

IRON MOUNTAIN INC
Form 10-Q
August 08, 2011

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**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 June 30, 2011

OR

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

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

IRON MOUNTAIN INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

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

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

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

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

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

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

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

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

Number of shares of the registrant's Common Stock at July 25, 2011: 203,145,012

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[Table of Contents](#)**Part I. Financial Information****Item 1. Unaudited Consolidated Financial Statements****IRON MOUNTAIN INCORPORATED****CONSOLIDATED BALANCE SHEETS****(In Thousands, except Share and Per Share Data)****(Unaudited)**

	December 31, 2010	June 30, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 258,693	\$ 271,424
Restricted cash	35,105	35,108
Accounts receivable (less allowances of \$21,545 and \$23,258, respectively)	533,070	577,616
Deferred income taxes	37,565	51,702
Prepaid expenses and other	138,643	120,670
Assets of discontinued operations (see Note 10)	202,726	13,126
Total Current Assets	1,205,802	1,069,646
Property, Plant and Equipment:		
Property, plant and equipment	4,178,652	4,298,306
Less Accumulated depreciation	(1,702,825)	(1,820,107)
Property, Plant and Equipment, net	2,475,827	2,478,199
Other Assets, net:		
Goodwill	2,282,137	2,358,129
Customer relationships and acquisition costs	387,779	450,108
Deferred financing costs	29,146	32,103
Other	29,042	22,514
Total Other Assets, net	2,728,104	2,862,854
Total Assets	\$ 6,409,733	\$ 6,410,699

LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 96,603	\$ 66,199
Accounts payable	145,089	133,633
Accrued expenses	385,056	422,402
Deferred revenue	173,676	172,816
Liabilities of discontinued operations (see Note 10)	57,222	3,342
Total Current Liabilities	857,646	798,392
Long-term Debt, net of current portion	2,912,465	2,866,920
Other Long-term Liabilities	86,605	85,732
Deferred Rent	95,860	95,709
Deferred Income Taxes	493,895	501,837
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)		

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Common stock (par value \$0.01; authorized 400,000,000 shares; issued and outstanding 200,064,066 shares and 202,871,443 shares, respectively)	2,001	2,029
Additional paid-in capital	1,228,655	1,047,150
Retained earnings	695,707	933,626
Accumulated other comprehensive items, net	29,482	70,801
Total Iron Mountain Incorporated Stockholders' Equity	1,955,845	2,053,606
Noncontrolling Interests	7,417	8,503
Total Equity	1,963,262	2,062,109
Total Liabilities and Equity	\$ 6,409,733	\$ 6,410,699

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,	
	2010	2011
Revenues:		
Storage (see Note 2.q.)	\$ 398,131	\$ 420,568
Service (see Note 2.q.)	326,652	342,321
 Total Revenues	 724,783	 762,889
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	294,681	311,382
Selling, general and administrative	196,775	224,569
Depreciation and amortization	75,499	79,778
(Gain) Loss on disposal/writedown of property, plant and equipment, net	(139)	(211)
 Total Operating Expenses	 566,816	 615,518
Operating Income (Loss)	157,967	147,371
Interest Expense, Net (includes Interest Income of \$368 and \$493, respectively)	52,617	49,011
Other Expense (Income), Net	4,148	2,657
 Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	 101,202	 95,703
Provision (Benefit) for Income Taxes	52,274	30,173
 Income (Loss) from Continuing Operations	 48,928	 65,530
Income (Loss) from Discontinued Operations (see Note 10), Net of Tax	(7,176)	(5,832)
Gain (Loss) on Sale of Discontinued Operations (see Note 10), Net of Tax		193,349
 Net Income (Loss)	 41,752	 253,047
Less: Net Income (Loss) Attributable to Noncontrolling Interests	460	363
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 41,292	 \$ 252,684
 Earnings per Share Basic:		
Income (Loss) from Continuing Operations	\$ 0.24	\$ 0.32
 Total Income (Loss) from Discontinued Operations	 \$ (0.04)	 \$ 0.93
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 0.20	 \$ 1.25
 Earnings per Share Diluted:		
Income (Loss) from Continuing Operations	\$ 0.24	\$ 0.32
 Total Income (Loss) from Discontinued Operations	 \$ (0.04)	 \$ 0.92
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 0.20	 \$ 1.24

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Weighted Average Common Shares Outstanding	Basic	203,006	201,653
Weighted Average Common Shares Outstanding	Diluted	204,210	203,311
Dividends Declared per Common Share		\$ 0.0625	\$ 0.2500

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

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

	Six Months Ended June 30,	
	2010	2011
Revenues:		
Storage (see Note 2.q.)	\$ 796,378	\$ 837,651
Service (see Note 2.q.)	653,985	675,530
 Total Revenues	 1,450,363	 1,513,181
Operating Expenses:		
Cost of sales (excluding depreciation and amortization)	605,770	630,865
Selling, general and administrative	396,560	439,696
Depreciation and amortization	151,113	160,857
(Gain) Loss on disposal/writedown of property, plant and equipment, net	(1,156)	512
 Total Operating Expenses	 1,152,287	 1,231,930
Operating Income (Loss)	298,076	281,251
Interest Expense, Net (includes Interest Income of \$790 and \$1,044, respectively)	105,533	97,998
Other Expense (Income), Net	12,908	(6,296)
 Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	 179,635	 189,549
Provision (Benefit) for Income Taxes	97,482	46,858
 Income (Loss) from Continuing Operations	 82,153	 142,691
Income (Loss) from Discontinued Operations (see Note 10), Net of Tax	(14,562)	(8,374)
Gain (Loss) on Sale of Discontinued Operations (see Note 10), Net of Tax		193,349
 Net Income (Loss)	 67,591	 327,666
Less: Net Income (Loss) Attributable to Noncontrolling Interests	733	1,522
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 66,858	 \$ 326,144
 Earnings per Share Basic:		
Income (Loss) from Continuing Operations	\$ 0.40	\$ 0.71
 Total Income (Loss) from Discontinued Operations	 \$ (0.07)	 \$ 0.92
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 0.33	 \$ 1.62
 Earnings per Share Diluted:		
Income (Loss) from Continuing Operations	\$ 0.40	\$ 0.71
 Total Income (Loss) from Discontinued Operations	 \$ (0.07)	 \$ 0.91
 Net Income (Loss) Attributable to Iron Mountain Incorporated	 \$ 0.33	 \$ 1.61

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Weighted Average Common Shares Outstanding	Basic	203,294	200,941
Weighted Average Common Shares Outstanding	Diluted	204,458	202,281
Dividends Declared per Common Share		\$ 0.1250	\$ 0.4375

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								
		Comprehensive	Common Stock	Additional		Accumulated		
	Total	Income	Shares	Amounts	Paid-in	Retained	Other	Noncontrolling
		(Loss)			Capital	Earnings	Comprehensive	Interests
							Items, Net	
Balance, December 31, 2009	\$ 2,157,471	\$	203,546,757	\$ 2,035	\$ 1,298,657	\$ 825,014	\$ 27,661	\$ 4,104
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of \$1,284	21,392		614,536	6	21,386			
Stock options issued in connection with an acquisition	1,997				1,997			
Stock repurchases	(54,316)		(2,185,643)	(21)	(54,295)			
Parent cash dividends (see Note 9)	(25,361)					(25,361)		
Comprehensive Income (Loss):								
Currency translation adjustment	(52,008)	(52,008)					(51,624)	(384)
Net income (loss)	67,591	67,591				66,858		733
Comprehensive Income (Loss)		\$ 15,583						
Noncontrolling interests dividends	(711)							(711)
Balance, June 30, 2010	\$ 2,116,055		201,975,650	\$ 2,020	\$ 1,267,745	\$ 866,511	\$ (23,963)	\$ 3,742

Iron Mountain Incorporated Stockholders' Equity								
		Comprehensive	Common Stock	Additional		Accumulated		
	Total	Income	Shares	Amounts	Paid-in	Retained	Other	Noncontrolling
		(Loss)			Capital	Earnings	Comprehensive	Interests
							Items, Net	
Balance, December 31, 2010	\$ 1,963,262	\$	200,064,066	\$ 2,001	\$ 1,228,655	\$ 695,707	\$ 29,482	\$ 7,417
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation,	79,493		3,191,546	32	79,461			

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including tax benefit of
\$57

Stock repurchases	(260,970)	(384,169)	(4)	(260,966)	
Parent cash dividends (see Note 9)	(88,225)			(88,225)	
Comprehensive Income (Loss):					
Currency translation adjustment	41,474	41,474		41,319	155
Net income (loss)	327,666	327,666		326,144	1,522

Comprehensive
Income (Loss) \$ 369,140

Noncontrolling interests equity contributions	217				217
Noncontrolling interests dividends	(808)				(808)

Balance, June 30, 2011	\$ 2,062,109	202,871,443	\$ 2,029	\$ 1,047,150	\$ 933,626	\$ 70,801	\$ 8,503
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended June 30,	
	2010	2011
Net Income (Loss)	\$ 41,752	\$ 253,047
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	(32,450)	18,996
Total Other Comprehensive (Loss) Income	(32,450)	18,996
Comprehensive Income (Loss)	9,302	272,043
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	156	558
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 9,146	\$ 271,485

	Six Months Ended June 30,	
	2010	2011
Net Income (Loss)	\$ 67,591	\$ 327,666
Other Comprehensive Income (Loss):		
Foreign Currency Translation Adjustments	(52,008)	41,474
Total Other Comprehensive (Loss) Income	(52,008)	41,474
Comprehensive Income (Loss)	15,583	369,140
Comprehensive Income (Loss) Attributable to Noncontrolling Interests	349	1,677
Comprehensive Income (Loss) Attributable to Iron Mountain Incorporated	\$ 15,234	\$ 367,463

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,	
	2010	2011
Cash Flows from Operating Activities:		
Net income (loss)	\$ 67,591	\$ 327,666
(Income) Loss from discontinued operations (see Note 10)	14,562	8,374
(Gain) Loss on sale of discontinued operations (see Note 10)		(193,349)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation	138,509	146,725
Amortization (includes deferred financing costs and bond discount of \$2,647 and \$2,857, respectively)	15,251	16,989
Stock-based compensation expense	9,117	8,039
Provision for deferred income taxes	2,685	2,376
Loss on early extinguishment of debt, net		993
(Gain) Loss on disposal/writedown of property, plant and equipment, net	(1,156)	512
Foreign currency transactions and other, net	22,702	(6,134)
Changes in Assets and Liabilities (exclusive of acquisitions):		
Accounts receivable	4,676	(35,866)
Prepaid expenses and other current assets	8,150	(9,966)
Accounts payable	(17,414)	2,404
Accrued expenses, deferred revenue and other current liabilities	(8,456)	(24,329)
Other assets and long-term liabilities	14,120	(3,224)
Cash Flows from Operating Activities Continuing Operations	270,337	241,210
Cash Flows from Operating Activities Discontinued Operations	(2,239)	1,847
Cash Flows from Operating Activities	268,098	243,057
Cash Flows from Investing Activities:		
Capital expenditures	(131,067)	(99,396)
Cash paid for acquisitions, net of cash acquired	(11,764)	(75,172)
Investment in restricted cash	(35,102)	(3)
Additions to customer relationship and acquisition costs	(5,469)	(11,077)
Proceeds from sales of property and equipment and other, net	10,961	(428)
Cash Flows from Investing Activities Continuing Operations	(172,441)	(186,076)
Cash Flows from Investing Activities Discontinued Operations	(118,127)	376,563
Cash Flows from Investing Activities	(290,568)	190,487
Cash Flows from Financing Activities:		
Repayment of revolving credit and term loan facilities and other debt	(65,749)	(1,593,705)
Proceeds from revolving credit and term loan facilities and other debt	39,257	1,676,069
Early retirement of senior subordinated notes		(231,255)
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net	(65)	480
Stock repurchases	(50,564)	(260,970)
Parent cash dividends	(12,720)	(75,044)
Proceeds from exercise of stock options and employee stock purchase plan	9,174	69,501
Excess tax benefits from stock-based compensation	1,284	57
Payment of debt financing costs		(8,217)
Cash Flows from Financing Activities Continuing Operations	(79,383)	(423,084)
Cash Flows from Financing Activities Discontinued Operations	196	(411)
Cash Flows from Financing Activities	(79,187)	(423,495)

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Effect of Exchange Rates on Cash and Cash Equivalents	(4,520)	2,682
(Decrease) Increase in Cash and Cash Equivalents	(106,177)	12,731
Cash and Cash Equivalents, Beginning of Period	446,656	258,693
Cash and Cash Equivalents, End of Period	\$ 340,479	\$ 271,424
Supplemental Information:		
Cash Paid for Interest	\$ 113,198	\$ 107,542
Cash Paid for Income Taxes	\$ 66,669	\$ 68,601
Non-Cash Investing and Financing Activities:		
Capital Leases	\$ 21,276	\$ 16,204
Accrued Capital Expenditures	\$ 22,904	\$ 17,058
Dividends Payable	\$ 12,641	\$ 50,695
Unsettled Purchases of Parent Common Stock	\$ 3,752	\$

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

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(1) General

The interim consolidated financial statements are presented herein without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. We are a global full-service provider of information management and related services for all media in various locations throughout North America, Europe, Latin America and Asia Pacific. We have a diversified customer base comprised of commercial, legal, banking, health care, accounting, insurance, entertainment and government organizations.

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to those rules and regulations, but we believe that the disclosures are adequate to make the information presented not misleading. The consolidated financial statements and notes included herein should be read in conjunction with the annual consolidated financial statements and notes for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed on March 1, 2011.

In August 2010, Iron Mountain Incorporated ("IMI") divested the domain name management product line of its digital business (the "Domain Name Product Line"). On June 2, 2011, IMI completed the sale (the "Digital Sale") of its online backup and recovery, digital archiving and eDiscovery solutions businesses of its digital business (the "Digital Business") to Autonomy Corporation plc, a corporation formed under the laws of England and Wales ("Autonomy"), pursuant to a purchase and sale agreement dated as of May 15, 2011 among IMI, certain subsidiaries of IMI and Autonomy (the "Digital Sale Agreement"). The financial position, operating results and cash flows of these digital businesses, for all periods presented, including the gains on the sales, have been reflected as discontinued operations for financial reporting purposes. Additionally, in May 2011, IMI committed to a plan to sell its records management business in New Zealand (the "New Zealand Business"). As of June 30, 2011, the New Zealand Business has been classified as held for sale and, for all periods presented, the financial position, operating results and cash flows of the New Zealand Business have been reflected as discontinued operations for financial reporting purposes. See "Note 10. Discontinued Operations" for a further discussion of these events.

(2) Summary of Significant Accounting Policies

a. Principles of Consolidation and Change in Accounting Principle

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

b. Cash and Cash Equivalents and Restricted Cash

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

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

We have restricted cash associated with a collateral trust agreement with our insurance carrier that was entered into in 2010 related to our worker's compensation self-insurance program. The restricted cash subject to this agreement was \$35,105 and \$35,108 as of December 31, 2010 and June 30, 2011, respectively, and is included in current assets on our consolidated balance sheets. Restricted cash consists primarily of U.S. treasuries.

c. Foreign Currency

Local currencies are considered the functional currencies for our operations outside the United States, with the exception of certain foreign holding companies and our financing center in Switzerland, whose functional currencies are the U.S. dollar. In those instances where the local currency is the functional currency, assets and liabilities are translated at period-end exchange rates, and revenues and expenses are translated at average exchange rates for the applicable period. Resulting translation adjustments are reflected in the accumulated other comprehensive items, net component of Iron Mountain Incorporated Stockholders' Equity and Noncontrolling Interests. The gain or loss on foreign currency transactions, calculated as the difference between the historical exchange rate and the exchange rate at the applicable measurement date, including those related to (a) our 7¹/₄% GBP Senior Subordinated Notes due 2014, (b) our 6³/₄ Euro Senior Subordinated Notes due 2018, (c) the borrowings in certain foreign currencies under our revolving credit agreement, and (d) certain foreign currency denominated intercompany obligations of our foreign subsidiaries to us and between our foreign subsidiaries which are not considered permanently invested, are included in other expense (income), net, on our consolidated statements of operations. The total gain or loss on foreign currency transactions amounted to a net loss of \$3,754 and \$8,951 for the three and six months ended June 30, 2010, respectively. The total gain or loss on foreign currency transactions amounted to a net loss of \$1,853 and a net gain of \$1,243 for the three and six months ended June 30, 2011, respectively.

d. Goodwill and Other Intangible Assets

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

We have selected October 1 as our annual goodwill impairment review date. We performed our most recent annual goodwill impairment review as of October 1, 2010 and noted no impairment of goodwill. As of December 31, 2010 and June 30, 2011, no factors were identified that would alter our October 1, 2010 goodwill assessment. In making this assessment, we relied on a number of factors including operating results, business plans, anticipated future cash flows, transactions and marketplace data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. When changes occur in the composition of one or more reporting units, the goodwill is reassigned to the reporting units affected based on their relative fair values.

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

Our reporting units at which level we performed our goodwill impairment analysis as of October 1, 2010 were as follows: North America; Europe; Latin America; Australia; Joint Ventures (which includes India, the various joint ventures in Southeast Asia and Russia (referred to as "Joint Ventures")); and Business Process Management ("BPM"). Given their similar economic characteristics, products, customers and processes, (1) the United Kingdom, Ireland and Norway and (2) the countries of Continental Europe (excluding Joint Ventures), each a reporting unit, have been aggregated as Europe and tested as one for goodwill impairment. As of December 31, 2010, the carrying value of goodwill, net amounted to \$1,750,420, \$440,920, \$29,787 and \$61,010 for North America, Europe, Latin America and Australia, respectively. As of June 30, 2011, the carrying value of goodwill, net amounted to \$1,759,246, \$503,410, \$30,684, and \$64,789 for North America, Europe, Latin America and Australia, respectively. Our Joint Ventures and BPM reporting units have no goodwill as of December 31, 2010 and June 30, 2011, 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.

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

	North American Physical Business	International Physical Business	Total Consolidated
Balance as of December 31, 2010	\$ 1,750,420	\$ 531,717	\$ 2,282,137
Deductible goodwill acquired during the year	1,384		1,384
Non-deductible goodwill acquired during the year		35,207	35,207
Fair value and other adjustments(1)	161	(1,450)	(1,289)
Currency effects	7,281	33,409	40,690
Balance as of June 30, 2011	\$ 1,759,246	\$ 598,883	\$ 2,358,129

- (1) Fair value and other adjustments primarily include \$(1,347) of adjustments to property, plant and equipment, net, customer relationships and deferred income taxes, as well as \$58 of cash paid related to prior years' acquisitions.

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

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer Relationships and Acquisition Costs	\$ 626,375	\$ (176,267)	\$ 450,108
Core Technology(1)	3,943	(2,220)	1,723
Trademarks and Non-Compete Agreements(1)	3,038	(2,302)	736
Deferred Financing Costs	48,249	(16,146)	32,103
Total	\$ 681,605	\$ (196,935)	\$ 484,670

(1)

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

e. **Stock-Based Compensation**

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

Stock-based compensation expense for Employee Stock-Based Awards included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2010 was \$6,082, including \$879 in discontinued operations (\$4,721 after tax or \$0.02 per basic and diluted share), and \$10,809, including \$1,692 in discontinued operations (\$8,421 after tax or \$0.04 per basic and diluted share), respectively. Stock-based compensation expense for Employee Stock-Based Awards for the three and six months ended June 30, 2011 was \$3,266, including \$(334) in discontinued operations (\$430 income after tax or \$0.00 per basic and diluted share), and \$8,299, including \$260 in discontinued operations (\$2,734 after tax or \$0.01 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,	
	2010	2011	2010	2011
Cost of sales (excluding depreciation and amortization)	\$ 105	\$ 45	\$ 140	\$ 320
Selling, general and administrative expenses	5,098	3,555	8,977	7,719
Total stock-based compensation	\$ 5,203	\$ 3,600	\$ 9,117	\$ 8,039

The benefits associated with the tax deductions in excess of recognized compensation cost are required to be reported as a financing cash flow. This requirement reduces reported operating cash flows and increases reported financing cash flows. As a result, net financing cash flows included \$1,284 and \$57 for the six months ended June 30, 2010 and 2011, respectively, from the benefits of tax deductions in excess of recognized compensation cost. We used the short form method to calculate the

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)**

Additional Paid-in Capital ("APIC") pool. The tax benefit of any resulting excess tax deduction increases the APIC pool. Any resulting tax deficiency is deducted from the APIC pool.

Stock Options

Under our various stock option plans, options were granted with exercise prices equal to the market price of the stock on the date of grant. The majority of our options become exercisable ratably over a period of five years and generally have a contractual life of ten years, unless the holder's employment is terminated. Certain of the options we issue become exercisable ratably over a period of ten years and have a contractual life of 12 years, unless the holder's employment is terminated. As of June 30, 2011, ten-year vesting options represent 6.5% of total outstanding options. Beginning in 2011, certain of the options we issue become exercisable ratably over a period of three years and have a contractual life of ten years, unless the holder's employment is terminated. As of June 30, 2011, three-year vesting options represent 9.9% of total outstanding options. Our directors are considered employees for purposes of our stock option plans and stock option reporting. Options granted to our non-employee directors generally become exercisable after one year.

The weighted average fair value of options granted for the six months ended June 30, 2010 and 2011 was \$8.22 and \$7.43 per share, respectively. The values were estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average assumptions used for grants in the respective period:

Weighted Average Assumptions	Six Months Ended June 30,	
	2010	2011
Expected volatility	32.7%	33.4%
Risk-free interest rate	2.63%	2.47%
Expected dividend yield	1%	3%
Expected life of option	6.4 years	6.3 years

Expected volatility is calculated utilizing daily historical volatility over a period that equates to the expected life of the option. The risk-free interest rate was based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. Beginning in the first quarter of 2010, expected dividend yield was considered in the option pricing model as a result of our new dividend program. The expected life (estimated period of time outstanding) of the stock options granted is estimated using the historical exercise behavior of employees.

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic value
Outstanding at December 31, 2010	12,140,560	\$ 24.30		
Granted	1,004,673	28.51		
Exercised	(3,094,618)	22.28		
Forfeited	(1,966,270)	25.93		
Expired	(91,342)	28.17		
Outstanding at June 30, 2011	7,993,003	\$ 25.17	6.86	\$ 72,211
Options exercisable at June 30, 2011	4,068,019	\$ 24.16	5.65	\$ 40,961
Options expected to vest	3,584,888	\$ 26.18	8.07	\$ 28,666

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Aggregate intrinsic value of stock options exercised	\$ 2,461	\$ 22,862	\$ 5,964	\$ 28,909

Restricted Stock and Restricted Stock Units

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

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

	Restricted Stock and RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2010	168,221	\$ 22.53
Granted	373,351	29.10
Vested	(18,540)	25.64
Forfeited	(94,394)	26.24
Non-vested at June 30, 2011	428,638	\$ 27.29

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 total fair value of restricted stock vested for the three and six months ended June 30, 2010 was \$13. The total fair value of restricted stock vested for the three and six months ended June 30, 2011 was \$13. No RSUs vested during the three and six months ended June 30, 2010. The total fair value of RSUs vested for the three and six months ended June 30, 2011 was \$462.

Performance Units

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

In the first six months of 2011, we issued 154,239 PUs. During the one-year performance period, we will forecast the likelihood of achieving the annual revenue growth and ROIC predefined targets in order to calculate the expected PUs to be earned. We will record a compensation charge based on either the forecasted PUs to be earned (during the one-year performance period) or the actual PUs earned (at the one-year anniversary date) over the vesting period for each individual grant as described above. The performance unit liability is remeasured at each fiscal quarter-end during the vesting period using the estimated percentage of units earned multiplied by the closing market price of our common stock on the current period-end date and is pro-rated based on the amount of time passed in the vesting period. As of June 30, 2011, we expected 100% achievement of the predefined revenue and ROIC targets associated with the grants made in the first six months of 2011 and the closing market price of our common stock was \$34.09.

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

	PUs
Non-vested at December 31, 2010	
Granted	154,239
Vested	
Forfeited	(39,562)
Non-vested at June 30, 2011	114,677

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

Employee Stock Purchase Plan

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

As of June 30, 2011, unrecognized compensation cost related to the unvested portion of our Employee Stock-Based Awards was \$45,636 and is expected to be recognized over a weighted-average period of 3.1 years.

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

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

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to Iron Mountain Incorporated by the weighted average number of common shares outstanding. The calculation of diluted net income (loss) per share is consistent with that of basic net 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.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Income (Loss) from continuing operations	\$ 48,928	\$ 65,530	\$ 82,153	\$ 142,691
Total Income (Loss) from discontinued operations	\$ (7,176)	\$ 187,517	\$ (14,562)	\$ 184,975
Net income (loss) attributable to Iron Mountain Incorporated	\$ 41,292	\$ 252,684	\$ 66,858	\$ 326,144
Weighted-average shares basic	203,006,000	201,653,000	203,294,000	200,941,000
Effect of dilutive potential stock options	1,199,318	1,538,373	1,161,801	1,266,761
Effect of dilutive potential restricted stock, RSUs and PUs	4,602	119,319	2,346	73,489
Weighted-average shares diluted	204,209,920	203,310,692	204,458,147	202,281,250
Earnings per share basic:				
Income (Loss) from continuing operations	\$ 0.24	\$ 0.32	\$ 0.40	\$ 0.71
Total Income (Loss) from discontinued operations	\$ (0.04)	\$ 0.93	\$ (0.07)	\$ 0.92
Net income (loss) attributable to Iron Mountain Incorporated basic	\$ 0.20	\$ 1.25	\$ 0.33	\$ 1.62
Earnings per share diluted:				
Income (Loss) from continuing operations	\$ 0.24	\$ 0.32	\$ 0.40	\$ 0.71
Total Income (Loss) from discontinued operations	\$ (0.04)	\$ 0.92	\$ (0.07)	\$ 0.91
Net income (loss) attributable to Iron Mountain Incorporated diluted	\$ 0.20	\$ 1.24	\$ 0.33	\$ 1.61
Antidilutive stock options, RSUs and PUs, excluded from the calculation	8,273,166	2,126,488	8,337,720	5,413,769

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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)

g. Revenues

Our revenues consist of storage revenues as well as service revenues and are reflected net of sales and value added taxes. Storage revenues, which are considered a key performance indicator for the information management services industry, consist primarily of recurring periodic charges related to the storage of materials or data (generally on a per unit basis). Service revenues are comprised of charges for related core service activities and a wide array of complementary products and services. Included in core service revenues are: (1) the handling of records, including the addition of new records, temporary removal of records from storage, refiling of removed records 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 (4) other recurring services, including hybrid services and recurring project revenues. Our complementary services revenues include special project work, customer termination and permanent withdrawal fees, data restoration projects, fulfillment services, consulting services and product sales (including specially designed storage containers and related supplies). Our secure shredding revenues include the sale of recycled paper (included in complementary services revenues), the price of which can fluctuate from period to period, adding to the volatility and reducing the predictability of that revenue stream.

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectability of the resulting receivable is reasonably assured. Storage and service revenues are recognized in the month the respective storage or service is provided and customers are generally billed on a monthly basis on contractually agreed-upon terms. Amounts related to future storage or prepaid service contracts for customers where storage fees or services are billed in advance are accounted for as deferred revenue and recognized ratably over the applicable storage or service period or when the service is performed. Revenue from the sales of products, which is included as a component of service revenues, is recognized when shipped to the customer and title has passed to the customer.

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 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.

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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)

i. Income Taxes

Our effective tax rates for the three and six months ended June 30, 2010 were 51.7% and 54.3%, respectively. Our effective tax rates for the three and six months ended June 30, 2011 were 31.5% and 24.7%, respectively. The primary reconciling items between the statutory rate of 35% and our overall effective tax rate are state income taxes (net of federal benefit) and differences in the rates of tax at which our foreign earnings are subject, including foreign exchange gains and losses in different jurisdictions with different tax rates. During the three and six months ended June 30, 2010, foreign currency gains were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments while foreign currency losses were recorded in lower tax jurisdictions associated with our marking-to-market of intercompany loan positions, which increased our 2010 effective tax rate by 10.3% and 12.1%, respectively. During the three and six months ended June 30, 2011, foreign currency losses were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments while foreign currency gains were recorded in lower tax jurisdictions associated with our marking-to-market of intercompany loan positions, which reduced our 2011 effective tax rate by 2.2% and 7.0%, respectively. 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.

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 basis of assets and liabilities and for loss and credit carryforwards. Valuation allowances are provided when recovery of deferred tax assets is not considered more likely than not.

We 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 \$1,578 and \$2,750 for gross interest and penalties for the three and six months ended June 30, 2010, respectively. We recorded a reduction of \$647 and \$1,256 for gross interest and penalties for the three and six months ended June 30, 2011, respectively. We had \$11,610 and \$10,084 accrued for the payment of interest and penalties as of December 31, 2010 and June 30, 2011, respectively.

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 December 31, 2010 and June 30, 2011 relate to cash and cash equivalents and restricted cash held on deposit with seven and six, respectively, global banks and four and three, respectively, "Triple A" rated money market funds which we consider to be large, highly-rated investment-grade institutions. As of December 31, 2010 and June 30, 2011, our cash and cash equivalents and restricted cash balance was \$293,798 and \$306,532, respectively, including money market funds and time deposits amounting to \$241,151 and \$268,219, respectively. A substantial portion of these money market funds are invested in U.S. treasuries.

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)****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 for any of our financial assets or liabilities.

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

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

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

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

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2010 and June 30, 2011, respectively:

Description	Fair Value Measurements at December 31, 2010 Using			
	Total Carrying Value at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money Market Funds(1)	\$ 107,129	\$	\$ 107,129	\$
Time Deposits(1)	134,022		134,022	
Trading Securities	9,215	8,527(2)	688(1)	
Derivative Assets(3)	2,500		2,500	
Derivative Liabilities(3)	2,440		2,440	

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Description	Total Carrying Value at June 30, 2011	Fair Value Measurements at June 30, 2011 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money Market Funds(1)	\$ 140,947	\$	\$ 140,947	\$
Time Deposits(1)	127,272		127,272	
Trading Securities	10,471	9,371(2)	1,100(1)	
Derivative Assets(3)	3,301		3,301	
Derivative Liabilities(3)	319		319	

- (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 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 six months ended June 30, 2011.

I. New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (the "FASB") issued amended guidance which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options currently available in Accounting Standards Codification ("ASC") 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used currently under ASC 220, and the second statement would include components of other comprehensive income ("OCI"). Under either method, entities must display adjustments for items that are reclassified from OCI to net income in both net income and OCI. The amended guidance does not change the current option for entities to present components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. The amended guidance does not change the items that must be reported in OCI. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and must be applied retrospectively for all periods presented in the financial statements. Early adoption of the amended guidance is permitted; however, we do not intend to early

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adopt. Adoption is not expected to have a material impact on our consolidated financial statements or results of operations.

m. 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 on-going 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.

n. Accumulated Other Comprehensive Items, Net

Accumulated other comprehensive items, net consists of foreign currency translation adjustments as of December, 31, 2010 and June 30, 2011, respectively.

o. Other Expense (Income), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Foreign currency transaction (gains) losses, net	\$ 3,754	\$ 1,853	\$ 8,951	\$ (1,243)
Debt extinguishment expense, net		1,843		993
Other, net	394	(1,039)	3,957	(6,046)
	\$ 4,148	\$ 2,657	\$ 12,908	\$ (6,296)

p. Property, Plant and Equipment

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 who are directly associated with, and who devote time to, the development of internal use computer software projects (to the extent time is spent directly on the project) are capitalized. 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. Depreciation begins when the software is placed in service. Computer software costs that are capitalized are periodically evaluated for impairment. During the six months ended June 30, 2011, we wrote off approximately \$1,200 (primarily in our International Physical segment) of previously deferred software costs, which were comprised of primarily internal labor costs, associated with internal use software development projects that were discontinued after implementation, which resulted in a loss on

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

disposal/writedown of property, plant and equipment, net in the accompanying consolidated statement of operations.

q. Reclassifications

In conjunction with our implementation of a new enterprise management reporting system in the fourth quarter of 2010, we noted inconsistencies in the mapping of certain revenue accounts between storage and service. As a result, we have adjusted previously reported amounts to reduce storage revenues by \$7,005 and \$14,071 and increase service revenues by a corresponding amount for the three and six months ended June 30, 2010, respectively. There was no change in total consolidated reported revenues.

(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 which are subject to foreign exchange or other market price risk and not for trading purposes. We have formally documented our hedging relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking each hedge transaction. Given the recurring nature of our revenues and the long-term nature of our asset base, we have the ability and the preference to use long-term, fixed interest rate debt to finance our business, thereby preserving our long-term returns on invested capital. We target approximately 75% of our debt portfolio to be fixed with respect to interest rates. Occasionally, we 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 exposures due to foreign currency exchange movements related to our intercompany accounts with and between our foreign subsidiaries. As of December 31, 2010 and June 30, 2011, 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 British pounds sterling and Australian dollars. As of June 30, 2011, we had an outstanding forward contract to purchase \$203,853 U.S. dollars and sell 125,000 British pounds sterling to hedge our intercompany exposures with Iron Mountain Europe (Group) Limited ("IME"). Additionally, in the fourth quarter of 2010, we entered into a forward contract to hedge our exposures in Australian dollars. As of June 30, 2011, we had an outstanding forward contract to purchase 52,614 Euros and sell 72,000 Australian dollars to hedge our intercompany exposures with our Australian subsidiary. At the maturity of the forward contracts, we may enter into new forward contracts to hedge movements in the underlying currencies. At the time of settlement, we either pay or receive the net settlement amount from the forward contract and recognize this amount in other (income) expense, net in the accompanying statement of operations as a realized foreign exchange gain or loss. At the end of each month, we mark the outstanding forward contracts to market and record an unrealized foreign exchange gain or loss for

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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)

the mark-to-market valuation. We have not designated these forward contracts as hedges. During the three and six months ended June 30, 2010, there were \$946 in net cash disbursements and \$10,006 in net cash receipts, respectively, included in cash from operating activities related to settlements associated with these foreign currency forward contracts. During the three and six months ended June 30, 2011, there were \$5,559 and \$9,184 in net cash disbursements, respectively, included in cash from operating activities related to settlements associated with these foreign currency forward contracts. The following table provides the fair value of our derivative instruments as of December 31, 2010 and June 30, 2011 and their gains and losses for the three and six months ended June 30, 2010 and 2011:

Asset Derivatives				
	December 31, 2010		June 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments				
Foreign exchange contracts	Current assets	\$ 2,500	Current assets	\$ 3,301
Total		\$ 2,500		\$ 3,301

Liability Derivatives				
	December 31, 2010		June 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments				
Foreign exchange contracts	Current liabilities	\$ 2,440	Current liabilities	\$ 319
Total		\$ 2,440		\$ 319

	Location of (Gain) Loss Recognized in Income on Derivative	Amount of (Gain) Loss Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives Not Designated as Hedging Instruments		2010	2011	2010	2011
Foreign exchange contracts	Other (income) expense, net	\$ (1,391)	\$ 1,349	\$ (6,895)	\$ 6,270
Total		\$ (1,391)	\$ 1,349	\$ (6,895)	\$ 6,270

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In the third quarter of 2007, we designated a portion of our 6³/₄% Euro Senior Subordinated Notes due 2018 issued by Iron Mountain Incorporated (the "6³/₄% Euro Notes") as a hedge of net investment of certain of our Euro denominated subsidiaries. For the six months ended June 30, 2010 and 2011, we designated on average 76,000 and 69,500 Euros, respectively, of the 6³/₄% Euro Notes as a hedge of net investment of certain of our Euro denominated subsidiaries. As a result, we recorded foreign exchange gains of \$8,775 (\$5,486, net of tax) and \$15,636 (\$9,774, net of tax) for the three and six months ended

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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)

June 30, 2010, respectively, 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 stockholders' equity. We recorded foreign exchange losses of \$1,908 (\$1,191, net of tax) and \$8,208 (\$5,129, net of tax) for the three and six months ended June 30, 2011, respectively, 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 stockholders' equity. As of June 30, 2011, net gains of \$2,850 are recorded in accumulated other comprehensive items, net associated with this net investment hedge.

(4) Acquisitions

We account for acquisitions using the purchase method of accounting, and, accordingly, the results of operations for each acquisition have been included in our consolidated results from their respective acquisition dates. 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 for the period ended June 30, 2011 are not presented due to the insignificant impact of the 2011 acquisitions on our consolidated results of operations.

In January 2011, we acquired the remaining 80% interest of our joint venture in Poland (Iron Mountain Poland Holdings Limited) in a stock transaction for an estimated purchase price of approximately \$80,000, including an initial cash purchase price of \$35,000. As a result, we now own 100% of our Polish operations, which provide storage and records management services. The terms of the purchase and sale agreement also required a second payment based upon the audited financial results of the joint venture. This payment of \$42,259 was based upon a formula defined in the purchase and sale agreement and was paid in the second quarter of 2011. Additionally, the purchase and sale agreement provides for an escrow hold back of \$400 and the payment of up to a maximum of \$2,500 of contingent consideration to be paid in July 2012 based upon the satisfaction of certain performance criteria. The carrying value of the 20% interest that we previously held and accounted for under the equity method of accounting amounted to approximately \$5,774 and the fair value of such interest on the date of the acquisition of the additional 80% interest was approximately \$11,694 and resulted in a gain being recorded to other (income) expense, net of approximately \$5,920 during the six months ended June 30, 2011. The fair value of our previously held equity interest was derived by reducing the total estimated consideration for the 80% equity interest purchased by 40%, which represents management's estimate of the control premium paid, in order to derive the fair value of \$11,694 for the 20% noncontrolling equity interest which we previously held. We determined that a 40% control premium was appropriate after considering the size and location of the business acquired, the potential future profits expected to be generated by the Polish entity and publicly available market data. One of the members of our board of directors and several of his family members hold an indirect equity interest in one of the shareholders that received proceeds in connection with this transaction. As a result of this equity interest, such board member, together with several of his family members, received approximately 24% of the purchase price that we paid in connection with this transaction and will receive the same percentage of any future contingent consideration.

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

A summary of the cumulative consideration paid and the preliminary allocation of the purchase price paid for acquisitions in 2011 through June 30, 2011 is as follows:

Cash Paid (gross of cash acquired)(1)	\$ 80,439
Contingent Consideration	2,900
Fair Value of Previously Held Equity Interest	11,694
 Total Consideration	 95,033
Fair Value of Identifiable Assets Acquired:	
Cash, Accounts Receivable, Prepaid Expenses and Other	7,932
Property, Plant and Equipment(2)	6,002
Customer Relationship Assets(3)	59,100
Other Assets	653
Liabilities Assumed(4)	(15,245)
 Total Fair Value of Identifiable Net Assets Acquired	 58,442
 Recorded Goodwill	 \$ 36,591

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- (1) Included in cash paid for acquisitions in the consolidated statements of cash flows for the six months ended June 30, 2010 and 2011 are contingent and other payments of \$7,082 and \$58, respectively, related to acquisitions made in previous years.
- (2) Consists primarily of racking, leasehold improvements and computer hardware and software.
- (3) The weighted average lives of customer relationship assets associated with acquisitions to date in 2011 were 20 years.
- (4) Consists primarily of accounts payable, accrued expenses, deferred revenue and deferred income taxes.

Allocations of the purchase price for acquisitions in 2011 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 will differ meaningfully from preliminary estimates.

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

Long-term debt consists of the following:

	December 31, 2010		June 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
IMI Revolving Credit Facility(1)	\$	\$	\$	\$
IMI Term Loan Facility(1)	396,200	396,200		
New Revolving Credit Facility(1)				
New Term Loan Facility(1)			500,000	500,000
7 ¹ / ₄ % GBP Senior Subordinated Notes due 2014 (the "7 ¹ / ₄ % notes")(2)(3)	232,530	234,855	240,870	239,666
7 ³ / ₄ % Senior Subordinated Notes due 2015 (the "7 ³ / ₄ % notes")(2)(3)	233,234	231,683		
6 ⁵ / ₈ % Senior Subordinated Notes due 2016 (the "6 ⁵ / ₈ % notes")(2)(3)	317,529	321,592	317,776	320,200
7 ¹ / ₂ % CAD Senior Subordinated Notes due 2017 (the "Subsidiary Notes")(2)(4)	175,306	182,099	181,064	185,138
8 ³ / ₄ % Senior Subordinated Notes due 2018 (the "8 ³ / ₄ % notes")(2)(3)	200,000	209,625	200,000	207,375
8% Senior Subordinated Notes due 2018 (the "8% notes")(2)(3)	49,777	53,756	49,791	48,837
6 ³ / ₄ % Euro Senior Subordinated Notes due 2018 (the "6 ³ / ₄ % notes")(2)(3)	338,129	337,631	367,514	358,810
8% Senior Subordinated Notes due 2020 (the "8% notes due 2020")(2)(3)	300,000	316,313	300,000	310,500
8 ³ / ₈ % Senior Subordinated Notes due 2021 (the "8 ³ / ₈ % notes")(2)(3)	548,174	589,188	548,260	578,875
Real Estate Mortgages, Capital Leases and Other(5)	218,189	218,189	227,844	227,844
Total Long-term Debt	3,009,068		2,933,119	
Less Current Portion	(96,603)		(66,199)	
Long-term Debt, Net of Current Portion	\$ 2,912,465		\$ 2,866,920	

- (1) The capital stock or other equity interests of most of our U.S. subsidiaries, and up to 66% of the capital stock or other equity interests of our first-tier foreign subsidiaries, are pledged to secure these debt instruments, together with all intercompany obligations of foreign subsidiaries owed to us or to one of our U.S. subsidiary guarantors. The fair value of this long-term debt approximates the carrying value (as borrowings under these debt instruments are based on current variable market interest rates as of December 31, 2010 and June 30, 2011, respectively).
- (2) The fair values of these debt instruments are based on quoted market prices for these notes on December 31, 2010 and June 30, 2011, respectively.

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

- (3) Collectively referred to as the Parent Notes. IMI is the direct obligor on the Parent Notes, which are fully and unconditionally guaranteed, on a senior subordinated basis, by substantially all of its direct and indirect wholly owned U.S. subsidiaries (the "Guarantors"). These guarantees are joint and several obligations of the Guarantors. Iron Mountain Canada Corporation ("Canada Company") and the remainder of our subsidiaries do not guarantee the Parent Notes.
- (4) Canada Company is the direct obligor on the Subsidiary Notes, which are fully and unconditionally guaranteed on a senior subordinated basis by IMI and the Guarantors. These guarantees are joint and several obligations of IMI and the Guarantors.
- (5) We believe the fair value of this debt approximates its carrying value.

On June 27, 2011, we entered into a new credit agreement to replace the IMI revolving credit facility and the IMI term loan facility, each entered into on April 16, 2007. The new credit agreement consists of (i) revolving credit facilities under which we can borrow, subject to certain limitations as defined in the new credit agreement, up to an aggregate amount of \$725,000 (including Canadian dollar, British pound sterling and Euros, among other currencies) (the "New Revolving Credit Facility") and (ii) a \$500,000 term loan facility (the "New Term Loan Facility", and collectively with the New Revolving Credit Facility, the "New Credit Agreement"). We have the right to increase the aggregate amount available to be borrowed under the New Credit Agreement up to a maximum of \$1,800,000. The New Revolving Credit Facility is supported by a group of 19 banks. IMI, Iron Mountain Information Management, Inc. ("IMIM"), Canada Company, IME, Iron Mountain Australia Pty Ltd., Iron Mountain Switzerland GmbH and any other subsidiary of IMIM designated by IMIM (the "Other Subsidiaries") may, with the consent of the administrative agent, as defined in the New Credit Agreement, borrow under certain of the following tranches of the New Revolving Credit Facility: (a) tranche one in the amount of \$400,000 is available to IMI and IMIM in U.S. dollars, British pound sterling and Euros, (b) tranche two in the amount of \$150,000 is available to IMI or IMIM in either U.S. dollars or Canadian dollars and available to Canada Company in Canadian dollars and (c) tranche three in the amount of \$175,000 is available to IMI or IMIM and the Other Subsidiaries in U.S. dollars, Canadian dollars, British pounds sterling, Euros and Australian dollars, among others. The New Revolving Credit Facility terminates on June 27, 2016, at which point all revolving credit loans under such facility become due. With respect to the New Term Loan Facility, loan payments are required through maturity on June 27, 2016 in equal quarterly installments of the aggregate annual amounts based upon the following percentage of the original principal amount in the table below (except that each of the first three quarterly installments in the fifth year shall be 10% of the original principal amount and the final quarterly installment in the fifth year shall be 35% of the original principal):

Year Ending	Percentage
June 30, 2012	5%
June 30, 2013	5%
June 30, 2014	10%
June 30, 2015	15%
June 27, 2016	65%

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(5) Long-term Debt (Continued)

The New Term Loan Facility may be prepaid without penalty or premium, in whole or in part, at any time. IMI and IMIM guarantee the obligations of each of the subsidiary borrowers. The capital stock or other equity interests of most of the U.S. subsidiaries, and up to 66% of the capital stock or other equity interests of our first-tier foreign subsidiaries, are pledged to secure the New Credit Agreement, together with all intercompany obligations of foreign subsidiaries owed to us or to one of our U.S. subsidiary guarantors. The interest rate on borrowings under the New Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin, which varies based on certain financial ratios. Additionally, the New 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, as well as fees associated with any outstanding letters of credit. Proceeds from the New Credit Agreement are for general corporate purposes and were used to repay the previous revolving credit and term loan facilities. We recorded a charge of \$1,843 to other expense (income), net in the second quarter of 2011 related to the early retirement of the previous revolving credit and term loan facilities, representing a write-off of deferred financings costs. As of June 30, 2011, we had no outstanding borrowings under the New Revolving Credit Facility; we had various outstanding letters of credit totaling \$6,743. The remaining availability on June 30, 2011, based on IMI's leverage ratio, which is calculated based on the last 12 months' earnings before interest, taxes, depreciation and amortization ("EBITDA"), and other adjustments as defined in the New Credit Agreement and current external debt, under the New Revolving Credit Facility was \$718,257. The interest rate in effect under the New Term Loan Facility was 4.0% as of June 30, 2011. For the three and six months ended June 30, 2010, we recorded commitment fees of \$585 and \$1,152, respectively, and for the three and six months ended June 30, 2011, we recorded commitment fees of \$371 and \$852, respectively, based on the unused balances under our revolving credit facilities.

In January 2011, we redeemed the remaining \$231,255 aggregate principal amount outstanding of the 7³/₄% notes at a redemption price of one thousand dollars for each one thousand dollars of principal amount of notes redeemed, plus accrued and unpaid interest. We recorded a gain to other expense (income), net of \$850 in the first quarter of 2011 related to the early extinguishment of the 7³/₄% notes being redeemed. This gain consists of original issue premiums, net of deferred financing costs related to the 7³/₄% notes that were redeemed.

The New 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 New Credit Agreement, our indentures or other agreements governing our indebtedness. The New Credit Agreement, as well as our indentures, use EBITDA-based calculations as primary measures of financial performance, including leverage and fixed charge coverage ratios. IMI's revolving credit and term leverage ratio was 2.9 and 2.8 as of December 31, 2010 and June 30, 2011, respectively, compared to a maximum allowable ratio of 5.5. Similarly, our bond leverage ratio, per the indentures, was 3.4 and 3.5 as of December 31, 2010 and June 30, 2011, respectively, compared to a maximum allowable ratio of 6.5. IMI's revolving credit and term loan fixed charge coverage ratio was 1.8 as of June 30, 2011, compared to a minimum allowable

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(5) Long-term Debt (Continued)

ratio of 1.2. Noncompliance with these leverage ratios and the fixed charge coverage ratio 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, 2010 and June 30, 2011 and for the three and six months ended June 30, 2010 and 2011.

The Parent Notes and the Subsidiary 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.

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)**

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

	December 31, 2010					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$ 13,909	\$ 121,584	\$ 37,652	\$ 85,548	\$	\$ 258,693
Restricted Cash	35,105					35,105
Accounts Receivable		327,842	41,562	163,666		533,070
Intercompany Receivable	1,344,802		9,281		(1,354,083)	
Assets of Discontinued Operations (see Note 10)		184,790		17,936		202,726
Other Current Assets	2,601	121,681	10,878	41,048		176,208
Total Current Assets	1,396,417	755,897	99,373	308,198	(1,354,083)	1,205,802
Property, Plant and Equipment, Net		1,522,073	208,020	745,734		2,475,827
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable	1,381,546	1,000			(1,382,546)	
Investment in Subsidiaries	1,863,957	1,599,133			(3,463,090)	
Goodwill		1,525,960	203,345	552,832		2,282,137
Other	27,304	236,497	13,601	168,679	(114)	445,967
Total Other Assets, Net	3,272,807	3,362,590	216,946	721,511	(4,845,750)	2,728,104
Total Assets	\$ 4,669,224	\$ 5,640,560	\$ 524,339	\$ 1,775,443	\$ (6,199,833)	\$ 6,409,733
Liabilities and Equity						
Intercompany Payable	\$	\$ 1,325,593	\$	\$ 28,490	\$ (1,354,083)	\$
Current Portion of Long-term Debt	56,407	24,393	2,606	13,197		96,603
Total Other Current Liabilities	92,339	388,242	42,614	180,626		703,821

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Liabilities of Discontinued Operations (see Note 10)		53,374		3,848		57,222
Long-term Debt, Net of Current Portion	2,559,780	67,504	191,010	94,171		2,912,465
Long-term Notes Payable to Affiliates and Intercompany Payable	1,000	1,381,546			(1,382,546)	
Other Long-term Liabilities	3,853	551,961	27,585	93,075	(114)	676,360
Commitments and Contingencies (See Note 8)						
Total Iron Mountain Incorporated						
Stockholders' Equity	1,955,845	1,847,947	260,524	1,354,619	(3,463,090)	1,955,845
Noncontrolling Interests				7,417		7,417
Total Equity	1,955,845	1,847,947	260,524	1,362,036	(3,463,090)	1,963,262
Total Liabilities and Equity	\$ 4,669,224	\$ 5,640,560	\$ 524,339	\$ 1,775,443	\$ (6,199,833)	\$ 6,409,733

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

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

	June 30, 2011					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Assets						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 153,604	\$ 40,721	\$ 77,099	\$	\$ 271,424
Restricted Cash	35,108					35,108
Accounts Receivable		342,693	48,699	186,224		577,616
Intercompany Receivable	1,210,262		10,615		(1,220,877)	
Assets of Discontinued Operations (see Note 10)				13,126		13,126
Other Current Assets	3,661	121,425	6,074	41,212		172,372
Total Current Assets	1,249,031	617,722	106,109	317,661	(1,220,877)	1,069,646
Property, Plant and Equipment, Net		1,489,512	208,945	779,742		2,478,199
Other Assets, Net:						
Long-term Notes Receivable from Affiliates and Intercompany Receivable	1,556,994	612,423			(2,169,417)	
Investment in Subsidiaries	1,352,175	1,079,972			(2,432,147)	
Goodwill		1,527,345	210,186	620,598		2,358,129
Other	22,141	245,260	12,912	224,412		504,725
Total Other Assets, Net	2,931,310	3,465,000	223,098	845,010	(4,601,564)	2,862,854
Total Assets	\$ 4,180,341	\$ 5,572,234	\$ 538,152	\$ 1,942,413	\$ (5,822,441)	\$ 6,410,699
Liabilities and Equity						
Intercompany Payable	\$	\$ 1,134,520	\$	\$ 86,357	\$ (1,220,877)	\$
Current Portion of Long-term Debt	635	46,985	2,675	15,904		66,199
Total Other Current Liabilities	96,574	422,191	29,792	180,294		728,851
Liabilities of Discontinued Operations (see Note 10)				3,342		3,342

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Long-term Debt, Net of Current Portion	2,024,211	545,002	196,710	100,997		2,866,920
Long-term Notes Payable to Affiliates and Intercompany Payable	1,007	1,556,994		611,416	(2,169,417)	
Other Long-term Liabilities	4,308	537,756	32,078	109,136		683,278
Commitments and Contingencies (See Note 8)						
Total Iron Mountain Incorporated						
Stockholders' Equity	2,053,606	1,328,786	276,897	826,464	(2,432,147)	2,053,606
Noncontrolling Interests				8,503		8,503
Total Equity	2,053,606	1,328,786	276,897	834,967	(2,432,147)	2,062,109
Total Liabilities and Equity	\$ 4,180,341	\$ 5,572,234	\$ 538,152	\$ 1,942,413	\$ (5,822,441)	\$ 6,410,699

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	Three Months Ended June 30, 2010					Consolidated
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	
Revenues:						
Storage	\$	\$ 279,144	\$ 27,531	\$ 91,456	\$	\$ 398,131
Service		211,719	28,851	86,082		326,652
Total Revenues		490,863	56,382	177,538		724,783
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		183,193	21,187	90,301		294,681
Selling, General and Administrative	20	132,373	9,340	55,042		196,775
Depreciation and Amortization	53	49,866	4,692	20,888		75,499
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		(154)	(29)	44		(139)
Total Operating Expenses	73	365,278	35,190	166,275		566,816
Operating (Loss) Income	(73)	125,585	21,192	11,263		157,967
Interest Expense (Income), Net	49,469	(11,635)	11,290	3,493		52,617
Other Expense (Income), Net	(26,417)	303	(10)	30,272		4,148
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(23,125)	136,917	9,912	(22,502)		101,202
Provision (Benefit) for Income Taxes		48,103	3,222	949		52,274
Equity in the Losses (Earnings) of Subsidiaries, Net of Tax	(64,417)	17,231			47,186	
Income (Loss) from Continuing Operations	41,292	71,583	6,690	(23,451)	(47,186)	48,928
Income (Loss) from Discontinued Operations (see Note 10)		(7,069)		(107)		(7,176)
Net (Loss) Income	41,292	64,514	6,690	(23,558)	(47,186)	41,752
Less: Net Income (Loss) Attributable to Noncontrolling Interests				460		460
Net (Loss) Income Attributable to Iron Mountain Incorporated	\$ 41,292	\$ 64,514	\$ 6,690	\$ (24,018)	\$ (47,186)	\$ 41,292

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

	Three Months Ended June 30, 2011					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	\$	\$ 277,532	\$ 31,255	\$ 111,781	\$	\$ 420,568
Service		210,688	29,512	102,121		342,321
Total Revenues		488,220	60,767	213,902		762,889
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		182,033	23,270	106,079		311,382
Selling, General and Administrative	29	147,576	10,467	66,497		224,569
Depreciation and Amortization	36	48,226	4,697	26,819		79,778
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		(133)	(188)	110		(211)
Total Operating Expenses	65	377,702	38,246	199,505		615,518
Operating (Loss) Income	(65)	110,518	22,521	14,397		147,371
Interest Expense (Income), Net	42,864	(22,956)	11,921	17,182		49,011
Other Expense (Income), Net	7,608	5,511	333	(10,795)		2,657
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(50,537)	127,963	10,267	8,010		95,703
Provision (Benefit) for Income Taxes		24,279	4,844	1,050		30,173
Equity in the Losses (Earnings) of Subsidiaries, Net of Tax	(303,221)	(60,516)			363,737	
Income (Loss) from Continuing Operations	252,684	164,200	5,423	6,960	(363,737)	65,530
Income (Loss) from Discontinued Operations (see Note 10)		(10,398)		4,566		(5,832)
Gain (Loss) on Sale of Discontinued Operations (see Note 10)		193,349				193,349
Net (Loss) Income	252,684	347,151	5,423	11,526	(363,737)	253,047
Less: Net Income (Loss) Attributable to Noncontrolling Interests				363		363
Net (Loss) Income Attributable to Iron Mountain Incorporated	\$ 252,684	\$ 347,151	\$ 5,423	\$ 11,163	\$ (363,737)	\$ 252,684

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)**

	Six Months Ended June 30, 2010					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	\$	\$ 557,121	\$ 54,432	\$ 184,825	\$	\$ 796,378
Service		421,747	57,070	175,168		653,985
Total Revenues		978,868	111,502	359,993		1,450,363
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		379,905	42,979	182,886		605,770
Selling, General and Administrative	47	270,003	18,133	108,377		396,560
Depreciation and Amortization	109	99,623	9,287	42,094		151,113
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		(1,239)	(55)	138		(1,156)
Total Operating Expenses	156	748,292	70,344	333,495		1,152,287
Operating (Loss) Income	(156)	230,576	41,158	26,498		298,076
Interest Expense (Income), Net	99,459	(23,261)	22,365	6,970		105,533
Other Expense (Income), Net	(59,099)	289	(8)	71,726		12,908
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(40,516)	253,548	18,801	(52,198)		179,635
Provision (Benefit) for Income Taxes		89,088	6,206	2,188		97,482
Equity in the Losses (Earnings) of Subsidiaries, Net of Tax	(107,374)	43,828			63,546	
Income (Loss) from Continuing Operations	66,858	120,632	12,595	(54,386)	(63,546)	82,153
Income (Loss) from Discontinued Operations (see Note 10)		(14,021)		(541)		(14,562)
Net (Loss) Income	66,858	106,611	12,595	(54,927)	(63,546)	67,591
Less: Net Income (Loss) Attributable to Noncontrolling Interests				733		733
Net (Loss) Income Attributable to Iron Mountain Incorporated	\$ 66,858	\$ 106,611	\$ 12,595	\$ (55,660)	\$ (63,546)	\$ 66,858

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)**

	Six Months Ended June 30, 2011					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	\$	\$ 560,245	\$ 61,370	\$ 216,036	\$	\$ 837,651
Service		419,600	58,446	197,484		675,530
Total Revenues		979,845	119,816	413,520		1,513,181
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		380,158	47,002	203,705		630,865
Selling, General and Administrative	163	290,132	20,628	128,773		439,696
Depreciation and Amortization	76	97,377	9,802	53,602		160,857
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		(594)	(198)	1,304		512
Total Operating Expenses	239	767,073	77,234	387,384		1,231,930
Operating (Loss) Income	(239)	212,772	42,582	26,136		281,251
Interest Expense (Income), Net	86,050	(43,051)	22,088	32,911		97,998
Other Expense (Income), Net	38,436	4,868	286	(49,886)		(6,296)
(Loss) Income from Continuing Operations Before Provision (Benefit) for Income Taxes	(124,725)	250,955	20,208	43,111		189,549
Provision (Benefit) for Income Taxes		31,190	12,416	3,252		46,858
Equity in the Losses (Earnings) of Subsidiaries, Net of Tax	(450,869)	(43,285)			494,154	
Income (Loss) from Continuing Operations	326,144	263,050	7,792	39,859	(494,154)	142,691
Income (Loss) from Discontinued Operations (see Note 10)		(12,868)		4,494		(8,374)
Gain (Loss) on Sale of Discontinued Operations (see Note 10)		193,349				193,349
Net (Loss) Income	326,144	443,531	7,792	44,353	(494,154)	327,666
Less: Net Income (Loss) Attributable to Noncontrolling Interests				1,522		1,522
Net (Loss) Income Attributable to Iron Mountain Incorporated	\$ 326,144	\$ 443,531	\$ 7,792	\$ 42,831	\$ (494,154)	\$ 326,144

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

		Six Months Ended June 30, 2010				
		Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations Consolidated
Cash Flows from Operating Activities:						
Cash Flows from Operating Activities Continuing Operations		\$ (78,404)	\$ 252,024	\$ 26,375	\$ 70,342	\$ 270,337
Cash Flows from Operating Activities Discontinued Operations			(3,284)		1,045	(2,239)
Cash Flows from Operating Activities		(78,404)	248,740	26,375	71,387	268,098
Cash Flows from Investing Activities:						
Capital expenditures			(70,183)	(8,194)	(52,690)	(131,067)
Cash paid for acquisitions, net of cash acquired			(1,970)		(9,794)	(11,764)
Intercompany loans to subsidiaries		179,167	5,597			(184,764)
Investment in subsidiaries		(8,419)	(8,419)			16,838
Investment in restricted cash		(35,102)				(35,102)
Additions to customer relationship and acquisition costs			(3,688)	(453)	(1,328)	(5,469)
Proceeds from sales of property and equipment and other, net			5,023	12	5,926	10,961
Cash Flows from Investing Activities Continuing Operations		135,646	(73,640)	(8,635)	(57,886)	(172,441)
Cash Flows from Investing Activities Discontinued Operations			(118,015)		(112)	(118,127)
Cash Flows from Investing Activities		135,646	(191,655)	(8,635)	(57,998)	(290,568)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt		(2,050)	(14,244)	(1,257)	(48,198)	(65,749)
Proceeds from revolving credit and term loan facilities and other debt					39,257	39,257
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net					(65)	(65)
Intercompany loans from parent			(178,133)	(442)	(6,189)	184,764
Equity contribution from parent			8,419		8,419	(16,838)
Stock repurchases		(50,564)				(50,564)
Parent cash dividends		(12,720)				(12,720)
Proceeds from exercise of stock options and employee stock purchase plan		9,174				9,174
Excess tax benefits from stock-based compensation		1,284				1,284
Cash Flows from Financing Activities Continuing Operations		(54,876)	(183,958)	(1,699)	(6,776)	(79,383)
Cash Flows from Financing Activities Discontinued Operations					196	196
Cash Flows from Financing Activities		(54,876)	(183,958)	(1,699)	(6,580)	(79,187)
Effect of exchange rates on cash and cash equivalents				(602)	(3,918)	(4,520)
Increase (Decrease) in cash and cash equivalents		2,366	(126,873)	15,439	2,891	(106,177)

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Cash and cash equivalents, beginning of period		382,588	3,906	60,162		446,656
Cash and cash equivalents, end of period	\$ 2,366	\$ 255,715	\$ 19,345	\$ 63,053	\$	\$ 340,479

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)**

		Six Months Ended June 30, 2011					
		Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities:							
Cash Flows from Operating Activities	Continuing Operations	\$ (92,332)	\$ 290,532	\$ 7,790	\$ 35,220	\$	\$ 241,210
Cash Flows from Operating Activities	Discontinued Operations		1,544		303		1,847
Cash Flows from Operating Activities		(92,332)	292,076	7,790	35,523		243,057
Cash Flows from Investing Activities:							
Capital expenditures			(57,961)	(4,445)	(36,990)		(99,396)
Cash paid for acquisitions, net of cash acquired			(5,378)	(58)	(69,736)		(75,172)
Intercompany loans to subsidiaries		973,565	(68,961)			(904,604)	
Investment in subsidiaries		(1,228)	(1,228)			2,456	
Investment in restricted cash		(3)					(3)
Additions to customer relationship and acquisition costs			(8,515)	(288)	(2,274)		(11,077)
Proceeds from sales of property and equipment and other, net			188	41	(657)		(428)
Cash Flows from Investing Activities		972,334	(141,855)	(4,750)	(109,657)	(902,148)	(186,076)
Cash Flows from Investing Activities	Discontinued Operations		376,567		(4)		376,563
Cash Flows from Investing Activities		972,334	234,712	(4,750)	(109,661)	(902,148)	190,487
Cash Flows from Financing Activities:							
Repayment of revolving credit and term loan facilities and other debt		(396,200)	(1,141,952)	(1,474)	(54,079)		(1,593,705)
Proceeds from revolving credit and term loan facilities and other debt			1,624,900		51,169		1,676,069
Early retirement of senior subordinated notes		(231,255)					(231,255)
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net					480		480
Intercompany loans from parent			(970,727)	89	66,034	904,604	
Equity contribution from parent			1,228		1,228	(2,456)	
Stock repurchases		(260,970)					(260,970)
Parent cash dividends		(75,044)					(75,044)
Proceeds from exercise of stock options and employee stock purchase plan		69,501					69,501
Excess tax benefits from stock-based compensation		57					57
Payment of debt financing costs			(8,217)				(8,217)
Cash Flows from Financing Activities		(893,911)	(494,768)	(1,385)	64,832	902,148	(423,084)
Cash Flows from Financing Activities	Discontinued Operations				(411)		(411)
Cash Flows from Financing Activities		(893,911)	(494,768)	(1,385)	64,421	902,148	(423,495)

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Effect of exchange rates on cash and cash equivalents		1,414	1,268	2,682
Increase (Decrease) in cash and cash equivalents	(13,909)	32,020	3,069	(8,449)
Cash and cash equivalents, beginning of period	13,909	121,584	37,652	85,548
Cash and cash equivalents, end of period	\$	\$ 153,604	\$ 40,721	\$ 77,099
				\$ 271,424

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(7) Segment Information

Beginning June 2011, as a result of the disposition of our Digital Business and our decision to sell the New Zealand Business as discussed at Note 10, we changed our reportable segments. The most significant of these changes is that the reportable segment previously referred to as the Worldwide Digital Business is no longer reported separately in our management reporting as the operations associated with the Domain Name Product Line and the Digital Business are reflected as discontinued operations. Also, the intellectual property escrow services business, which we continue to own and operate and was previously reflected in the Worldwide Digital Business segment, is now reflected as a component of the North American Physical Business segment. Additionally, the International Physical Business segment no longer includes the New Zealand Business as these operations are reflected as discontinued operations.

Our operating segments and Corporate are as follows:

North American Physical Business throughout the United States and Canada, 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 ("Hard Copy"); the storage and rotation of backup computer media as part of corporate disaster recovery plans, including service and courier operations ("Data Protection"); information destruction services ("Destruction"); the scanning, imaging and document conversion services of active and inactive records ("Hybrid Services"); 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") and intellectual property escrow services that protect and manage source code.

Europe information management services throughout Europe, including Hard Copy, Data Protection, Destruction (in the U.K. and Ireland) and Hybrid Services.

Latin America information management services throughout Mexico, Brazil, Chile, Argentina and Peru, including Hard Copy, Data Protection, Destruction and Hybrid Services.

Asia Pacific information management services throughout Australia, including Hard Copy, Data Protection, Destruction and Hybrid Services; and in certain cities in India, Singapore, Hong Kong-SAR and China, including Hard Copy and Data Protection.

Corporate consists of 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 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)**

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

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

	North American Physical Business	International Physical Business	Corporate	Total Consolidated
Three Months Ended June 30, 2010				
Total Revenues	\$ 551,749	\$ 173,034	\$	\$ 724,783
Depreciation and Amortization	45,782	20,463	9,254	75,499
Depreciation	42,918	17,094	9,202	69,214
Amortization	2,864	3,369	52	6,285
Adjusted OIBDA	246,503	30,753	(43,929)	233,327
Expenditures for Segment Assets	30,634	23,112	6,619	60,365
Capital Expenditures	28,035	17,982	6,619	52,636
Cash Paid for Acquisitions, Net of Cash acquired		4,682		4,682
Additions to Customer Relationship and Acquisition Costs	2,599	448		3,047
Three Months Ended June 30, 2011				
Total Revenues	557,513	205,376		762,889
Depreciation and Amortization	45,629	25,975	8,174	79,778
Depreciation	42,577	21,883	8,138	72,598
Amortization	3,052	4,092	36	7,180
Adjusted OIBDA	242,123	38,802	(53,987)	226,938
Expenditures for Segment Assets	32,813	59,861	3,016	95,690
Capital Expenditures	25,662	18,361	3,016	47,039
Cash Paid for Acquisitions, Net of Cash acquired	407	40,060		40,467
Additions to Customer Relationship and Acquisition Costs	6,744	1,440		8,184
Six Months Ended June 30, 2010				
Total Revenues	1,099,795	350,568		1,450,363
Depreciation and Amortization	91,362	41,264	18,487	151,113
Depreciation	85,636	34,495	18,379	138,510
Amortization	5,726	6,769	108	12,603
Adjusted OIBDA	471,908	65,000	(88,875)	448,033
Total Assets(1)	4,450,474	1,541,148	661,966	6,653,588
Expenditures for Segment Assets	67,274	63,674	17,352	148,300
Capital Expenditures	61,163	52,552	17,352	131,067
Cash Paid for Acquisitions, Net of Cash acquired	1,970	9,794		11,764
Additions to Customer Relationship and Acquisition Costs	4,141	1,328		5,469
Six Months Ended June 30, 2011				
Total Revenues	1,112,811	400,370		1,513,181
Depreciation and Amortization				