IRON MOUNTAIN INC
Form 10-Q
August 01, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2013

OR

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

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

IRON MOUNTAIN INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**23-2588479**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of the registrant's Common Stock at July 26, 2013: 191,109,909

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Part I. Financial Information

Item 1. Unaudited Consolidated Financial Statements

IRON MOUNTAIN INCORPORATED

CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share and Per Share Data)

(Unaudited)

	December 31, 2012	June 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 243,415	$ 258,866
Restricted cash	33,612	33,613
Accounts receivable (less allowances of $25,209 and $26,764 as of December 31, 2012 and June 30, 2013, respectively)	572,200	581,481
Deferred income taxes	10,152	15,918
Prepaid expenses and other	164,713	156,104
Total Current Assets	1,024,092	1,045,982
Property, Plant and Equipment:		
Property, plant and equipment	4,443,323	4,465,713
Less Accumulated depreciation	(1,965,596)	(2,013,404)
Property, Plant and Equipment, net	2,477,727	2,452,309
Other Assets, net:		
Goodwill	2,334,759	2,317,157
Customer relationships and acquisition costs	456,120	457,710
Deferred financing costs	43,850	40,923
Other	21,791	20,738
Total Other Assets, net	2,856,520	2,836,528
Total Assets	$ 6,358,339	$ 6,334,819
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 92,887	$ 324,682
Accounts payable	168,120	141,686
Accrued expenses	426,813	396,074
Deferred revenue	217,133	210,483
Total Current Liabilities	904,953	1,072,925
Long-term Debt, net of current portion	3,732,116	3,614,018
Other Long-term Liabilities	62,917	66,552
Deferred Rent	97,356	94,189

Deferred Income Taxes		398,549		393,596
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 190,005,788 shares and 191,109,705 shares as of December 31, 2012 and June 30, 2013, respectively)		1,900		1,911
Additional paid-in capital		942,199		973,095
Retained earnings		185,558		126,964
Accumulated other comprehensive items, net		20,314		(21,697)
Total Iron Mountain Incorporated Stockholders' Equity		1,149,971		1,080,273
Noncontrolling Interests		12,477		13,266
Total Equity		1,162,448		1,093,539
Total Liabilities and Equity	$	6,358,339	$	6,334,819

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

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IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except Per Share Data)

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2013
Revenues:		
Storage rental	$ 433,436	$ 441,571
Service	318,729	313,150
Total Revenues	752,165	754,721
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	313,060	321,056
Selling, general and administrative	203,515	224,531
Depreciation and amortization	77,510	78,928
(Gain) Loss on disposal/write-down of property, plant and equipment, net	(607)	(1,663)
Total Operating Expenses	593,478	622,852
Operating Income (Loss)	158,687	131,869
Interest Expense, Net (includes Interest Income of $810 and $818 for the three months ended June 30, 2012 and 2013, respectively)	58,216	62,989
Other Expense (Income), Net	10,066	15,275
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	90,405	53,605
Provision (Benefit) for Income Taxes	48,964	26,067
Income (Loss) from Continuing Operations	41,441	27,538
(Loss) Income from Discontinued Operations, Net of Tax	(639)	(98)
(Loss) Gain on Sale of Discontinued Operations, Net of Tax	(1,885)	
Net Income (Loss)	38,917	27,440
Less: Net Income (Loss) Attributable to Noncontrolling Interests	862	876
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 38,055	$ 26,564
Earnings (Losses) per Share Basic:		
Income (Loss) from Continuing Operations	$ 0.24	$ 0.14
Total (Loss) Income from Discontinued Operations	$ (0.01)	$ (0.00)
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.22	$ 0.14
Earnings (Losses) per Share Diluted:		
Income (Loss) from Continuing Operations	$ 0.24	$ 0.14
Total (Loss) Income from Discontinued Operations	$ (0.01)	$ (0.00)
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.22	$ 0.14

Weighted Average Common Shares Outstanding Basic		171,296		190,823
Weighted Average Common Shares Outstanding Diluted		172,231		192,569
Dividends Declared per Common Share	$	0.2700	$	0.2700

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

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IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(In Thousands, except Per Share Data)

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2013
Revenues:		
Storage rental	$ 858,777	$ 884,040
Service	639,886	617,712
Total Revenues	1,498,663	1,501,752
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	628,358	642,132
Selling, general and administrative	414,175	447,982
Depreciation and amortization	155,518	159,129
Loss (Gain) on disposal/write-down of property, plant and equipment, net	112	(2,202)
Total Operating Expenses	1,198,163	1,247,041
Operating Income (Loss)	300,500	254,711
Interest Expense, Net (includes Interest Income of $1,355 and $1,043 for the six months ended June 30, 2012 and 2013, respectively)	117,000	126,171
Other Expense (Income), Net	6,762	18,014
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	176,738	110,526
Provision (Benefit) for Income Taxes	74,224	64,638
Income (Loss) from Continuing Operations	102,514	45,888
(Loss) Income from Discontinued Operations, Net of Tax	(5,732)	2,086
(Loss) Gain on Sale of Discontinued Operations, Net of Tax	(1,885)	
Net Income (Loss)	94,897	47,974
Less: Net Income (Loss) Attributable to Noncontrolling Interests	1,492	2,024
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 93,405	$ 45,950
Earnings (Losses) per Share Basic:		
Income (Loss) from Continuing Operations	$ 0.60	$ 0.24
Total (Loss) Income from Discontinued Operations	$ (0.04)	$ 0.01
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.55	$ 0.24
Earnings (Losses) per Share Diluted:		
Income (Loss) from Continuing Operations	$ 0.60	$ 0.24
Total (Loss) Income from Discontinued Operations	$ (0.04)	$ 0.01
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.54	$ 0.24

Weighted Average Common Shares Outstanding Basic		171,308		190,518
Weighted Average Common Shares Outstanding Diluted		172,227		192,339
Dividends Declared per Common Share	$	0.5200	$	0.5400

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

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IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	Three Months Ended June 30,	
	2012	**2013**
Net Income (Loss)	$ 38,917	$ 27,440
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	(26,845)	(27,887)
Total Other Comprehensive (Loss) Income	(26,845)	(27,887)
Comprehensive Income (Loss)	12,072	(447)
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	588	38
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	$ 11,484	$ (485)

	Six Months Ended June 30,	
	2012	**2013**
Net Income (Loss)	$ 94,897	$ 47,974
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	1,102	(42,834)
Total Other Comprehensive Income (Loss)	1,102	(42,834)
Comprehensive Income (Loss)	95,999	5,140
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	1,676	1,201
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	$ 94,323	$ 3,939

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

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IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands, except Share Data)

(Unaudited)

		Iron Mountain Incorporated Stockholders' Equity					
		Common Stock					
	Total	Shares	Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2011	$ 1,254,256	172,140,966	$ 1,721	$ 343,603	$ 902,567	$ (2,203)	$ 8,568
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of $254	23,449	597,460	6	23,443			
Stock repurchases	(34,688)	(1,103,149)	(11)	(34,677)			
Parent cash dividends declared	(89,161)				(89,161)		
Currency translation adjustment	1,102					918	184
Net income (loss)	94,897				93,405		1,492
Noncontrolling interests equity contributions	46						46
Noncontrolling interests dividends	(577)						(577)
Parent purchase of noncontrolling interests	1,000						1,000
Balance, June 30, 2012	$ 1,250,324	171,635,277	$ 1,716	$ 332,369	$ 906,811	$ (1,285)	$ 10,713

		Iron Mountain Incorporated Stockholders' Equity					
		Common Stock					
	Total	Shares	Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Items, Net	Noncontrolling Interests
Balance, December 31, 2012	$ 1,162,448	190,005,788	$ 1,900	$ 942,199	$ 185,558	$ 20,314	$ 12,477
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of $2,394	30,907	1,103,917	11	30,896			
Parent cash dividends declared	(104,544)				(104,544)		
Currency translation adjustment	(42,834)					(42,011)	(823)
Net income (loss)	47,974				45,950		2,024
Noncontrolling interests equity contributions	743						743
Noncontrolling interests dividends	(1,155)						(1,155)
Balance, June 30, 2013	$ 1,093,539	191,109,705	$ 1,911	$ 973,095	$ 126,964	$ (21,697)	$ 13,266

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

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IRON MOUNTAIN INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2013
Cash Flows from Operating Activities:		
Net income (loss)	$ 94,897	$ 47,974
Loss (Income) from discontinued operations	5,732	(2,086)
Loss (Gain)on sale of discontinued operations	1,885	
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	139,755	139,914
Amortization (includes deferred financing costs and bond discount of $3,444 and $3,774, for the six months ended June 30, 2012 and 2013, respectively)	19,207	22,989
Stock-based compensation expense	16,117	13,593
(Benefit) Provision for deferred income taxes	(38,699)	20,593
Loss (Gain) on disposal/write-down of property, plant and equipment, net	112	(2,202)
Foreign currency transactions and other, net	7,249	39,865
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	(24,461)	(21,245)
Prepaid expenses and other	23,943	(14,734)
Accounts payable	(4,043)	6,838
Accrued expenses and deferred revenue	(24,903)	(38,988)
Other assets and long-term liabilities	64	437
Cash Flows from Operating Activities Continuing Operations	216,855	212,948
Cash Flows from Operating Activities Discontinued Operations	(4,665)	953
Cash Flows from Operating Activities	212,190	213,901
Cash Flows from Investing Activities:		
Capital expenditures	(107,361)	(158,240)
Cash paid for acquisitions, net of cash acquired	(107,290)	(52,792)
Investment in restricted cash	(1,502)	(1)
Additions to customer relationship and acquisition costs	(8,144)	(8,261)
Proceeds from sales of property and equipment and other, net	1,862	2,899
Cash Flows from Investing Activities Continuing Operations	(222,435)	(216,395)
Cash Flows from Investing Activities Discontinued Operations	(6,136)	(18)
Cash Flows from Investing Activities	(228,571)	(216,413)
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(1,768,694)	(987,166)
Proceeds from revolving credit and term loan facilities and other debt	1,888,264	1,099,939
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	385	874
Stock repurchases	(38,052)	
Parent cash dividends	(85,971)	(103,309)
Proceeds from exercise of stock options and employee stock purchase plan	11,029	14,897
Excess tax benefits from stock-based compensation	254	2,394
Payment of debt financing costs	(93)	(711)
Cash Flows from Financing Activities Continuing Operations	7,122	26,918
Cash Flows from Financing Activities Discontinued Operations	(39)	
Cash Flows from Financing Activities	7,083	26,918
Effect of Exchange Rates on Cash and Cash Equivalents	(317)	(8,955)

(Decrease) Increase in Cash and Cash Equivalents		(9,615)		15,451
Cash and Cash Equivalents, Beginning of Period		179,845		243,415
Cash and Cash Equivalents, End of Period	$	170,230	$	258,866
Supplemental Information:				
Cash Paid for Interest	$	114,475	$	123,563
Cash Paid for Income Taxes	$	83,830	$	58,886
Non-Cash Investing and Financing Activities:				
Capital Leases	$	13,130	$	30,097
Accrued Capital Expenditures	$	22,691	$	20,891
Dividends Payable	$	46,370	$	54,274

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

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(1) General

The interim consolidated financial statements are presented herein and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. Iron Mountain Incorporated ("IMI") stores records, primarily paper documents and data backup media, and provides 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 Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to those rules and regulations, but we believe that the disclosures included herein are adequate to make the information presented not misleading. The Consolidated Financial Statements and Notes thereto, which are included herein, should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2012 included in our Annual Report on Form 10-K filed on March 1, 2013.

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 the 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.

(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 account balances have been eliminated.

b. Cash, Cash Equivalents and Restricted Cash

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

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 $33,612 and $33,613 as of December 31, 2012 and June 30, 2013, respectively, and is

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

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 center 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 $7^1/_4$% GBP Senior Subordinated Notes due 2014, (2) our $6^3/_4$% Euro Senior Subordinated Notes due 2018, (3) the borrowings in certain foreign currencies under our revolving credit facilities 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 $11,761 and $9,186 for the three and six months ended June 30, 2012, respectively. The total gain or loss on foreign currency transactions amounted to a net loss of $16,366 and $19,931 for the three and six months ended June 30, 2013, respectively.

d. Goodwill and Other Intangible Assets

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

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, 2012 and noted no impairment of goodwill at such date. As of December 31, 2012 and June 30, 2013, no factors were identified that would alter our October 1, 2012 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, 2012 were as follows: (1) North America; (2) United Kingdom, Ireland, Norway, Belgium, France,

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

Germany, Luxembourg, Netherlands and Spain ("Western Europe"); (3) the remaining countries in Europe, excluding Russia and Ukraine, in which we operate ("Emerging Markets"); (4) Latin America; (5) Australia, China, Hong Kong and Singapore ("Asia Pacific"); and (6) India, Russia and Ukraine ("Emerging Market Joint Ventures"). As of December 31, 2012, the carrying value of goodwill, net amounted to $1,762,307, $365,303, $87,492, $56,893 and $62,764 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, 2012 and June 30, 2013. Based on our goodwill impairment assessment, all of our reporting units with goodwill had estimated fair values as of October 1, 2012 that exceeded their carrying values by greater than 30%. As of June 30, 2013, the carrying value of goodwill, net amounted to $1,760,253, $349,592, $83,587, $68,483 and $55,242 for North America, Western Europe, Emerging Markets, Latin America and Asia Pacific, respectively.

Reporting unit valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit or a combined approach based on the present value of future cash flows and market and transaction multiples of revenues and earnings. The income approach incorporates many assumptions, including future growth rates, discount factors, expected capital expenditures and income tax cash flows. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods. In conjunction with our annual goodwill impairment reviews, we reconcile the sum of the valuations of all of our reporting units to our market capitalization as of such dates.

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

The changes in the carrying value of goodwill attributable to each reportable operating segment for the six months ended June 30, 2013 are as follows:

	North American Business	International Business	Total Consolidated
Gross Balance as of December 31, 2012	$ 2,023,971	$ 631,528	$ 2,655,499
Deductible goodwill acquired during the year	9,821	16,560	26,381
Non-deductible goodwill acquired during the year		1,208	1,208
Fair value and other adjustments	191	(408)	(217)(1)
Currency effects	(12,696)	(33,479)	(46,175)
Gross Balance as of June 30, 2013	$ 2,021,287	$ 615,409	$ 2,636,696
Accumulated Amortization Balance as of December 31, 2012	$ 261,664	$ 59,076	$ 320,740
Currency effects	(630)	(571)	(1,201)
Accumulated Amortization Balance as of June 30, 2013	$ 261,034	$ 58,505	$ 319,539
Net Balance as of December 31, 2012	$ 1,762,307	$ 572,452	$ 2,334,759
Net Balance as of June 30, 2013	$ 1,760,253	$ 556,904	$ 2,317,157
Accumulated Goodwill Impairment Balance as of December 31, 2012	$ 85,909	$ 46,500	$ 132,409
Accumulated Goodwill Impairment Balance as of June 30, 2013	$ 85,909	$ 46,500	$ 132,409

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(1) Total fair value and other adjustments primarily include $(143) in adjustments to property, plant and equipment, net, customer relationships and deferred income taxes made within one year from the date of the acquisition, as well as $74 of cash received related to acquisitions made in previous years.

The components of our amortizable intangible assets as of June 30, 2013 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	$ 702,857	$ (245,147)	$ 457,710
Core Technology(1)	3,707	(3,317)	390
Trademarks and Non-Compete Agreements(1)	5,824	(3,464)	2,360
Deferred Financing Costs	64,140	(23,217)	40,923
Total	$ 776,528	$ (275,145)	$ 501,383

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

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)

Amortization expense associated with amortizable intangible assets (including deferred financing costs) was $9,606 and $19,207 for the three and six months ended June 30, 2012, respectively. Amortization expense associated with amortizable intangible assets (including deferred financing costs) was $10,973 and $22,989 for the three and six months ended June 30, 2013, respectively.

e. Stock-Based Compensation

We record stock-based compensation expense, utilizing the straight-line method, for the cost of stock options, restricted stock, restricted stock units, performance units and shares of stock issued under the 2003 employee stock purchase plan (together, "Employee Stock-Based Awards").

Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2012 was $6,317 ($5,061 after tax or $0.03 per basic and diluted share) and $16,117 ($11,908 after tax or $0.07 per basic and diluted share), respectively. Stock-based compensation expense for Employee Stock-Based Awards for the three and six months ended June 30, 2013 was $7,883 ($6,099 after tax or $0.03 per basic and diluted share) and $13,593 ($10,986 after tax or $0.06 per basic and diluted share), respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2013**	**2012**	**2013**
Cost of sales (excluding depreciation and amortization)	$ 302	$ 72	$ 517	$ 142
Selling, general and administrative expenses	6,015	7,811	15,600	13,451
Total stock-based compensation	$ 6,317	$ 7,883	$ 16,117	$ 13,593

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 $254 and $2,394 for the six months ended June 30, 2012 and 2013, respectively, from the benefits of tax deductions in excess of 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 granted with exercise prices equal to the market price of the stock on the date of grant. The majority of our options become exercisable ratably over a period of five years 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

contractual life of 12 years from the date of grant, unless the holder's employment is terminated sooner. As of June 30, 2013, ten-year vesting options represented 10.3% of total outstanding options. Beginning in 2011, certain of the options we issue become exercisable ratably over a period of three years from the date of grant and have a contractual life of ten years from the date of grant, unless the holder's employment is terminated sooner. As of June 30, 2013, three-year vesting options represented 20.4% 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 six months ended June 30, 2012 and 2013 was $7.00 and $7.69 per share, respectively. These values were estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average assumptions used for grants in the respective period:

	Six Months Ended June 30,	
Weighted Average Assumptions	**2012**	**2013**
Expected volatility	33.8%	33.8%
Risk-free interest rate	1.24%	1.13%
Expected dividend yield	3%	3%
Expected life	6.3 years	6.3 years

Expected volatility is calculated utilizing daily historical volatility over a period that equates to the expected life of the option. The risk-free interest rate was based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. 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 our employees.

A summary of option activity for the six months ended June 30, 2013 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2012	5,908,102	$ 23.39		
Granted	261,698	33.03		
Exercised	(746,486)	22.41		
Forfeited	(80,496)	21.72		
Expired	(1,961)	23.86		
Outstanding at June 30, 2013	5,340,857	$ 24.02	5.71	$ 17,521
Options exercisable at June 30, 2013	3,737,433	$ 23.71	5.07	$ 12,725
Options expected to vest	1,505,421	$ 24.70	7.22	$ 4,528

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(2) Summary of Significant Accounting Policies (Continued)

The following table provides the aggregate intrinsic value of stock options exercised for the three and six months ended June 30, 2012 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2013	2012	2013
Aggregate intrinsic value of stock options exercised	$ 2,308	$ 4,650	$ 3,372	$ 10,096

Restricted Stock and Restricted Stock Units

Under our various stock option plans, we may also issue grants of restricted stock or restricted stock units ("RSUs"). Our restricted stock and RSUs generally have a three- to five-year vesting period from the date of grant. As a result of an amendment to our RSUs approved by our Compensation Committee of our board of directors in October 2012, all RSUs now 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 $34 of cash dividends on RSUs issued in June 2012. We accrued approximately $350 and $1,098 of cash dividends on RSUs for the three and six months ended June 30, 2013, respectively. There were no cash dividends paid on RSUs for the three and six months ended June 30, 2012, respectively. We paid approximately $187 and $553 of cash dividends on RSUs for the three and six months ended June 30, 2013, 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 six months ended June 30, 2013 is as follows:

	Restricted Stock and RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2012	1,303,664	$ 29.89
Granted	611,489	35.71
Vested	(407,310)	29.65
Forfeited	(37,821)	29.43
Non-vested at June 30, 2013	1,470,022	$ 32.39

The total fair value of restricted stock vested during the three and six months ended June 30, 2012 was $1. The total fair value of restricted stock vested during the three and six months ended June 30, 2013 was $1. The total fair value of RSUs vested during the three and six months ended June 30, 2012 was $1,985 and $5,964, respectively. The total fair value of RSUs vested during the three and six months ended June 30, 2013 was $3,469 and $12,076, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

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(2) Summary of Significant Accounting Policies (Continued)

Performance Units

Under our various equity compensation plans, we may also make awards of performance units ("PUs"). For the majority of PUs, the number of PUs earned is determined based on our performance against predefined calendar year targets of revenue growth and return on invested capital ("ROIC"). The number of PUs earned may range from 0% to 150% of the initial award. The number of PUs earned is determined based on the Company's actual performance as compared to the targets at the end of the one-year performance period. Certain PUs granted in 2013 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. 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 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. As a result of an amendment to our PUs approved by our Compensation Committee of our board of directors in October 2012, outstanding PUs now 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 $148 and $389 of cash dividends on PUs for the three and six months ended June 30, 2013, respectively.

During the six months ended June 30, 2013, we issued 202,333 PUs. For PUs that are earned based on our performance against revenue growth and ROIC targets during the one-year performance period, we will forecast the likelihood of achieving the predefined annual revenue growth and ROIC targets in order to calculate the expected PUs to be earned. We will record a compensation charge based on either the forecasted PUs to be earned (during the one-year performance period) or the actual PUs earned (at the one-year anniversary date) over the vesting period for each of the awards. For the 2013 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 six months ended June 30, 2013 was $0 and $908, respectively. There were no cash dividends paid on PUs for both the three and six months ended June 30, 2012 and 2013. As of June 30, 2013, we expected 86.6% achievement of the predefined revenue and ROIC targets associated with the grants made in 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(2) Summary of Significant Accounting Policies (Continued)

A summary of PU activity for the six months ended June 30, 2013 is as follows:

	Original PU Awards	PU Adjustment(1)	Total PU Awards	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2012	236,093	(4,447)	231,646	$ 29.12
Granted	202,333	(25,536)	176,797	38.75
Vested	(31,361)	558	(30,803)	29.48
Forfeited	(3,347)		(3,347)	28.87
Non-vested at June 30, 2013	403,718	(29,425)	374,293	$ 33.64

(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 employee stock purchase plan (the "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 generally have two six-month offering periods per year, the first of which begins June 1 and ends November 30 and the second of which begins December 1 and ends May 31. During each offering period, participating employees accumulate after-tax payroll contributions, up to a maximum of 15% of their compensation, to pay the purchase price at the end of the offering. Participating employees may withdraw from an offering period before the purchase date and obtain a refund of the amounts withheld as payroll deductions. At the end of the offering period, outstanding options are exercised, and each employee's accumulated contributions are used to purchase our common stock. The price for shares purchased under the ESPP is 95% of the fair market price at the end of the offering period, without a look-back feature. As a result, we do not recognize compensation cost for the ESPP shares purchased. For the six months ended June 30, 2012 and 2013, there were 88,672 shares and 74,732 shares, respectively, purchased under the ESPP. The number of shares available for purchase under the ESPP at June 30, 2013 was 204,494, which will be replaced subsequent to our June 1 offering, which ends on November 29, 2013, by the Iron Mountain Incorporated 2013 Employee Stock Purchase Plan, which was approved by our stockholders at the 2013 Annual Meeting of Stockholders held on June 6, 2013. Beginning November 29, 2013, we will have 1,000,000 shares available under the ESPP.

As of June 30, 2013, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was $58,648 and is expected to be recognized over a weighted-average period of 2.3 years.

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(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 June 30,		Six Months Ended June 30,	
	2012	2013	2012	2013
Income (Loss) from continuing operations	$ 41,441	$ 27,538	$ 102,514	$ 45,888
Total (loss) income from discontinued operations (see Note 10)	$ (2,524)	$ (98)	$ (7,617)	$ 2,086
Net income (loss) attributable to Iron Mountain Incorporated	$ 38,055	$ 26,564	$ 93,405	$ 45,950
Weighted-average shares basic	171,296,000	190,823,000	171,308,000	190,518,000
Effect of dilutive potential stock options	753,385	1,337,423	737,087	1,366,265
Effect of dilutive potential restricted stock, RSUs and PUs	181,292	408,103	181,580	455,039
Weighted-average shares diluted	172,230,677	192,568,526	172,226,667	192,339,304
Earnings (Losses) per share basic:				
Income (Loss) from continuing operations	$ 0.24	$ 0.14	$ 0.60	$ 0.24
Total (loss) income from discontinued operations (see Note 10)	$ (0.01)	$ (0.00)	$ (0.04)	$ 0.01
Net income (loss) attributable to Iron Mountain Incorporated basic	$ 0.22	$ 0.14	$ 0.55	$ 0.24
Earnings (Losses) per share diluted:				
Income (Loss) from continuing operations	$ 0.24	$ 0.14	$ 0.60	$ 0.24
Total (loss) income from discontinued operations (see Note 10)	$ (0.01)	$ (0.00)	$ (0.04)	$ 0.01

Net income (loss) attributable to Iron Mountain Incorporated diluted	$ 0.22	$ 0.14	$ 0.54	$ 0.24

