the nine months ended September 30, 2013 primarily due to incremental labor costs associated with acquisitions, as well as merit increases and the impact of restructuring costs associated with the organizational restructuring initiated in the fourth quarter of 2013. Labor costs were favorably impacted by 0.7 and 1.4 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Facilities

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Facilities costs increased to 14.1% of consolidated revenues in the nine months ended September 30, 2014 compared to 13.7% in the comparable prior year period. The largest component of our facilities cost is rent expense, which, on a constant dollar basis, increased by \$10.1 million to \$216.3 million for the nine months ended September 30, 2014 compared to the same period in 2013, primarily due to the impact of acquisitions. Other facilities costs increased by \$11.1 million on a constant dollar basis for the nine months ended September 30, 2014 compared to the same period in 2013, primarily due to higher utilities and building maintenance costs, as well as higher insurance costs of \$3.5 million associated with the recent fire at one of our facilities in Buenos Aires, Argentina (described at Note 8(e) to Notes to Consolidated Financial Statements). Facilities costs were unfavorably impacted by 0.2 percentage points and favorably impacted by 0.4 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Transportation

Transportation expenses decreased by \$2.0 million in constant currency terms during the nine months ended September 30, 2014 compared to the same period in 2013 as a result of decreased fuel and maintenance costs. Transportation expenses increased by \$1.2 million in constant currency terms during the three months ended September 30, 2014 compared to the same period in 2013 as a result of increased insurance costs. Transportation expenses were favorably impacted by 0.6 percentage points and 1.0 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Product Cost of Sales and Other

Product cost of sales and other, which includes cartons, media and other service, storage and supply costs, is highly correlated to service revenue streams, primarily project revenues. For the nine months ended September 30, 2014, product cost of sales and other increased by \$6.5 million compared to the same period in 2013 on an actual basis. These costs were favorably impacted by 0.1 percentage points and 0.8 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consists of the following expenses (in thousands):

	Three Months Ended September 30,		Dollar Change	Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2013	2014		Actual	Constant Currency	2013	2014	
General and Administrative Sales, Marketing & Account Management	\$ 146,697	\$ 132,335	\$ (14,362)	(9.8)%	(10.0)%	19.4%	16.9%	(2.5)%
Information Technology	22,730	25,579	2,849	12.5%	12.5%	3.0%	3.3%	0.3%
Bad Debt Expense	2,277	5,184	2,907	127.7%	135.7%	0.3%	0.7%	0.4%
	\$ 225,205	\$ 216,337	\$ (8,868)	(3.9)%	(3.9)%	29.8%	27.6%	(2.2)%

	Nine Months Ended September 30,		Dollar Change	Percentage Change		% of Consolidated Revenues		Percentage Change (Favorable)/ Unfavorable
	2013	2014		Actual	Constant Currency	2013	2014	
General and Administrative Sales, Marketing & Account Management	\$ 437,947	\$ 394,468	\$ (43,479)	(9.9)%	(9.8)%	19.4%	16.9%	(2.5)%
Information Technology	157,377	159,390	2,013	1.3%	1.8%	7.0%	6.8%	(0.2)%
Bad Debt Expense	71,060	76,408	5,348	7.5%	7.9%	3.1%	3.3%	0.2%
	\$ 673,187	\$ 644,924	\$ (28,263)	(4.2)%	(3.9)%	29.8%	27.6%	(2.2)%

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

General and Administrative

General and administrative expenses decreased to 16.9% of consolidated revenues during the nine months ended September 30, 2014 compared to 19.4% in the comparable prior year period. In constant currency terms, general and administrative expenses decreased by \$42.8 million during the nine months ended September 30, 2014 compared to the same period in 2013. Included in general and administrative expenses for the nine months ended September 30, 2014 were \$18.6 million of REIT Costs compared to \$69.2 million in the comparable prior year period. The decrease was partially offset

Table of Contents

by incremental general and administrative costs associated with acquisitions, as well as restructuring costs of \$2.2 million in the nine months ended September 30, 2014 attributable to the organizational restructuring initiated in the fourth quarter of 2013. General and administrative expenses were unfavorably impacted by 0.2 percentage points and favorably impacted by 0.1 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Sales, Marketing & Account Management

Sales, marketing and account management expenses decreased to 6.8% of consolidated revenues during the nine months ended September 30, 2014 compared to 7.0% in the comparable prior year period. In constant currency terms, the increase of \$2.8 million during the nine months ended September 30, 2014 compared to the same period in 2013 is primarily due to incremental sales, marketing and account management costs associated with acquisitions. Sales, marketing and account management expenses were favorably impacted by 0.8 percentage points and 0.5 percentage points due to currency rate changes during the three and nine months ended September 30, 2014, respectively.

Information Technology

In constant currency terms, information technology expenses increased \$5.6 million during the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to increased professional fees and software license fees. Information technology expenses were favorably impacted by 0.4 percentage points due to currency rate changes during the nine months ended September 30, 2014.

Bad Debt Expense

Consolidated bad debt expense for the nine months ended September 30, 2014 increased \$7.9 million to \$14.7 million (0.6% of consolidated revenues) from \$6.8 million (0.3% of consolidated revenues) in the same period in 2013. We maintain an allowance for doubtful accounts that is calculated based on our past loss experience, current and prior trends in our aged receivables, current economic conditions, and specific circumstances of individual receivable balances. We continue to monitor our customers' payment activity and make adjustments based on their financial condition and in light of historical and expected trends.

Depreciation, Amortization, and (Gain) Loss on Disposal/Write-down of Property, Plant and Equipment, Net (Excluding Real Estate)

Depreciation expense increased \$17.2 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to the increased depreciation of property, plant and equipment acquired through business combinations.

Amortization expense increased \$8.6 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to the increased amortization of customer relationship intangible assets acquired through business combinations.

As a result of our conversion to a REIT and in accordance with SEC rules applicable to REITs, we no longer report (gain) loss from the sale of real estate as a component of operating income, but we will continue to report it as a component of income (loss) from continuing operations. We will continue to report the (gain) loss of property, plant and equipment (excluding real estate), along with any impairment, write-downs or involuntary conversions related to real estate, as a component of operating income. Previously reported amounts have been reclassified to conform to this presentation.

Consolidated loss on disposal/write-down of property, plant and equipment, net (excluding real estate) was \$1.2 million for the nine months ended September 30, 2014 and consisted primarily of losses associated with the disposal of certain equipment associated with our North American Records

Table of Contents

and Information Management Business and International Business. Consolidated gain on disposal/write-down of property, plant and equipment, net (excluding real estate) was \$0.5 million for the nine months ended September 30, 2013 and consisted primarily of gains associated with the retirement of leased vehicles accounted for as capital lease assets associated primarily with our North American Records and Information Business.

OPERATING INCOME AND ADJUSTED OIBDA

As a result of the foregoing factors, (1) consolidated operating income increased \$1.5 million, or 1.1%, to \$141.5 million (18.1% of consolidated revenues) for the three months ended September 30, 2014 from \$140.0 million (18.5% of consolidated revenues) for the three months ended September 30, 2013; (2) consolidated operating income increased \$29.2 million, or 7.4%, to \$421.4 million (18.0% of consolidated revenues) for the nine months ended September 30, 2014 from \$392.2 million (17.4% of consolidated revenues) for the nine months ended September 30, 2013; (3) consolidated Adjusted OIBDA decreased \$4.8 million, or 2.0%, to \$235.4 million (30.1% of consolidated revenues) for the three months ended September 30, 2014 from \$240.2 million (31.8% of consolidated revenues) for the three months ended September 30, 2013 primarily due to ongoing REIT compliance costs and acquisition-related costs; and (4) consolidated Adjusted OIBDA increased \$6.1 million, or 0.9%, to \$705.8 million (30.2% of consolidated revenues) for the nine months ended September 30, 2014 from \$699.7 million (31.0% of consolidated revenues) for the nine months ended September 30, 2013.

OTHER EXPENSES, NET**Interest Expense, Net**

Consolidated interest expense, net decreased \$1.3 million to \$63.2 million (8.1% of consolidated revenues) and \$2.9 million to \$187.7 million (8.0% of consolidated revenues) for the three and nine months ended September 30, 2014, respectively, from \$64.5 million (8.5% of consolidated revenues) and \$190.7 million (8.4% of consolidated revenues) for the three and nine months ended September 30, 2013 primarily due to (1) the early retirement of (i) 175.0 million CAD of the 7¹/₂% CAD Senior Subordinated Notes due 2017, (ii) \$50.0 million of the 8% Senior Subordinated Notes due 2018, (iii) \$300.0 million of the 8% Senior Subordinated Notes due 2020 and (iv) \$137.5 million of the 8³/₈% Senior Subordinated Notes due 2021 in August 2013 and (2) the redemption of 150.0 million British pounds sterling of the 7¹/₄% GBP Senior Subordinated Notes due 2014 in January 2014. This decrease was partially offset by the issuance in August 2013 of \$600.0 million in aggregate principal of the 6% Senior Notes due 2023 by Iron Mountain Incorporated ("IMI") and the issuance of 200.0 million CAD in aggregate principal of the 6¹/₈% Senior Notes due 2021 by Iron Mountain Canada Operations ULC ("Canada Company") and the issuance in September 2014 of 400.0 million British pounds sterling in aggregate principal of the 6¹/₈% Senior Notes due 2022 (the "6¹/₈% Notes") by Iron Mountain Europe PLC ("IME"). Our weighted average interest rate was 6.3% and 6.4% at September 30, 2014 and September 30, 2013, respectively.

Other (Income) Expense, Net (in thousands)

	Three Months Ended September 30,		Dollar Change	Nine Months Ended September 30,		Dollar Change
	2013	2014		2013	2014	
Foreign currency transaction losses (gains), net	\$ 2,612	\$ 23,500	\$ 20,888	\$ 22,543	\$ 25,591	\$ 3,048
Debt extinguishment expense, net	43,662		(43,662)	43,662		(43,662)
Other, net	(321)	(992)	(671)	(2,238)	(2,604)	(366)
	\$ 45,953	\$ 22,508	\$ (23,445)	\$ 63,967	\$ 22,987	\$ (40,980)

Table of Contents

Net foreign currency transaction losses of \$25.6 million, based on period-end exchange rates, were recorded in the nine months ended September 30, 2014. Losses resulted primarily from changes in the exchange rate of each of the Argentine peso, Brazilian real, British pound sterling, Euro, Russian ruble and Ukrainian hryvnia against the U.S. dollar compared to December 31, 2013, as these currencies relate to our intercompany balances with and between our Latin American and European subsidiaries, as well as Australian dollar and Euro forward contracts. These losses were partially offset by gains primarily from British pound sterling borrowings on our revolving credit facility, British pound sterling forward contracts, and Euro denominated bonds issued by IMI.

Net foreign currency transaction losses of \$22.5 million, based on period-end exchange rates, were recorded in the nine months ended September 30, 2013. Losses resulted primarily from changes in the exchange rate of each of the Australian dollar, Brazilian real, Russian ruble and Euro against the U.S. dollar compared to December 31, 2012, as these currencies relate to our intercompany balances with and between our European, Australian and Brazilian subsidiaries, which were partially offset by gains as a result of an Australian forward currency contract.

We recorded a charge of approximately \$43.7 million in the third quarter of 2013 related to the amendment of our former credit agreement, representing a write-off of deferred financing costs, and the early extinguishment of the 7¹/₂% CAD Senior Subordinated Notes due 2017, 8% Senior Subordinated Notes due 2018, 8% Senior Subordinated Notes due 2020, and \$137.5 million aggregate principal amount of the 8³/₈% Notes (defined below). This charge consists of call premiums, original issue discounts and deferred financing costs related to this debt.

Other, net in the nine months ended September 30, 2014 consisted primarily of \$0.9 million of royalty income and \$0.9 million of gains associated with a deferred compensation plan. Other, net in the nine months ended September 30, 2013 consisted primarily of \$2.5 million of royalty income.

Provision for Income Taxes

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. Our effective tax rate is subject to variability in the future due to, among other items: (1) our conversion to a REIT; (2) changes in the mix of income from foreign jurisdictions; (3) tax law changes; (4) volatility in foreign exchange gains (losses); (5) the timing of the establishment and reversal of tax reserves; and (6) our ability to utilize foreign tax credits and net operating losses that we generate. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We are subject to examination by various tax authorities in jurisdictions in which we have business operations or a taxable presence. We regularly assess the likelihood of additional assessments by tax authorities and provide for these matters as appropriate. Although we believe our tax estimates are appropriate, the final determination of tax audits and any related litigation could result in changes in our estimates.

Our effective tax rate for each of the three and nine months ended September 30, 2013 was 81.9% and 64.1%, respectively. The primary reconciling items between the federal statutory rate of 35% and our overall effective tax rate in the three and nine months ended September 30, 2013 were differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates and state income taxes (net of federal tax benefit) and the repatriation in the fourth quarter of 2013, as discussed below. During the three months ended September 30, 2013, foreign currency gains were recorded in lower tax jurisdictions associated with our marking-to-market of intercompany loans while foreign currency losses were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments, which decreased our 2013 effective tax rate by 47.0%. During the three and nine months ended September 30, 2013, the repatriation discussed below increased our 2013 effective tax rate by 87.1% and 18.5%, respectively. On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "ATRA") was signed into law. In part,

Table of Contents

the ATRA retroactively reinstated and extended the controlled foreign corporation look-through rule, which provides for the exception from January 1, 2012 to December 31, 2013 of certain foreign earnings from U.S. federal taxation as Subpart F income. As a result, our income tax provision for the first quarter of 2013 included a discrete tax benefit of \$4.0 million relating to the previously expired period from January 1, 2012 to December 31, 2012. Also, during the three and nine months ended September 30, 2013, we incurred nondeductible transaction costs related to our conversion to a REIT, which increased our 2013 effective tax rate by 10.1% and 4.7%, respectively.

During the three months ended September 30, 2013, we developed a plan to utilize both current and carryforward foreign tax credits by repatriating approximately \$253.0 million (approximately \$53.0 million of which was previously subject to U.S. taxes) from our foreign earnings. Due to uncertainty in our ability to fully utilize foreign tax credit carryforwards, we previously did not recognize a full benefit for such foreign tax credit carryforwards in our tax provision. We completed this plan in the fourth quarter of 2013. As a result, we recorded an increase in our tax provision from continuing operations in the amount of approximately \$71.4 million in the three months ended September 30, 2013. This increase was offset by decreases of approximately \$23.5 million from 2013 foreign tax credits and approximately \$21.9 million from the reversal of valuation allowances related to foreign tax credit carryforwards, resulting in a net increase of approximately \$26.0 million in our tax provision from continuing operations.

As a result of our REIT conversion, we recorded a net tax benefit of \$212.2 million during the nine months ended September 30, 2014 for the revaluation of certain deferred tax assets and liabilities associated with the REIT conversion. Also, in the third quarter of 2014, we recorded an increase to the tax provision of \$26.4 million related to certain amended tax returns filed principally to reflect tax accounting method changes consistent with our REIT conversion. The primary other reconciling items between the federal statutory rate of 35% and our overall effective tax rate in the three and nine months ended September 30, 2014 was an increase of \$13.2 million and \$49.3 million, respectively, in our tax provision from the repatriation discussed below and other net tax adjustments related to the REIT conversion including a tax benefit of \$8.0 million and \$41.8 million, respectively, primarily related to the dividends paid deduction. Our effective tax rate will be significantly lower in 2014 as a result of the REIT conversion. As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial reduction of federal income tax expense. As a REIT, substantially all of our income tax expense will be incurred based on the earnings generated by our foreign subsidiaries and our U.S. TRSs.

We had not previously provided incremental federal and certain state income taxes on net tax over book outside basis differences related to the earnings of our foreign subsidiaries because our intent, prior to our conversion to a REIT, was to reinvest our current and future undistributed earnings of certain foreign subsidiaries indefinitely outside the U.S. As a result of our conversion to a REIT, it is no longer our intent to indefinitely reinvest our current and future undistributed foreign earnings outside the U.S., and, therefore, in the second and third quarters of 2014, we recognized an increase in our tax provision from continuing operations in the amount of approximately \$36.1 million and \$13.2 million, respectively, representing incremental federal and state income taxes and foreign withholding taxes on such foreign earnings of \$49.3 million in total. As a REIT, future repatriation of incremental undistributed earnings of our foreign subsidiaries should not be subject to federal or state income tax, with the exception of foreign withholding taxes in limited instances; however, such future repatriations will require distribution as per REIT distribution rules which are then taxable, as appropriate, at the stockholder level.

Gain on Sale of Real Estate, Net of Tax

Consolidated gain on sale of real estate for the nine months ended September 30, 2014 was \$7.5 million, net of tax of \$2.0 million associated with the sale of two buildings in the United Kingdom.

Table of Contents

Consolidated gain on sale of real estate for the nine months ended September 30, 2013 was \$1.4 million, net of tax of \$0.4 million associated with the sale of a building in the United Kingdom.

INCOME FROM CONTINUING OPERATIONS

As a result of the foregoing factors, consolidated income from continuing operations for the three months ended September 30, 2014 decreased \$4.5 million, or 83.9%, to \$0.9 million (0.1% of consolidated revenues) from \$5.3 million (0.7% of consolidated revenues) for the three months ended September 30, 2013. Consolidated income from continuing operations for the nine months ended September 30, 2014 increased \$265.5 million, or 522.3%, to \$316.3 million (13.5% of consolidated revenues) from \$50.8 million (2.3% of consolidated revenues) for the nine months ended September 30, 2013.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

Loss from discontinued operations, net of tax was \$0.9 million for the nine months ended September 30, 2014, primarily related to legal reserves. Income from discontinued operations, net of tax was \$1.5 million for the nine months ended September 30, 2013, which primarily represents the recovery of insurance proceeds in excess of carrying value.

NONCONTROLLING INTERESTS

For the three and nine months ended September 30, 2014, net income attributable to noncontrolling interests resulted in a decrease in net income attributable to IMI of \$0.8 million and \$2.0 million, respectively. For the three and nine months ended September 30, 2013, net income attributable to noncontrolling interests resulted in a decrease in net income attributable to IMI of \$0.9 million and \$2.9 million, respectively. These amounts represent our noncontrolling partners' share of earnings/losses in our majority-owned international subsidiaries that are consolidated in our operating results.

Segment Analysis (in thousands)

As a result of the restructuring of our operations late in 2013 and early in 2014, we evaluated changes to our internal financial reporting to better align our internal reporting to how we will manage our business going forward. This evaluation resulted in changes to our reportable segments effective January 1, 2014 and, as a result, we have restated previously reported segment information. We changed the composition of our North American Physical Business segment to the following three operating segments: (1) North American Records and Information Management, (2) North American Data Management and (3) Emerging Businesses. The Emerging Businesses segment, which was previously reported in the North American Physical Business segment, is now reported as a component of the Corporate and Other segment.

Our reportable operating segments are North American Records and Information Management Business, North American Data Management Business, International Business and Corporate and Other. See Note 7 to Notes to Consolidated Financial Statements. Our North American Records and Information Management Business segment offers storage and information management services throughout the United States and Canada, including the storage of paper documents, as well as other 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 ("Records Management"); information destruction services ("Destruction"); DMS; Fulfillment Services; and technology escrow services that protect and manage source code. Our North American Data Management Business segment offers the storage and rotation of backup computer media as part of corporate disaster recovery plans throughout the United States and Canada, including service and

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

courier operations ("Data Protection & Recovery"); server and computer backup services; digital content repository systems to house, distribute, and archive key media assets; and storage, safeguarding and electronic or physical delivery of physical media of all types, primarily for entertainment and media industry clients. Our International Business segment offers storage and information management services throughout Europe, Latin America and Asia Pacific, including Records Management, Data Protection & Recovery, Destruction and DMS. Our European operations provide Records Management, Data Protection & Recovery and DMS throughout Europe, and Destruction services are primarily provided in the United Kingdom and Ireland. Our Latin America operations provide Records Management, Data Protection & Recovery, Destruction and DMS throughout Argentina, Brazil, Chile, Colombia, Mexico and Peru. Our Asia Pacific operations provide Records Management, Data Protection & Recovery, Destruction and DMS throughout Australia, with Records Management and Data Protection & Recovery services also provided in certain cities in India, Singapore, Hong Kong-SAR and China. Corporate and Other consists of our data center business in the United States, the primary product offering of our Emerging Businesses segment, as well as costs related to executive and 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 and Other also includes stock-based employee compensation expense associated with all stock options, restricted stock, restricted stock units, performance units and shares of stock issued under our employee stock purchase plan.

North American Records and Information Management Business

	Three Months Ended September 30,		Dollar Change	Percentage Change		
	2013	2014		Actual	Constant Currency	Internal Growth
Storage Rental Service	\$ 263,972	\$ 271,417	\$ 7,445	2.8%	3.3%	0.4%
	177,375	178,862	1,487	0.8%	1.2%	(1.2)%
Segment Revenue	\$ 441,347	\$ 450,279	\$ 8,932	2.0%	2.5%	(0.2)%

Segment Adjusted OIBDA(1)	\$ 167,380	\$ 177,890	\$ 10,510
---------------------------	------------	------------	-----------

Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	37.9%	39.5%
--------------------------------------------------------------	-------	-------

	Nine Months Ended September 30,		Dollar Change	Percentage Change		
	2013	2014		Actual	Constant Currency	Internal Growth
Storage Rental Service	\$ 789,841	\$ 810,402	\$ 20,561	2.6%	3.3%	0.1%
	537,211	538,280	1,069	0.2%	0.9%	(1.7)%
Segment Revenue	\$ 1,327,052	\$ 1,348,682	\$ 21,630	1.6%	2.4%	(0.6)%

Segment Adjusted OIBDA(1)	\$ 499,274	\$ 518,626	\$ 19,352
---------------------------	------------	------------	-----------

Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	37.6%	38.5%
-----------------------------------------------------------------	-------	-------

(1)

See Note 7 to Notes to the Consolidated Financial Statements for definition of Adjusted OIBDA and for the basis on which allocations are made and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes and (gain) loss on sale of real estate.

(1)

See Note 7 to Notes to the Consolidated Financial Statements for definition of Adjusted OIBDA and for the basis on which allocations are made and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes and (gain) loss on sale of real estate.

During the three and nine months ended September 30, 2014, reported revenue in our North American Data Management Business segment decreased 3.6% and 2.6%, respectively, compared to the three and nine months ended September 30, 2013, primarily due to negative internal growth of 3.9% and 2.7% in the three and nine months ended September 30, 2014, respectively. The negative internal growth was primarily driven by negative service internal growth of 11.7% and 8.5% in the three and nine months ended September 30, 2014, respectively, as a result of declines in service revenue activity levels as the business becomes more archival in nature. For the three and nine months ended

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

September 30, 2014, foreign currency exchange rate fluctuations decreased our reported revenues for the North American Data Management Business segment by 0.3% and 0.5%, respectively, compared to the same prior year periods due to the weakening of the Canadian dollar against the U.S. dollar. Adjusted OIBDA as a percentage of segment revenue declined 280 basis points during the nine months ended September 30, 2014 compared to the same period of 2013, primarily due to the aforementioned negative internal growth, as well as costs not declining in proportion to the decline in revenue.

International Business

	Three Months Ended			Percentage Change		
	September 30,		Dollar Change	Actual	Constant Currency	Internal Growth
	2013	2014				
Storage Rental	\$ 118,167	\$ 133,339	\$ 15,172	12.8%	12.4%	6.8%
Service	92,266	98,826	6,560	7.1%	6.3%	(1.5)%
Segment Revenue	\$ 210,433	\$ 232,165	\$ 21,732	10.3%	9.7%	3.2%
Segment Adjusted OIBDA(1)	\$ 55,662	\$ 54,790	\$ (872)			

Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	26.5%	23.6%
--------------------------------------------------------------	-------	-------

	Nine Months Ended			Percentage Change		
	September 30,		Dollar Change	Actual	Constant Currency	Internal Growth
	2013	2014				
Storage Rental	\$ 349,056	\$ 392,236	\$ 43,180	12.4%	12.9%	5.9%
Service	271,633	297,949	26,316	9.7%	9.9%	1.1%
Segment Revenue	\$ 620,689	\$ 690,185	\$ 69,496	11.2%	11.6%	3.8%
Segment Adjusted OIBDA(1)	\$ 156,469	\$ 169,257	\$ 12,788			

Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	25.2%	24.5%
--------------------------------------------------------------	-------	-------

(1)

See Note 7 to Notes to the Consolidated Financial Statements for definition of Adjusted OIBDA and for the basis on which allocations are made and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

taxes and (gain) loss on sale of real estate.

During the three and nine months ended September 30, 2014, reported revenues in our International Business segment increased 10.3% and 11.2%, respectively, compared to the three and nine months ended September 30, 2013. Internal growth for the three and nine months ended September 30, 2014 was 3.2% and 3.8%, respectively, supported by solid 6.8% and 5.9%, respectively, storage rental internal growth. Acquisitions contributed 6.5% and 7.8% of the increase in total reported International Business segment revenue in the three and nine months ended September 30, 2014, respectively. Foreign currency fluctuations in 2014 resulted in decreased revenue in the nine months ended September 30, 2014, as measured in U.S. dollars, of approximately 0.4%, as compared to the same prior year period, primarily due to the weakening of the Australian dollar and Brazilian real, offset by an increase of the British pound sterling and the Euro against the U.S. dollar. Adjusted OIBDA as a percentage of segment revenue decreased on a portfolio basis in the nine months ended September 30, 2014 compared to the same prior year period primarily due to the impact associated with the recent fire at one of our facilities in Buenos Aires, Argentina (described at Note 8(e) to Notes to Consolidated Financial Statements), as well as integration costs associated with recent international acquisitions.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Corporate and Other

	Three Months Ended September 30,			Percentage Change		
	2013	2014	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	\$ 2,936	\$ 3,059	\$ 123	4.2%	4.2%	4.2%
Service	251	459	208	82.9%	82.9%	82.9%
Segment Revenue	\$ 3,187	\$ 3,518	\$ 331	10.4%	10.4%	10.4%

Segment Adjusted OIBDA(1) \$ (43,737) \$ (51,688) \$ (7,951)

Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue (5.8)% (6.6)%

	Nine Months Ended September 30,			Percentage Change		
	2013	2014	Dollar Change	Actual	Constant Currency	Internal Growth
Storage Rental	\$ 9,204	\$ 8,781	\$ (423)	(4.6)%	(4.6)%	(4.6)%
Service	817	1,057	240	29.4%	29.4%	29.4%
Segment Revenue	\$ 10,021	\$ 9,838	\$ (183)	(1.8)%	(1.8)%	(1.8)%

Segment Adjusted OIBDA(1) \$ (136,440) \$ (149,806) \$ (13,366)

Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue (6.0)% (6.4)%

(1) See Note 7 to Notes to the Consolidated Financial Statements for definition of Adjusted OIBDA and for the basis on which allocations are made and a reconciliation of Adjusted OIBDA to income (loss) from continuing operations before provision (benefit) for income taxes and (gain) loss on sale of real estate.

During the nine months ended September 30, 2014, expenses in the Corporate and Other segment as a percentage of consolidated revenue increased compared to the nine months ended September 30, 2013, primarily due to increased insurance costs of \$3.5 million associated with the recent fire at one of our facilities in Buenos Aires, Argentina (described at Note 8(e) to Notes to Consolidated Financial Statements), higher professional fees of \$5.5 million, restructuring costs of \$1.5 million and REIT compliance costs.

Liquidity and Capital Resources

The following is a summary of our cash balances and cash flows (in thousands) as of and for the nine months ended September 30,

	2013	2014
Cash flows from operating activities continuing operations	\$ 333,629	\$ 301,852
Cash flows from investing activities continuing operations	(341,725)	\$ (331,292)
Cash flows from financing activities continuing operations	(49,805)	\$ 94,833
Cash and cash equivalents at the end of period	172,031	\$ 183,988

Net cash provided by operating activities from continuing operations was \$301.9 million for the nine months ended September 30, 2014 compared to \$333.6 million for the nine months ended September 30, 2013. The 9.5% period over period decrease resulted primarily from a decrease in net income, including non-cash charges and realized foreign exchange losses, of \$83.8 million, offset by a decrease in cash used in working capital of \$52.0 million primarily related to timing of prepaid and other operating accounts payable payments and accruals.

Table of Contents

Our business requires capital expenditures to support our expected revenue growth and ongoing operations as well as new products and services and increased profitability. These expenditures are included in the cash flows from investing activities from continuing operations. The nature of our capital expenditures has evolved over time along with the nature of our business. We make capital expenditures to support a number of different objectives. The majority of our capital goes to support business-line growth and our ongoing operations, but we also expend capital to support the development and improvement of products and services and projects designed to increase our profitability. These expenditures are generally small and discretionary in nature. Cash paid for our capital expenditures, cash paid for acquisitions (net of cash acquired) and additions to customer acquisition costs during the nine months ended September 30, 2014 amounted to \$277.4 million, \$46.4 million and \$25.8 million, respectively. For the nine months ended September 30, 2014, these expenditures were funded with cash flows provided by operating activities from continuing operations, cash equivalents on hand and borrowings under our Revolving Credit Facility (defined below). Excluding potential future acquisitions, we expect our capital expenditures to be approximately \$320.0 million to \$360.0 million in the year ending December 31, 2014.

Net cash provided by financing activities from continuing operations was \$94.8 million for the nine months ended September 30, 2014. During the nine months ended September 30, 2014, we received \$642.4 million in net proceeds from the issuance of the 6¹/₈% Notes and \$37.4 million from proceeds from the exercise of stock options and the employee stock purchase plan. We used the proceeds from these transactions for the retirement of \$247.3 million of the 7¹/₄% GBP Senior Subordinated Notes due 2014, for payment of dividends in the amount of \$157.0 million on our common stock, net payments of \$163.8 million of other debt (primarily associated with our Credit Agreement, defined below) and net payments of \$14.7 million associated with our noncontrolling interest holders.

Dividends and Distributions

In February 2010, our board of directors adopted a dividend policy under which we have paid, and in the future intend to pay, quarterly cash dividends on our common stock. Declaration and payment of future quarterly dividends is at the discretion of our board of directors.

On September 15, 2014, we announced the declaration by our board of directors of a special distribution of \$700.0 million (the "Special Distribution"), payable to stockholders of record as of September 30, 2014 (the "Record Date"). The Special Distribution represents the remaining amount of our undistributed earnings and profits attributable to all taxable periods ending on or prior to December 31, 2013, which in accordance with tax rules applicable to REIT conversions we are required to pay to our stockholders on or before December 31, 2014 in connection with our conversion to a REIT. The Special Distribution also includes certain items of taxable income that we expect to recognize in 2014, such as depreciation recapture in respect of accounting method changes commenced in our pre-REIT period as well as foreign earnings and profits repatriated as dividend income. The Special Distribution follows an initial distribution of \$700.0 million paid to stockholders in November 2012.

The Special Distribution will be paid in a combination of common stock and cash. The Special Distribution is payable on November 4, 2014 (the "Payment Date") to stockholders of record as of the Record Date. Stockholders had the right to elect to be paid their pro rata portion of the Special Distribution in all common stock or all cash, with the total cash payment to stockholders limited to no more than \$140.0 million, or 20% of the total Special Distribution, not including cash paid in lieu of fractional shares. Based on stockholder elections, we will pay \$140.0 million of the Special Distribution in cash, not including cash paid in lieu of fractional shares, with the balance payable in the form of common stock. Our shares of common stock were valued for purposes of the Special Distribution based upon the average closing price on the three trading days following October 24, 2014, or \$35.55 per share, and as such, we will issue approximately 15.8 million shares of common stock in the Special

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Distribution. These shares impact weighted average shares outstanding from the date of issuance, and thus will impact our earnings per share data prospectively from the Payment Date.

In fiscal year 2013 and in the first nine months of 2014, our board of directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount (in thousands)	Payment Date
March 14, 2013	\$ 0.2700	March 25, 2013	\$ 51,460	April 15, 2013
June 6, 2013	0.2700	June 25, 2013	51,597	July 15, 2013
September 11, 2013	0.2700	September 25, 2013	51,625	October 15, 2013
December 16, 2013	0.2700	December 27, 2013	51,683	January 15, 2014
March 14, 2014	0.2700	March 25, 2014	51,812	April 15, 2014
May 28, 2014	0.2700	June 25, 2014	52,033	July 15, 2014
September 15, 2014	0.4750	September 25, 2014	91,993	October 15, 2014
September 15, 2014	3.6200	September 30, 2014	700,000	November 4, 2014

REIT Conversion

As stated above, we declared the Special Distribution in order for us to be eligible to elect REIT status for federal income tax purposes for the taxable year beginning January 1, 2014. In addition, subject to the approval of our board of directors, we expect to distribute prior to December 31, 2014 our second quarterly distribution as a REIT (the "Fourth Quarter Distribution") and an additional catch-up distribution (the "Catch-Up Distribution"). We anticipate that the per share amount of the Fourth Quarter Distribution will be approximately the same as our third quarter distribution paid on October 15, 2014. We expect the Catch-Up Distribution will be approximately \$53.0 million in the aggregate and we are making this additional distribution because our distributions through July 2014 were declared before our board of directors had determined if we would convert to a REIT effective January 1, 2014, and therefore, were lower than they otherwise would have been if our board of directors made such determination prior to the first quarter distribution. During 2014, we expect to pay distributions, excluding the Special Distribution, in an aggregate amount of approximately \$400.0 million (including the Fourth Quarter Distribution, the Catch-Up Distribution and the quarterly distribution we paid on January 15, 2014). With regard to our levels of indebtedness, we plan to operate within our target leverage ratio range of 4x-5x EBITDAR as defined in our Credit Agreement. We are, however, temporarily operating above the high end of this range due to the timing of cash outlays related to the Conversion Plan.

Financial Instruments and Debt

Financial instruments that potentially subject us to market risk consist principally of cash and cash equivalents (including money market funds and time deposits), restricted cash (primarily U.S. Treasuries) and accounts receivable. The only significant concentrations of liquid investments as of September 30, 2014 relate to cash and cash equivalents and restricted cash held on deposit with three global banks and three "Triple A" rated money market funds, all of which we consider to be large, highly-rated investment-grade institutions. As per our risk management investment policy, we limit exposure to concentration of credit risk by limiting the amount invested in any one mutual fund to a maximum of \$50.0 million or in any one financial institution to a maximum of \$75.0 million. As of September 30, 2014, our cash and cash equivalents and restricted cash balance was \$217.8 million, including money market funds and time deposits amounting to \$97.6 million. The money market funds are invested substantially in U.S. Treasuries, repurchase agreements and certificates of deposit.

Edgar Filing: IRON MOUNTAIN INC - Form 10-Q

Table of Contents

Our consolidated debt as of September 30, 2014 comprised the following (in thousands):

Revolving Credit Facility(1)	\$ 277,316
Term Loan(1)	250,000
6 ³ / ₄ % Euro Senior Subordinated Notes due 2018 (the "6 ³ / ₄ % Notes")(2)	321,528
7 ³ / ₄ % Senior Subordinated Notes due 2019 (the "7 ³ / ₄ % Notes")(2)	400,000
8 ³ / ₈ % Senior Subordinated Notes due 2021 (the "8 ³ / ₈ % Notes")(2)	411,615
6 ¹ / ₈ % CAD Senior Notes due 2021 (the "Senior Subsidiary Notes")(3)	179,040
6 ¹ / ₈ % GBP Senior Notes due 2022 (the "6 ¹ / ₈ % Notes")(4)	649,180
6% Senior Notes due 2023 (the "6% Notes")(2)	600,000
5 ³ / ₄ % Senior Subordinated Notes due 2024 (the "5 ³ / ₄ % Notes")(2)	1,000,000
Real Estate Mortgages, Capital Leases and Other	303,806
Total Long-term Debt	4,392,485
Less Current Portion	(60,799)
Long-term Debt, Net of Current Portion	\$ 4,331,686

-
- (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 (including promissory notes) of subsidiaries owed to us or to one of our U.S. subsidiary guarantors. In addition, Canada Company has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it, to secure the Canadian dollar subfacility under the Revolving Credit Facility (defined below).
- (2) Collectively, the "Parent Notes." IMI is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior or senior subordinated basis, as the case may be, by substantially all of its direct and indirect 100% owned U.S. subsidiaries (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Canada Company and the remainder of our subsidiaries do not guarantee the Parent Notes.
- (3) Canada Company is the direct obligor on the Senior Subsidiary Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements.
- (4) IME is the direct obligor on the 6¹/₈% Notes, which are fully and unconditionally guaranteed, on a senior basis, by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors. See Note 6 to Notes to Consolidated Financial Statements.

On August 7, 2013, we amended our existing credit agreement. The revolving credit facilities (the "Revolving Credit Facility") under our credit agreement, as amended (the "Credit Agreement"), allow IMI and certain of its U.S. and foreign subsidiaries to borrow in U.S. dollars and (subject to sublimits) a variety of other currencies (including Canadian dollars, British pounds sterling, Euros, Brazilian reais and Australian dollars, among other currencies) in an aggregate outstanding amount not to exceed \$1.5 billion. In addition, the Credit Agreement included an option to allow us to request additional commitments of up to \$500.0 million, in the form of term loans or through increased commitments under the Revolving Credit Facility. On August 25, 2014, we entered into an incremental term loan activation notice under the Credit Agreement pursuant to which we increased the maximum amount permitted to be borrowed under the Credit Agreement from \$1.5 billion to \$1.9 billion, and on September 24, 2014, we borrowed \$250.0 million of the increased borrowings in the form of a term

Table of Contents

loan under the Credit Agreement (the "Term Loan"). Commencing on December 31, 2014, the Term Loan will begin amortizing in quarterly installments in an amount equal to \$0.6 million per quarter, with the remaining balance due on June 27, 2016. The Term Loan may be prepaid without penalty or premium, in whole or in part, at any time. The Credit Agreement continues to include an option to allow us to request additional commitments of up to \$250.0 million, in the form of term loans or through increased commitments under the Revolving Credit Facility.

The Credit Agreement terminates on June 27, 2016, at which point all obligations become due. IMI and the Guarantors guarantee all obligations under the Credit Agreement, and have pledged the capital stock or other equity interests of most of their U.S. subsidiaries, up to 66% of the capital stock or other equity interests of their first-tier foreign subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by them to secure the Credit Agreement. In addition, Canada Company has pledged 66% of the capital stock of its subsidiaries, and all intercompany obligations (including promissory notes) owed to or held by it to secure the Canadian dollar subfacility under the Revolving Credit Facility. The interest rate on borrowings under the Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin, which varies based on our consolidated leverage ratio. Additionally, the Credit Agreement requires the payment of a commitment fee on the unused portion of the Revolving Credit Facility, which fee ranges from between 0.3% to 0.5% based on certain financial ratios and fees associated with outstanding letters of credit. As of September 30, 2014, we had \$277.3 million and \$250.0 million of outstanding borrowings under the Revolving Credit Facility and the Term Loan, respectively. Of the \$277.3 million of outstanding borrowings under the Revolving Credit Facility, \$130.3 million was denominated in U.S. dollars, 60 million was denominated in Canadian dollars, 63.7 million was denominated in Euros and 14.5 million was denominated in Australian dollars. In addition, we also had various outstanding letters of credit totaling \$8.6 million. The remaining amount available for borrowing under the Revolving Credit Facility as of September 30, 2014, based on IMI's leverage ratio, the last 12 months' earnings before interest, taxes, depreciation and amortization and rent expense ("EBITDAR"), other adjustments as defined in the Credit Agreement and current external debt, was \$1.2 billion (which amount represents the maximum availability as of such date). The average interest rate in effect under the Credit Agreement was 2.6% as of September 30, 2014. The average interest rate in effect under the Revolving Credit Facility was 2.7% and ranged from 2.3% to 4.9% as of September 30, 2014 and the interest rate in effect under the Term Loan as of September 30, 2014 was 2.4%.

For the three and nine months ended September 30, 2013, we recorded commitment fees and letters of credit fees of \$1.0 million and \$2.1 million, respectively, based on the unused balances under the Revolving Credit Facility and outstanding letters of credit. In addition, we recorded a charge of \$43.7 million to other expense (income), net in the third quarter of 2013 which consisted of a charge of \$5.5 million related to the amendment of our revolving credit and term loan facilities, representing a write-off of deferred financing costs and a charge of \$38.1 million related to the early extinguishment of (1) 175.0 million CAD aggregate principal amount outstanding of the 7¹/₂% CAD Senior Subordinated Notes due 2017, (2) \$50.0 million aggregate principal amount outstanding of the 8% Senior Subordinated Notes due 2018, (3) \$300.0 million aggregate principal amount outstanding of the 8% Senior Subordinated Notes due 2020, and (4) \$137.5 million aggregate principal amount of the 8³/₈% Notes. For the three and nine months ended September 30, 2014, we recorded commitment fees and letters of credit fees of \$0.7 million and \$1.9 million, respectively, based on the unused balances under the Revolving Credit Facility and outstanding letters of credit.

In January 2014, we redeemed the 150.0 million British pounds sterling (approximately \$247.0 million) in aggregate principal amount outstanding of the 7¹/₄% GBP Senior Subordinated Notes due 2014 at 100% of par, plus accrued and unpaid interest, utilizing borrowings under our Revolving Credit Facility and cash on-hand.

Table of Contents

In September 2014, IME completed a private offering of 400.0 million British pounds sterling in aggregate principal amount of the 6¹/₈% Notes, which were issued at 100% of par. The net proceeds to IME of 394.0 million British pounds sterling (approximately \$642.0 million based on an exchange rate of 1.63), after paying the initial purchasers' commissions and expenses, were used to repay amounts outstanding under our Revolving Credit Facility and for general corporate purposes.

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, our indentures or other agreements governing our indebtedness. The Credit Agreement uses EBITDAR-based calculations as the primary measures of financial performance, including leverage and fixed charge coverage ratios. IMI's Credit Agreement net total lease adjusted leverage ratio was 5.0 and 5.2 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 6.5, and its net secured debt lease adjusted leverage ratio was 2.2 and 2.0 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 4.0. IMI's bond leverage ratio (which is not lease adjusted), per the indentures, was 5.1 and 5.3 as of December 31, 2013 and September 30, 2014, respectively, compared to a maximum allowable ratio of 6.5. IMI's Credit Agreement fixed charge coverage ratio was 2.5 as of both December 31, 2013 and September 30, 2014 compared to a minimum allowable ratio of 1.5 under the Credit Agreement. Noncompliance with these leverage and fixed charge coverage ratios would have a material adverse effect on our financial condition and liquidity.

Our ability to pay interest on or to refinance our indebtedness depends on our future performance, working capital levels and capital structure, which are subject to general economic, financial, competitive, legislative, regulatory and other factors which may be beyond our control. There can be no assurance that we will generate sufficient cash flow from our operations or that future financings will be available on acceptable terms or in amounts sufficient to enable us to service or refinance our indebtedness or to make necessary capital expenditures.

Acquisitions

In January 2014, in order to enhance our international operations, we acquired Tape Management Services Pty Ltd, a storage and data management company with operations in Australia, for approximately \$15.3 million.

In February 2014, in order to enhance our international operations, we acquired RM Arsiv Yönetim Hizmetleri Ticaret Anonim Sirketi, a storage rental and records management business with operations in Turkey, for approximately \$21.2 million, of which \$16.8 million was paid in the first quarter of 2014, with the remainder to be paid out based upon a customary working capital adjustment and whether we make claims for indemnification against the former owners of the business.

In April 2014, in order to enhance our international operations, we acquired the stock of OSG Polska sp. z.o.o., a storage rental and records management business with operations in Poland, for approximately \$13.7 million.

In September 2014, we purchased our joint venture partners' noncontrolling interests in the businesses we operate in Russia, the Ukraine and Denmark. The purchase price of approximately \$24.5 million is comprised of \$17.9 million paid at closing, \$2.1 million payable in 2017 and \$4.5 million payable in 2020. Of the \$17.9 million paid at closing, approximately \$12.0 million was associated with the underlying shares owned by our joint venture partners and approximately \$6.0 million was associated with the payment of outstanding loans between the joint venture and the joint venture partners.

Table of Contents

In October 2014, in order to enhance our international operations, we acquired Keepers Brasil Ltda ("Keepers"), a storage rental and data management business in Sao Paul, Brazil, for approximately \$46.2 million. The purchase price includes approximately \$5.4 million being held in escrow to secure indemnification obligations of the former owners of the business to us.

Contractual Obligations

We expect to meet our cash flow requirements for the next twelve months from cash generated from operations, existing cash, cash equivalents, borrowings under the Credit Agreement and other financings, which may include senior or senior subordinated notes, secured credit facilities, securitizations and mortgage or capital lease financings, and the issuance of equity. We expect to meet our long-term cash flow requirements using the same means described above. We are highly leveraged. While we expect to continue to be highly leveraged for the foreseeable future, as a REIT we expect our long-term capital allocation strategy will naturally shift toward increased use of equity to support lower leverage, though our leverage has increased, in the short-term, to fund the costs of the Conversion Plan.

Net Operating Losses and Foreign Tax Credit Carryforwards

We have federal net operating loss carryforwards, which expire in 2021 through 2033, of \$88.0 million at September 30, 2014 to reduce future federal taxable income, on which no federal tax benefit is expected to be realized. We have assets for foreign net operating losses of \$60.1 million, with various expiration dates (and in some cases no expiration date), subject to a valuation allowance of approximately 71%.

Inflation

Certain of our expenses, such as wages and benefits, insurance, occupancy costs and equipment repair and replacement, are subject to normal inflationary pressures. Although to date we have been able to offset inflationary cost increases through increased operating efficiencies and the negotiation of favorable long-term real estate leases, we can give no assurance that we will be able to offset any future inflationary cost increases through similar efficiencies, leases or increased storage rental or service charges.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information is recorded, processed, summarized and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding what is required to be disclosed by a company in the reports that it files under the Exchange Act. As of September 30, 2014 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting

Table of Contents

as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Act of 1934) during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any unregistered securities during the three months ended September 30, 2014, nor did we repurchase any shares of our common stock during the three months ended September 30, 2014.

Table of Contents

Item 6. Exhibits

(a) Exhibits

Certain exhibits indicated below are incorporated by reference to documents we have filed with the SEC. Each exhibit marked by a pound sign (#) is a management contract or compensatory plan.

Exhibit No.	Description
4.1	Senior Indenture, dated as of September 18, 2014, among IME, the Company, the Guarantors, Wells Fargo Bank, National Association, as trustee, and Société Générale Bank & Trust, as paying agent, registrar and transfer agent. <i>(Incorporated by reference to the Company's Current Report on Form 8-K dated September 18, 2014).</i>
10.1	Incremental Term Loan Activation Notice, dated August 25, 2014, among Iron Mountain Information Management, LLC and the lenders party thereto. <i>(Incorporated by reference to the Company's Current Report on Form 8-K dated August 25, 2014).</i>
31.1	Rule 13a-14(a) Certification of Chief Executive Officer. <i>(Filed herewith.)</i>
31.2	Rule 13a-14(a) Certification of Chief Financial Officer. <i>(Filed herewith.)</i>
32.1	Section 1350 Certification of Chief Executive Officer. <i>(Furnished herewith.)</i>
32.2	Section 1350 Certification of Chief Financial Officer. <i>(Furnished herewith.)</i>
101.1	The following materials from Iron Mountain Incorporated's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. <i>(Filed herewith.)</i>

