QUEST DIAGNOSTICS INC
Form 10-Q
July 25, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016
Commission file number 001-12215

Quest Diagnostics Incorporated

Three Giralda Farms
Madison, NJ 07940
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of July 14, 2016, there were outstanding 139,016,917 shares of the registrant’s common stock, $.01 par value.

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PART I - FINANCIAL INFORMATION

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(unaudited)
(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$1,906	$1,925	$3,769	$3,764
Operating costs, expenses and other income:				
Cost of services	1,155	1,182	2,299	2,345
Selling, general and administrative	430	429	872	848
Amortization of intangible assets	17	20	36	41
Gain on disposition of business	(118)	—	(118)	—
Other operating (income) expense, net	—	(7)	1	1
Total operating costs, expenses and other income, net	1,484	1,624	3,090	3,235
Operating income	422	301	679	529
Other income (expense):				
Interest expense, net	(34)	(37)	(70)	(82)
Other expense, net	(5)	(64)	(54)	(142)
Total non-operating expenses, net	(39)	(101)	(124)	(224)
Income before income taxes and equity in earnings of equity method investees	383	200	555	305
Income tax expense	(183)	(78)	(250)	(120)
Equity in earnings of equity method investees, net of taxes	9	7	19	14
Net income	209	129	324	199
Less: Net income attributable to noncontrolling interests	14	11	26	20
Net income attributable to Quest Diagnostics	$195	$118	$298	$179
Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	$1.38	$0.82	$2.10	$1.24
Diluted	$1.37	$0.81	$2.08	$1.23
Weighted average common shares outstanding:				
Basic	140	144	141	144
Diluted	142	145	143	145
Dividends per common share	$0.40	$0.38	$0.80	$0.76

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(unaudited)
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$209	$129	$324	$199
Other comprehensive (loss) income:				
Currency translation	(15)	4	(18)	(2)
Market valuation, net of taxes	(1)	—	(1)	2
Net deferred loss on cash flow hedges, net of taxes	—	1	1	2
Other comprehensive (loss) income	(16)	5	(18)	2
Comprehensive income	193	134	306	201
Less: Comprehensive income attributable to noncontrolling interests	14	11	26	20
Comprehensive income attributable to Quest Diagnostics	$179	$123	$280	$181

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2016 AND DECEMBER 31, 2015
(unaudited)
(in millions, except per share data)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$283	$ 133
Accounts receivable, net of allowance for doubtful accounts of $289 and $254 at June 30, 2016 and December 31, 2015, respectively	975	901
Inventories	80	84
Prepaid expenses and other current assets	163	207
Assets held for sale	9	176
Total current assets	1,510	1,501
Property, plant and equipment, net	937	925
Goodwill	5,996	5,905
Intangible assets, net	990	984
Investment in equity method investees	453	473
Other assets	223	174
Total assets	$10,109	$ 9,962
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$1,104	$ 1,014
Current portion of long-term debt	7	159
Total current liabilities	1,111	1,173
Long-term debt	3,835	3,492
Other liabilities	520	514
Redeemable noncontrolling interest	74	70
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value $0.01 per share; 600 shares authorized at both June 30, 2016 and December 31, 2015; 216 shares issued at both June 30, 2016 and December 31, 2015	2	2
Additional paid-in capital	2,472	2,481
Retained earnings	6,384	6,199
Accumulated other comprehensive loss	(56)	(38)
Treasury stock, at cost; 77 shares and 73 shares at June 30, 2016 and December 31, 2015, respectively	(4,265)	(3,960)
Total Quest Diagnostics stockholders' equity	4,537	4,684
Noncontrolling interests	32	29
Total stockholders' equity	4,569	4,713
Total liabilities and stockholders' equity	$10,109	$ 9,962

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(unaudited)
(in millions)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$324	$199
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	123	153
Provision for doubtful accounts	167	158
Deferred income tax benefit	(4)	(5)
Stock-based compensation expense	36	27
Gain on disposition of business	(118)	—
Other, net	9	(5)
Changes in operating assets and liabilities:		
Accounts receivable	(249)	(163)
Accounts payable and accrued expenses	23	(42)
Income taxes payable	141	17
Other assets and liabilities, net	12	(2)
Net cash provided by operating activities	464	337
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(135)	(6)
Proceeds from sale of businesses	275	—
Capital expenditures	(104)	(117)
Increase in investments and other assets	(9)	—
Net cash provided by (used in) investing activities	27	(123)
Cash flows from financing activities:		
Proceeds from borrowings	1,869	1,829
Repayments of debt	(1,720)	(1,821)
Purchases of treasury stock	(390)	(149)
Exercise of stock options	38	55
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(9)	(6)
Dividends paid	(111)	(103)
Distributions to noncontrolling interests	(19)	(19)
Other financing activities, net	1	(42)
Net cash used in financing activities	(341)	(256)
Net change in cash and cash equivalents	150	(42)
Cash and cash equivalents, beginning of period	133	192
Cash and cash equivalents, end of period	$283	$150

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(unaudited)
(in millions)

	Quest Diagnostics Stockholders' Equity								
	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Non-controlling Interests	Total Stock-holders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2015	143	$2	$2,481	$6,199	$(38)	$(3,960)	$29	$4,713	$70
Net income				298			22	320	4
Other comprehensive loss, net of taxes					(18)			(18)	
Dividends declared				(113)				(113)	
Distributions to noncontrolling interests							(19)	(19)	
Issuance of common stock under benefit plans			3			8		11	
Stock-based compensation expense			34			2		36	
Exercise of stock options	1		1			37		38	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(9)					(9)	
Purchases of treasury stock	(5)		(38)			(352)		(390)	
Balance, June 30, 2016	139	$2	$2,472	$6,384	$(56)	$(4,265)	$32	$4,569	$74
Balance, December 31, 2014	144	$2	$2,418	$5,723	$(27)	$(3,815)	$29	$4,330	$—
Net income				179			20	199	
Other comprehensive income, net of taxes					2			2	
Dividends declared				(109)				(109)	
Distributions to noncontrolling interests							(19)	(19)	
Issuance of common stock under benefit plans	1		4			7		11	
Stock-based compensation expense			25			2		27	
Exercise of stock options	1					55		55	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(6)					(6)	
			3					3	

Tax benefits associated with stock-based compensation plans									
Purchases of treasury stock	(2)					(149)		(149)	
Balance, June 30, 2015	144	$2	$2,444	$5,793	$ (25)	$(3,900)	$ 30	$4,344	$ —

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(in millions, except per share data)

1. DESCRIPTION OF BUSINESS

Background

Quest Diagnostics Incorporated and its subsidiaries ("Quest Diagnostics" or the "Company") empower people to take action to improve health outcomes. The Company uses its extensive database of clinical lab results to derive diagnostic insights that reveal new avenues to identify and treat disease, inspire healthy behaviors and improve healthcare management. The Company's diagnostic information services business ("DIS") provides insights through clinical testing and related services to patients, physicians, hospitals, accountable care organizations ("ACOs"), integrated delivery networks ("IDNs"), health plans, employers and others. The Company offers the broadest access in the United States to diagnostic information services through its nationwide network of laboratories, Company-owned patient service centers and phlebotomists in physician offices. The Company is the world's leading provider of diagnostic information services, which includes providing clinical testing services such as routine (including drugs-of-abuse) testing, advanced testing solutions (including gene-based and esoteric testing), and anatomic pathology services, as well as related services and insights. The Company provides interpretive consultation with one of the largest medical and scientific staffs in the industry and hundreds of M.D.s and Ph.D.s, many of whom are recognized leaders in their fields. The Company's Diagnostic Solutions ("DS") businesses offer a variety of solutions for life insurers, healthcare providers and others. The Company is the leading provider of risk assessment services for the life insurance industry. In addition, the Company offers healthcare organizations, clinicians and patients robust information technology solutions. Prior to the sale of the Focus Diagnostics products business on May 13, 2016 (see Note 6), the Company's diagnostics products business manufactured and marketed diagnostic products. Prior to the contribution of its clinical trials testing business to the Q^2 Solutions joint venture on July 1, 2015, the Company's clinical trials testing business was a leading provider of central laboratory testing for clinical trials.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim unaudited consolidated financial statements reflect all adjustments which in the opinion of management are necessary for a fair statement of results of operations, comprehensive income, financial condition, cash flows and stockholders' equity for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s 2015 Annual Report on Form 10-K. The year-end balance sheet data was derived from the audited financial statements as of December 31, 2015, but does not include all the disclosures required by accounting principles generally accepted in the United States (“GAAP”).

Reclassifications

Prior to the Company's clinical trials central laboratory services joint venture, Q^2 Solutions, the earnings of the Company's equity method investees consisted of earnings that were not directly taxable to the investees, in which case it was appropriate to present equity in earnings of equity method investees before income tax expense on the consolidated statements of operations. The earnings of Q^2 Solutions, which closed on July 1, 2015, includes earnings that are directly taxable to the joint venture. As a result of the Q^2 Solutions transaction, the current period presentation of equity in earnings of equity method investees is required to be presented below income tax expense on the consolidated statements of operations. The Company's equity in earnings of equity method investees on the consolidated statements of operations for the three and six months ended June 30, 2015 has been reclassified to conform with the current period presentation.

As a result of the early adoption of the accounting standard update ("ASU") associated with simplifying several aspects of stock-based compensation, certain reclassifications have been made to the prior period financial statements to conform with the current period presentation. For further details regarding the impact of the ASU, see New Accounting Pronouncements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Share

The Company's unvested restricted stock units that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in the earnings allocation in computing earnings per share using the two-class method. Basic earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding after giving effect to all potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the dilutive effect of outstanding stock options and performance share units granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Non-Employee Director Long-Term Incentive Plan. Earnings allocable to participating securities include the portion of dividends declared as well as the portion of undistributed earnings during the period allocable to participating securities.

Property, Plant and Equipment

In connection with the Company’s annual review of the estimated useful lives of its property, plant and equipment completed during the first quarter of 2016, the Company revised the estimated useful lives of certain classes of its property, plant and equipment. In order to better reflect the Company's current expectations regarding the use of its assets, the recent operational improvements from its Invigorate program and considering historical and other data, the Company revised the estimated useful lives of its laboratory equipment from a range of five to seven years to a range of seven to ten years, furniture and fixtures from a range of three to seven years to a range of five to twelve years and computer software obtained for internal use from three years to five years. The change in estimated useful lives was accounted for prospectively as a change in accounting estimate effective in the first quarter of 2016. The impact of this change for the three months ended June 30, 2016, was a decrease in depreciation expense and an increase in operating income of $10 million and an increase in net income of $6 million, or $0.04 per share on a basic and diluted basis. The impact of this change for the six months ended June 30, 2016, was a decrease in depreciation expense and an increase in operating income of $20 million and an increase in net income of $12 million, or $0.08 per share on a basic and diluted basis. The full year impact for 2016 is expected to be a decrease in depreciation expense and an increase in operating income of approximately $36 million and an increase in net income of approximately $22 million, or $0.16 per share on a basic and diluted basis.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an ASU on revenue recognition. This ASU outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. This standard supersedes existing revenue recognition requirements and eliminates most industry-specific guidance from

GAAP. The core principle of the revenue recognition standard is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The standard requires additional disclosures including those that are qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of this ASU to the first quarter of 2018, with early adoption permitted beginning in the first quarter of 2017. The ASU can be applied using a full retrospective method or a modified retrospective method of adoption. The Company is currently assessing the impact of the adoption of this ASU on the Company’s results of operations, financial position and cash flows.

On January 1, 2016, the Company adopted a new accounting standard issued by the FASB which makes targeted amendments to the current consolidation guidance for variable interest entities and limited partnerships and similar entities. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

On January 1, 2016, the Company prospectively adopted a new accounting standard issued by the FASB which provides guidance in determining whether a cloud computing arrangement includes a software license. If it is determined that a cloud computing arrangement does include a software license, the software element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If the arrangement does not include a software license, it should be accounted for as a service contract. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

On January 1, 2016, the Company prospectively adopted a new accounting standard issued by the FASB which requires that an acquirer recognize adjustments to provisional amounts in a business combination that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

During the first quarter of 2016, the Company prospectively adopted a new accounting standard issued by the FASB that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

In January 2016, the FASB issued an ASU on the recognition and measurement of financial assets and financial liabilities. This ASU requires that all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In addition, the ASU eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. The ASU is effective for the Company in the first quarter of 2018. The Company does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

In February 2016, the FASB issued an ASU that amends accounting for leases. Under the new guidance, a lessee will recognize assets and liabilities for most leases on its balance sheet but will recognize expense on its statement of operations similar to current lease accounting. The ASU is effective for the Company in the first quarter of 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach, and provides for certain practical expedients. The adoption of this ASU will result in a significant increase to the Company’s balance sheet for lease liabilities and right-of-use assets, which has not yet been quantified. The Company is currently evaluating this and the other effects of adoption of this ASU on its consolidated financial statements.

In March 2016, the FASB issued an ASU that simplifies the transition to the equity method of accounting by requiring adoption as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence, no retroactive adjustment of the investment is required. The ASU is effective for the Company in the first quarter of 2017 with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

In March 2016, the FASB issued an ASU that simplifies several aspects of the accounting for stock-based compensation award transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and accounting for forfeitures. In the second quarter of 2016, the Company elected to early adopt this standard, effective January 1, 2016. As a result:

- Excess income tax benefits and deficiencies from stock-based compensation arrangements are recognized as a discrete item within income tax expense, rather than additional paid-in capital. The adoption of this provision, which was done on a prospective basis, resulted in the classification of $2 million and $4 million of tax benefits in income tax expense for the three and six months ended June 30, 2016, respectively.

(in millions, except per share data)

- Excess income tax benefits from stock-based compensation arrangements are classified as an operating activity and cash paid for employee payroll tax withholdings by directly withholding shares are classified as a financing activity in the consolidated statements of cash flows. The adoption of these provisions, which was done on a retrospective basis, resulted in the reclassification of $3 million of excess tax benefits related to the settlement of stock-based compensation awards from financing to operating activities and $6 million of taxes paid related to employee payroll tax withholdings on stock issued under stock-based compensation plans from operating to financing activities for the six months ended June 30, 2015.

In addition, the ASU permits the Company to make a policy election to either estimate the forfeitures expected to occur in order to determine the amount of compensation cost to be recognized in each period or to account for forfeitures in the period they occur. The Company elected to continue to estimate the forfeitures expected to occur in order to determine the amount of compensation cost to be recognized in each period.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU is effective for the Company in the first quarter of 2020 and must be adopted using a modified retrospective transition approach. The Company is currently assessing the impact of the adoption of this ASU on the Company's results of operations, financial position and cash flows.

3. EARNINGS PER SHARE

The computation of basic and diluted earnings per common share was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amounts attributable to Quest Diagnostics' stockholders:				
Net income attributable to Quest Diagnostics	$195	$118	$298	$179
Less: Earnings allocated to participating securities	1	1	1	1
Earnings available to Quest Diagnostics' common stockholders – basic and diluted	$194	$117	$297	$178
Weighted average common shares outstanding – basic	140	144	141	144
Effect of dilutive securities:				
Stock options and performance share units	2	1	2	1
Weighted average common shares outstanding – diluted	142	145	143	145
Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	$1.38	$0.82	$2.10	$1.24
Diluted	$1.37	$0.81	$2.08	$1.23

The following securities were not included in the calculation of diluted earnings per share due to their antidilutive effect:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Stock options and performance share units	—	2	2	2

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(unaudited)
(in millions, except per share data)

4. RESTRUCTURING ACTIVITIES

Invigorate Program

During 2012, the Company committed to a course of action related to a multi-year program called Invigorate which is designed to reduce its cost structure. Invigorate has consisted of several flagship programs, with structured plans in each, to drive savings and improve performance across the customer value chain. These flagship programs include: organization excellence; information technology excellence; procurement excellence; service excellence; lab excellence; and billing excellence. From 2012 through 2014, the Invigorate program was intended to partially offset reimbursement pressures and labor and benefit cost increases; free up additional resources to invest in science, innovation and other growth initiatives; and enable us to improve service quality and operating profitability.

In January 2015, the Company adopted a course of action related to its multi-year Invigorate program to further reduce its cost structure through 2017. This multi-year course of action continues to focus on the flagship program opportunities and new key opportunities such as: standardizing processes, information technology systems, equipment and data; enhancing electronic enabling services; and enhancing reimbursement for work performed.

Restructuring Charges

The following table provides a summary of the Company's pre-tax restructuring charges for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Employee separation costs	$ 3	$ 6	$ 6	$ 21

The restructuring charges incurred for the three and six months ended June 30, 2016 are primarily associated with various workforce reduction initiatives as the Company continues to simplify and restructure its organization. Of the total restructuring charges incurred during the three months ended June 30, 2016, $2 million and $1 million were recorded in cost of services and selling, general and administrative expenses, respectively. Of the total restructuring charges incurred during the six months ended June 30, 2016, $3 million and $3 million were recored in cost of services and selling, general and administrative expenses, respectively.

The restructuring charges incurred for the three and six months ended June 30, 2015 are primarily associated with various workforce reduction initiatives as the Company continues to simplify and restructure its organization. Of the total restructuring charges incurred during the three months ended June 30, 2015, $4 million and $2 million were recorded in cost of services and selling, general and administrative expenses, respectively. Of the total restructuring charges incurred during the six months ended June 30, 2015, $17 million and $4 million were recorded in cost of services and selling, general and administrative expenses, respectively.

Charges for all periods presented were primarily recorded in the Company's DIS business.

Current Assets:

Cash and Cash Equivalents

$2,366 $255,715 $19,345 $63,053 $ $340,479

Restricted Cash

35,103 35,103

Accounts Receivable

388,666 38,302 154,208 581,176

Intercompany Receivable

1,048,044 9,244 (1,057,288)

Other Current Assets

1,106 114,985 11,319 41,066 168,476

Total Current Assets

1,086,619 759,366 78,210 258,327 (1,057,288) 1,125,234

Property, Plant and Equipment, Net

1,575,060 196,489 685,270 2,456,819

Other Assets, Net:

Long-term Notes Receivable from Affiliates and Intercompany Receivable

2,164,502 1,000 (2,165,502)

Investment in Subsidiaries

1,697,921 1,434,871 (3,132,792)

Goodwill

1,834,596 190,638 519,240 2,544,474

Other

30,556 313,319 11,656 165,744 (706) 520,569

Total Other Assets, Net

3,892,979 3,583,786 202,294 684,984 (5,299,000) 3,065,043

Total Assets

$4,979,598 $5,918,212 $476,993 $1,628,581 $(6,356,288)$6,647,096

Liabilities and Equity

Intercompany Payable

$ $998,126 $ $59,162 $(1,057,288)$

Current Portion of Long-term Debt

4,692 20,357 2,317 10,296 37,662

Total Other Current Liabilities

77,865 431,102 37,637 147,384 693,988

Long-term Debt, Net of Current Portion

2,779,875 74,306 180,134 94,838 3,129,153

Long-term Notes Payable to Affiliates and Intercompany Payable

1,000 2,164,502 (2,165,502)

Other Long-term Liabilities

3,853 546,134 23,876 97,081 (706) 670,238

Commitments and Contingencies (See Note 8)

Total Iron Mountain Incorporated Stockholders' Equity

2,112,313 1,683,685 233,029 1,216,078 (3,132,792) 2,112,313

Noncontrolling Interests

3,742 3,742

Total Equity

2,112,313 1,683,685 233,029 1,219,820 (3,132,792) 2,116,055

Total Liabilities and Equity

$4,979,598 $5,918,212 $476,993 $1,628,581 $(6,356,288)$6,647,096

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

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

	Three Months Ended June 30, 2009					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	$	$ 309,697	$ 22,475	$ 83,638	$	$ 415,810
Service		222,328	23,331	84,559		330,218
Total Revenues		532,025	45,806	168,197		746,028
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		205,740	19,434	87,524		312,698
Selling, General and Administrative	20	161,191	8,062	46,581		215,854
Depreciation and Amortization	64	57,197	3,746	17,673		78,680
(Gain) Loss on Disposal/Writedown of Property, Plant and Equipment, Net		(27)	183	586		742
Total Operating Expenses	84	424,101	31,425	152,364		607,974
Operating (Loss) Income	(84)	107,924	14,381	15,833		138,054
Interest Expense (Income), Net	48,988	(6,936)	10,291	2,832		55,175
Other Expense (Income), Net	66,328	(6,184)		(78,538)		(18,394)
(Loss) Income Before Provision (Benefit) for Income Taxes	(115,400)	121,044	4,090	91,539		101,273
Provision (Benefit) for Income Taxes		8,578	(270)	5,453		13,761
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(203,038)	(89,775)			292,813	
Net Income (Loss)	87,638	202,241	4,360	86,086	(292,813)	87,512
Less: Net (Loss) Income Attributable to Noncontrolling Interests				(126)		(126)
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 87,638	$ 202,241	$ 4,360	$ 86,212	$ (292,813)	$ 87,638

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

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

	Three Months Ended June 30, 2010					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	$	$ 315,964	$ 27,531	$ 92,149	$	$ 435,644
Service		228,191	28,851	87,105		344,147
Total Revenues		544,155	56,382	179,254		779,791
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		195,840	21,187	91,500		308,527
Selling, General and Administrative	20	170,812	9,340	55,484		235,656
Depreciation and Amortization	53	59,454	4,692	21,119		85,318
(Gain) Loss on Disposal/Writedown of Property, Plant and Equipment, Net		(154)	(29)	39		(144)
Total Operating Expenses	73	425,952	35,190	168,142		629,357
Operating (Loss) Income	(73)	118,203	21,192	11,112		150,434
Interest Expense (Income), Net	49,469	(8,025)	11,290	3,511		56,245
Other Expense (Income), Net	(26,417)	236	(10)	30,210		4,019
(Loss) Income Before Provision (Benefit) for Income Taxes	(23,125)	125,992	9,912	(22,609)		90,170
Provision (Benefit) for Income Taxes		44,247	3,222	949		48,418
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(64,417)	17,231			47,186	
Net Income (Loss)	41,292	64,514	6,690	(23,558)	(47,186)	41,752
Less: Net Income (Loss) Attributable to Noncontrolling Interests				460		460
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 41,292	$ 64,514	$ 6,690	$ (24,018)	$ (47,186)	$ 41,292

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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, 2009					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Storage	$	$ 616,634	$ 43,160	$ 165,873	$	$ 825,667
Service		435,098	45,575	163,034		643,707
Total Revenues		1,051,732	88,735	328,907		1,469,374
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		419,251	38,340	172,087		629,678
Selling, General and Administrative	40	319,290	15,283	91,634		426,247
Depreciation and Amortization	110	112,084	7,124	35,642		154,960
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net		276	144	(1,182)		(762)
Total Operating Expenses	150	850,901	60,891	298,181		1,210,123
Operating (Loss) Income	(150)	200,831	27,844	30,726		259,251
Interest Expense (Income), Net	98,766	(13,385)	20,175	5,140		110,696
Other Expense (Income), Net	49,970	(3,083)		(58,126)		(11,239)
(Loss) Income Before Provision (Benefit) for Income Taxes	(148,886)	217,299	7,669	83,712		159,794
Provision (Benefit) for Income Taxes		38,116	1,025	6,197		45,338
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(265,323)	(84,462)			349,785	
Net Income (Loss)	116,437	263,645	6,644	77,515	(349,785)	114,456
Less: Net (Loss) Income Attributable to Noncontrolling Interests				(1,981)		(1,981)
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 116,437	$ 263,645	$ 6,644	$ 79,496	$ (349,785)	$ 116,437

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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
Revenues:						
Storage	$	$ 630,230	$ 54,432	$ 186,230	$	$ 870,892
Service		451,102	57,070	177,233		685,405
Total Revenues		1,081,332	111,502	363,463		1,556,297
Operating Expenses:						
Cost of Sales (Excluding Depreciation and Amortization)		405,416	42,979	185,364		633,759
Selling, General and Administrative	47	341,998	18,133	109,330		469,508
Depreciation and Amortization	109	118,984	9,287	42,722		171,102
(Gain) Loss on Disposal/Writedown of Property, Plant and Equipment, Net		(1,239)	(55)	97		(1,197)
Total Operating Expenses	156	865,159	70,344	337,513		1,273,172
Operating (Loss) Income	(156)	216,173	41,158	25,950		283,125
Interest Expense (Income), Net	99,459	(16,022)	22,365	7,005		112,807
Other Expense (Income), Net	(59,099)	261	(8)	71,684		12,838
(Loss) Income Before Provision (Benefit) for Income Taxes	(40,516)	231,934	18,801	(52,739)		157,480
Provision (Benefit) for Income Taxes		81,495	6,206	2,188		89,889
Equity in the (Earnings) Losses of Subsidiaries, Net of Tax	(107,374)	43,828			63,546	
Net Income (Loss)	66,858	106,611	12,595	(54,927)	(63,546)	67,591
Less: Net Income (Loss) Attributable to Noncontrolling Interests				733		733
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 66,858	$ 106,611	$ 12,595	$ (55,660)	$ (63,546)	$ 66,858

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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, 2009					
	Parent	Guarantors	Canada Company	Non-Guarantors	Eliminations	Consolidated
Cash Flows from Operating Activities	$ (100,822)	$ 293,375	$ 15,562	$ 40,176	$	$ 248,291
Cash Flows from Investing Activities:						
Capital expenditures		(90,669)	(6,539)	(36,668)		(133,876)
Cash paid for acquisitions, net of cash acquired		(186)		(1,262)		(1,448)
Intercompany loans to subsidiaries	145,709	1,236			(146,945)	
Investment in subsidiaries	(6,236)	(6,236)			12,472	
Additions to customer relationship and acquisition costs		(3,181)	(362)	(896)		(4,439)
Proceeds from sales of property and equipment and other, net		889	26	923		1,838
Cash Flows from Investing Activities	139,473	(98,147)	(6,875)	(37,903)	(134,473)	(137,925)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt	(52,117)	(9,214)	(25,066)	(13,507)		(99,904)
Proceeds from revolving credit and term loan facilities and other debt				15,574		15,574
Debt financing (repayment to) and equity contribution from (distribution to) noncontrolling interests, net				530		530
Intercompany loans from parent		(147,283)	3,452	(3,114)	146,945	
Equity contribution from parent		6,236		6,236	(12,472)	
Proceeds from exercise of stock options and employee stock purchase plan	10,983					10,983
Excess tax benefits from stock-based compensation	2,483					2,483
Payment of debt financing costs			(37)	(60)		(97)
	(38,651)	(150,261)	(21,651)	5,659	134,473	(70,431)

Cash Flows from Financing Activities						
Effect of exchange rates on cash and cash equivalents			742	(2,991)		(2,249)
Increase (Decrease) in cash and cash equivalents		44,967	(12,222)	4,941		37,686
Cash and cash equivalents, beginning of period		210,636	17,069	50,665		278,370
Cash and cash equivalents, end of period	$	$ 255,603	$ 4,847	$ 55,606	$	$ 316,056

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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	$ (78,404)	$ 248,740	$ 26,375	$ 71,387	$	$ 268,098
Cash Flows from Investing Activities:						
Capital expenditures		(77,019)	(8,194)	(52,795)		(138,008)
Cash paid for acquisitions, net of cash acquired		(113,149)		(9,794)		(122,943)
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)	(1,347)		(5,488)
Proceeds from sales of property and equipment and other, net		5,023	12	5,938		10,973
Cash Flows from Investing Activities	135,646	(191,655)	(8,635)	(57,998)	(167,926)	(290,568)
Cash Flows from Financing Activities:						
Repayment of revolving credit and term loan facilities and other debt	(2,050)	(14,244)	(1,257)	(48,631)		(66,182)
Proceeds from revolving credit and term loan facilities and other debt				39,886		39,886
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	(54,876)	(183,958)	(1,699)	(6,580)	167,926	(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)
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

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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

Corporate and our five operating segments are as follows:

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

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

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

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

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

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

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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 (Continued)

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

	North American Physical Business	International Physical Business	Worldwide Digital Business	Corporate	Total Consolidated
Three Months Ended June 30, 2009					
Total Revenues	$ 524,309	$ 163,997	$ 57,722	$	$ 746,028
Depreciation and Amortization	43,750	17,345	9,088	8,497	78,680
Depreciation	40,803	14,346	6,472	8,433	70,054
Amortization	2,947	2,999	2,616	64	8,626
Adjusted OIBDA	212,881	31,728	13,303	(40,436)	217,476
Expenditures for Segment Assets	30,967	23,835	4,112	5,149	64,063
Capital Expenditures	29,211	23,478	4,117	5,149	61,955
Cash Paid for Acquisitions, Net of Cash acquired	21		(5)		16
Additions to Customer Relationship and Acquisition Costs	1,735	357			2,092
Three Months Ended June 30, 2010					
Total Revenues	544,295	174,936	60,560		779,791
Depreciation and Amortization	45,732	20,722	9,624	9,240	85,318
Depreciation	42,871	17,266	5,998	9,187	75,322
Amortization	2,861	3,456	3,626	53	9,996
Adjusted OIBDA	242,581	30,817	6,853	(44,643)	235,608
Expenditures for Segment Assets	30,581	23,200	3,322	6,619	63,722
Capital Expenditures	27,982	18,058	3,401	6,619	56,060
Cash Paid for Acquisitions, Net of Cash acquired		4,682	(79)		4,603
Additions to Customer Relationship and Acquisition Costs	2,599	460			3,059
Six Months Ended June 30, 2009					
Total Revenues	1,035,840	320,670	112,864		1,469,374
Depreciation and Amortization	85,327	34,992	17,890	16,751	154,960
Depreciation	79,458	28,846	12,661	16,641	137,606
Amortization	5,869	6,146	5,229	110	17,354
Adjusted OIBDA	407,771	60,888	23,496	(78,706)	413,449
Total Assets(1)	4,351,716	1,575,747	434,524	110,512	6,472,499
Expenditures for Segment Assets	71,243	47,814	9,266	11,440	139,763
Capital Expenditures	67,490	45,680	9,266	11,440	133,876
Cash Paid for Acquisitions, Net of Cash acquired	186	1,262			1,448
Additions to Customer Relationship and Acquisition Costs	3,567	872			4,439
Six Months Ended June 30, 2010					
Total Revenues	1,084,781	354,369	117,147		1,556,297
Depreciation and Amortization	91,263	41,948	19,434	18,457	171,102
Depreciation	85,543	35,004	12,857	18,348	151,752
Amortization	5,720	6,944	6,577	109	19,350
Adjusted OIBDA	464,395	64,933	13,954	(90,252)	453,030
Total Assets(1)	4,431,331	1,559,680	498,253	157,832	6,647,096
Expenditures for Segment Assets	67,205	63,798	118,084	17,352	266,439
Capital Expenditures	61,094	52,657	6,905	17,352	138,008
Cash Paid for Acquisitions, Net of Cash acquired	1,970	9,794	111,179		122,943
Additions to Customer Relationship and Acquisition Costs	4,141	1,347			5,488

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

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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 (Continued)

The accounting policies of the reportable segments are the same as those described in Note 2. Adjusted OIBDA, previously referred to as Contribution, for each segment is defined as operating income before depreciation and amortization expenses, excluding (gain) loss on disposal/writedown of property, plant and equipment, net which are directly attributable to the segment. Internally, we use Adjusted OIBDA as the basis for evaluating the performance of and allocating resources to our operating segments.

A reconciliation of Adjusted OIBDA to income (loss) before provision (benefit) for income taxes on a consolidated basis is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2010**	**2009**	**2010**
Adjusted OIBDA	$ 217,476	$ 235,608	$ 413,449	$ 453,030
Less: Depreciation and Amortization	78,680	85,318	154,960	171,102
Loss (Gain) on Disposal/Writedown of Property, Plant and Equipment, Net	742	(144)	(762)	(1,197)
Interest Expense (Income), net	55,175	56,245	110,696	112,807
Other (Income) Expense, net	(18,394)	4,019	(11,239)	12,838
Income (Loss) before Provision (Benefit) for Income Taxes	$ 101,273	$ 90,170	$ 159,794	$ 157,480

(8) Commitments and Contingencies

a. Litigation

We are involved in litigation from time to time in the ordinary course of business with a portion of the defense and/or settlement costs being covered by various commercial liability insurance policies purchased by us. In the opinion of management, no material legal proceedings are pending to which we, or any of our properties, are subject, except as discussed below. We record legal costs associated with loss contingencies as expenses in the period in which they are incurred.

b. Pittsburgh Litigation

In May 2006, we filed an eviction lawsuit against a tenant, Digital Encoding Factory, LLC ("DEF"), leasing space in our Boyers, Pennsylvania records storage facility for its failure to make required rent payments. In October 2006, DEF and two related companies, EDA Acquisition, LLC, and Media Holdings, LLC, filed a lawsuit against us in the U.S. Federal District Court for the Western District of Pennsylvania alleging that they started a digital scanning business in our Boyers, Pennsylvania, records storage facility because we verbally agreed to refer customer digital scanning business in the facility to them (the "Pittsburgh Lawsuit") and promised substantial business. The plaintiffs contended that we breached this alleged verbal agreement and sought to recover damages in the range of $6,500 to $53,500. We disputed the plaintiffs' claims and contended that there was no such verbal agreement. A bench trial occurred in the case in March 2010. In July 2010, we executed an

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IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(8) Commitments and Contingencies (Continued)

agreement with the plaintiffs settling the case before the judge reached a decision in the matter. The legal proceedings related to this event did not have a material impact to our consolidated results of operations or financial condition.

c.
London Fire

In July 2006, we experienced a significant fire in a leased records and information management facility in London, England, that resulted in the complete destruction of the facility and its contents. The London Fire Brigade ("LFB") issued a report in which it was concluded that the fire resulted either from human agency, i.e., arson, or an unidentified ignition device or source, and its report to the Home Office concluded that the fire resulted from a deliberate act. The LFB also concluded that the installed sprinkler system failed to control the fire due to the primary electric fire pump being disabled prior to the fire and the standby diesel fire pump being disabled in the early stages of the fire by third-party contractors. We have received notices of claims from customers or their subrogated insurance carriers under various theories of liabilities arising out of lost data and/or records as a result of the fire. Certain of those claims have resulted in litigation in courts in the United Kingdom. We deny any liability in respect of the London fire and we have referred these claims to our excess warehouse legal liability insurer, which has been defending them to date under a reservation of rights. Certain of the claims have been settled for nominal amounts, typically one to two British pounds sterling per carton, as specified in the contracts, which amounts have been or will be reimbursed to us from our primary property insurer. An entity that provided certain security services related to the destroyed facility as a contractor to us is a defendant in an action by the owner of the property, seeking damages in the amount of approximately 10,700 British pounds sterling for negligence and breach of duty. The security service provider recently petitioned the court hearing the matter to join Iron Mountain (UK) as a third party defendant, seeking contribution in respect of its liability (if any) to the owner of the building, and the court has granted the motion. We believe there are meritorious defenses available to us with respect to the claim. Many claims, including substantial claims, remain outstanding; others have been resolved pursuant to consent orders. We believe we carry adequate property and liability insurance. We do not expect that legal proceedings related to this event will have a material impact to our consolidated results of operations or financial condition.

d.
Chile Earthquake

As a result of the February 27, 2010 earthquake in Chile, we experienced damage to certain of our 13 owned and leased records management facilities in that region. None of our facilities were destroyed by fire or significantly impacted by water damage. However, the structural integrity of five buildings was compromised, and some of the racking included in certain buildings was damaged or destroyed. Some customer materials were impacted by this event. Revenues from this country represent less than 1% of our consolidated enterprise revenues. We believe we carry adequate property and liability insurance and do not expect that this event will have a material impact to our consolidated results of operations or financial condition.

During the quarter ended June 30, 2010, we received payments from our insurance carrier of approximately $21,000. Such amount represents a portion of our business personal property, business

IRON MOUNTAIN INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Thousands, Except Share and Per Share Data)

(Unaudited)

(8) Commitments and Contingencies (Continued)

interruption, and expense claims filed with our insurance carriers. We expect to utilize cash from our insurance settlements to fund capital expenditures and for general working capital needs. Recoveries from the business interruption portion of our insurance claim will be recorded as other income in the consolidated statement of operations when received. We expect to receive proceeds from our property claims that exceed the carrying value of the related assets. We, therefore, expect to record gains on the disposal/writedown of property, plant and equipment, net in our statement of operations in future periods when the cash received to date exceeds the carrying value of the related property, plant and equipment, net. Proceeds from our business personal property claims are reflected in our statement of cash flows under proceeds from sales of property and equipment and other, net included in the investing activities section when received. We have reflected approximately $6,400 of the cash proceeds received to date as proceeds from sales of property and equipment, net in our statement of cash flows for the six months ended June 30, 2010. Proceeds from our business interruption claims are reflected in our statement of cash flows as a component of net income included in the operating activities section when received.

(9) Stockholders' Equity Matters

In February 2010, our board of directors approved a share repurchase program authorizing up to $150,000 in repurchases of our common stock. This represented approximately 3% of our outstanding common stock based on the closing price on February 19, 2010. All purchases are subject to stock price, market conditions, corporate and legal requirements and other factors. In addition, in February 2010, our board of directors adopted a dividend policy under which we intend to pay quarterly cash dividends on our common stock. The first quarterly dividend of $0.0625 per share was paid on April 15, 2010 to shareholders of record on March 25, 2010 in the aggregate amount of $12,720. The second quarterly dividend of $0.0625 per share was paid on July 15, 2010 to shareholders of record on June 25, 2010 in the aggregate amount of $12,641. Declaration and payment of future quarterly dividends is at the discretion of our board of directors.

(10) Subsequent Events

In August 2010, we called $200,000 of the $431,255 aggregate principal amount outstanding of our $7^3/_4$% notes due 2015 at a redemption price of 101.292% for each one thousand dollars of principal amount of notes redeemed, plus accrued and unpaid interest, all of which will be paid in September 2010. We will record a charge to other expense (income), net of approximately $1,800 in the third quarter of 2010 related to the early extinguishment of the $7^3/_4$% notes being redeemed. This charge consists of the call premium and deferred financing costs, net of original issue premiums related to the $7^3/_4$% notes.

We have evaluated subsequent events through the date our financial statements were issued.

IRON MOUNTAIN INCORPORATED

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

The following discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2010 should be read in conjunction with our Consolidated Financial Statements and Notes thereto for the three and six months ended June 30, 2010, included herein, and for the year ended December 31, 2009, included in our Annual Report on Form 10-K dated February 26, 2010.

FORWARD-LOOKING STATEMENTS

We have made statements in this Quarterly Report on Form 10-Q that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, investment objectives, plans and current expectations, including our intent to repurchase shares and to pay dividends, our financial ability and sources to fund the repurchase program and dividend policy, and the amounts of such repurchases and dividends. The forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements. Although we believe that our forward-looking statements are based on reasonable assumptions, our expected results may not be achieved, and actual results may differ materially from our expectations. Important factors that could cause actual results to differ from expectations include, among others: (1) the cost to comply with current and future laws, regulations and customer demands relating to privacy issues; (2) the impact of litigation that may arise in connection with incidents in which we fail to protect our customer's information; (3) changes in the price for our services relative to the cost of providing such services; (4) changes in customer preferences and demand for our services; (5) in the various digital businesses in which we are engaged, the cost of capital and technical requirements, demand for our services or competition for customers; (6) the impact of legal restrictions or limitations under stock repurchase plans on price, volume or timing of stock repurchases; (7) the impact of alternative, more attractive investments on dividends or stock repurchases; (8) our ability or inability to complete acquisitions on satisfactory terms and to integrate acquired companies efficiently; (9) the cost or potential liabilities associated with real estate necessary for our business; (10) the performance of business partners upon whom we depend for technical assistance or management expertise outside the U.S.; (11) changes in the political and economic environments in the countries in which our international subsidiaries operate; (12) claims that our technology violates the intellectual property rights of a third party; and (13) other trends in competitive or economic conditions affecting our financial condition or results of operations not presently contemplated. You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations, which may or may not occur. Other risks may adversely impact us, as described more fully under "Item 1A. Risk Factors" in our Annual Report on Form 10-K dated February 26, 2010. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures we have made in this document, as well as our other periodic reports filed with the Securities and Exchange Commission (the "SEC").

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Non-GAAP Measures

Adjusted Operating Income Before Depreciation and Amortization, or Adjusted OIBDA

Adjusted OIBDA is defined as operating income before depreciation and amortization expenses, excluding (gain) loss on disposal/writedown of property, plant and equipment, net. Adjusted OIBDA Margin is calculated by dividing Adjusted OIBDA by total revenues. We use multiples of current or projected Adjusted OIBDA in conjunction with our discounted cash flow models to determine our overall enterprise valuation and to evaluate acquisition targets. We believe Adjusted OIBDA and Adjusted OIBDA Margin provide current and potential investors with relevant and useful information regarding our ability to generate cash flow to support business investment. These measures are an integral part of the internal reporting system we use to assess and evaluate the operating performance of our business. Adjusted OIBDA does not include certain items that we believe are not indicative of our core operating results, specifically: (1) (gains) and losses on disposal/writedown of property, plant and equipment, net, (2) other (income) expense, net, (3) cumulative effect of change in accounting principle and (4) net income (loss) attributable to noncontrolling interests.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2010**	**2009**	**2010**
Adjusted OIBDA	$ 217,476	$ 235,608	$ 413,449	$ 453,030
Less: Depreciation and Amortization	78,680	85,318	154,960	171,102
Loss (gain) on disposal/writedown of property, plant and equipment, net	742	(144)	(762)	(1,197)
Operating Income (Loss)	138,054	150,434	259,251	283,125
Less: Interest Expense, Net	55,175	56,245	110,696	112,807
Other (Income) Expense, Net	(18,394)	4,019	(11,239)	12,838
Provision (Benefit) for Income Taxes	13,761	48,418	45,338	89,889
Net Income (Loss) Attributable to Noncontrolling interests	(126)	460	(1,981)	733
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 87,638	$ 41,292	$ 116,437	$ 66,858

Critical Accounting Policies

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

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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. Our critical accounting policies include the following, which are listed in no particular order:

Revenue Recognition

Accounting for Acquisitions

Allowance for Doubtful Accounts and Credit Memos

Impairment of Tangible and Intangible Assets

Accounting for Internal Use Software

Income Taxes

Stock-Based Compensation

Self-Insured Liabilities

Further detail regarding our critical accounting policies can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes included in our Annual Report on Form 10-K, as filed with the SEC on February 26, 2010. Management has determined that no material changes concerning our critical accounting policies have occurred since December 31, 2009.

Prior to January 1, 2010, the financial position and results of operations of the operating subsidiaries of Iron Mountain Europe (Group) Limited (collectively referred to as "IME"), our European business, were consolidated based on IME's fiscal year ended October 31. Effective January 1, 2010, we changed the fiscal year-end (and the reporting period for consolidation purposes) of IME to coincide with Iron Mountain Incorporated's ("IMI") fiscal year-end of December 31. We believe that the change in accounting principle related to the elimination of the two-month reporting lag for IME is preferable because it will result in more contemporaneous reporting of events and results related to IME. In accordance with applicable accounting literature, a change in subsidiary year-end is treated as a change in accounting principle and requires retrospective application. The cumulative effect of the change was an increase in retained earnings of $12.2 million as of January 1, 2008. We also recorded a corresponding decrease in other long-term liabilities for the same amount. The impact of the change was not material to the results of operations for the previously reported annual and interim periods after January 1, 2008, and, thus, those results have not been revised. There is, however, a charge of $4.7 million recorded to other (income) expense, net in the six months ended June 30, 2010 to recognize the immaterial differences arising in 2008 and 2009.

Recent Accounting Pronouncements

Effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity, the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "Codification") will require more information about transfers of financial assets, including securitization transactions, and transactions where entities have continuing exposure to the risks related to transferred financial assets. The Codification eliminates the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets, and requires additional disclosures about an entity's involvement with variable interest entities

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and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects such reporting entity's financial statements. The adoption of these Codification updates did not have a material impact on our consolidated financial statements and results of operations.

In October 2009, the FASB issued amended guidance on multiple-deliverable revenue arrangements and software revenue recognition. The multiple-deliverable revenue arrangements updates to the Codification apply to all deliverables in contractual arrangements in all industries in which a vendor will perform multiple revenue-generating activities. The change to the Codification creates a selling price hierarchy that an entity must use as evidence of fair value in separately accounting for all deliverables on a relative-selling-price basis which qualify for separation. The selling price hierarchy includes: (1) vendor-specific objective evidence; (2) third-party evidence and (3) estimated selling price. Broadly speaking, this update to the Codification will result in the possibility for some entities to recognize revenue earlier and more closely align with the economics of certain revenue arrangements if the other criteria for separation (e.g. standalone value to the customer) are met. The software revenue recognition guidance was issued to address factors that entities should consider when determining whether the software and non-software components of a product function together to deliver the product's essential functionality. The software revenue recognition updates to the Codification will allow revenue arrangements in which software and non-software components deliver together a product's essential functionality to follow the multiple-deliverable revenue recognition criteria as opposed to the criteria applicable to software revenue recognition. Both updates are effective for fiscal years beginning on or after June 15, 2010 and apply prospectively to new or materially modified revenue arrangements after its effective date. Early adoption is permitted; however, we do not anticipate early adopting. We are currently evaluating the impact of these Codification updates to our consolidated financial statements and results of operations.

In January 2010, the FASB issued amended guidance improving disclosures about fair value measurements to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The new guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The change in the Codification requires an entity, in determining the appropriate classes of assets and liabilities, to consider the nature and risks of the assets and liabilities as well as their placement in the fair value hierarchy (Level 1, 2 or 3). The Codification update is effective for the first reporting period, including interim periods, beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis; however, we do not anticipate early adopting. We do not expect adoption to have a material impact on our consolidated financial statements and results of operations.

Overview

The following discussions set forth, for the periods indicated, management's discussion and analysis of results. Significant trends and changes are discussed for the three and six month periods ended June 30, 2010 within each section. Trends and changes that are consistent within the three and six months periods are not repeated and are discussed on a year-to-date basis.

Our revenues consist of storage revenues as well as service revenues. Storage revenues, both physical and digital, which are considered a key performance indicator for the information management services industry, consist of largely recurring periodic charges related to the storage of materials or data

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(generally on a per unit basis), which are typically retained by customers for many years. Service revenues are comprised of charges for related core service activities and a wide array of complementary products and services. Included in core service revenues are: (1) the handling of records including the addition of new records, temporary removal of records from storage, refiling of removed records, destruction of records, and permanent withdrawals from storage; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents; and (4) other recurring services including maintenance and support contracts. Our complementary services revenues include special project work, data restoration projects, fulfillment services, consulting services and product sales (including software licenses, specially designed storage containers and related supplies). Our secure shredding business generates 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.

Our consolidated revenues and expenses are subject to variations caused by the net effect of foreign currency translation on revenues and expenses incurred by our entities outside the U.S. In 2009, we saw decreases in both revenues and expenses as a result of the weakening of the British pound sterling, Canadian dollar and Euro against the U.S. dollar, based on an analysis of weighted average rates for the comparable periods. It is difficult to predict how much foreign currency exchange rates will fluctuate in the future and how those fluctuations will impact our consolidated statement of operations. Due to the expansion of our international operations, these fluctuations have become material on individual balances. However, because both the revenues and expenses are denominated in the local currency of the country in which they are derived or incurred, the impact of currency fluctuations on our operating income and operating margin is mitigated. In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we compare the percentage change in the results from one period to another period in this report using constant currency disclosure. The constant currency growth rates are calculated by translating the 2009 results at the 2010 average exchange rates.

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

	Average Exchange Rates for the Three Months Ended June 30,		Percentage (Strengthening) / Weakening of the U.S. dollar
	2009(1)	**2010**	
British pound sterling	$ 1.445	$ 1.492	3.3%
Canadian dollar	$ 0.858	$ 0.973	13.4%
Euro	$ 1.302	$ 1.275	(2.1)%

	Average Exchange Rates for the Six Months Ended June 30,		Percentage (Strengthening) / Weakening of the U.S. dollar
	2009(1)	**2010**	
British pound sterling	$ 1.468	$ 1.526	4.0%
Canadian dollar	$ 0.831	$ 0.967	16.4%
Euro	$ 1.310	$ 1.330	1.5%

(1) Corresponding to the appropriate periods based on the operating subsidiaries of IME fiscal year ended October 31.

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Results of Operations

Comparison of Three and Six Months Ended June 30, 2010 to Three and Six Months Ended June 30, 2009 (in thousands):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Dollar Change	Percentage Change
Revenues	$ 746,028	$ 779,791	$ 33,763	4.5%
Operating Expenses	607,974	629,357	21,383	3.5%
Operating Income	138,054	150,434	12,380	9.0%
Other Expenses, Net	50,542	108,682	58,140	115.0%
Net Income	87,512	41,752	(45,760)	(52.3)%
Net (Loss) Income Attributable to Noncontrolling Interests	(126)	460	586	465.1%
Net Income Attributable to Iron Mountain Incorporated	$ 87,638	$ 41,292	$ (46,346)	(52.9)%
Adjusted OIBDA(1)	$ 217,476	$ 235,608	$ 18,132	8.3%
Adjusted OIBDA Margin(1)	29.2%	30.2%		

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2010	Dollar Change	Percentage Change
Revenues	$ 1,469,374	$ 1,556,297	$ 86,923	5.9%
Operating Expenses	1,210,123	1,273,172	63,049	5.2%
Operating Income	259,251	283,125	23,874	9.2%
Other Expenses, Net	144,795	215,534	70,739	48.9%
Net Income	114,456	67,591	(46,865)	(40.9)%
Net (Loss) Income Attributable to Noncontrolling Interests	(1,981)	733	2,714	137.0%
Net Income Attributable to Iron Mountain Incorporated	$ 116,437	$ 66,858	$ (49,579)	(42.6)%
Adjusted OIBDA(1)	$ 413,449	$ 453,030	$ 39,581	9.6%
Adjusted OIBDA Margin(1)	28.1%	29.1%		

(1) See "Non-GAAP Measures Adjusted Operating Income Before Depreciation and Amortization, or Adjusted OIBDA" for definition, reconciliation and a discussion of why we believe these measures provide relevant and useful information to our current and potential investors.

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REVENUES

	Three Months Ended June 30,			Percentage Change		
	2009	2010	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
Storage	$ 415,810	$ 435,644	$ 19,834	4.8%	3.3%	3.2%
Core Service	235,353	240,618	5,265	2.2%	0.1%	(0.6)%
Total Core Revenue	651,163	676,262	25,099	3.9%	2.1%	1.8%
Complementary Services	94,865	103,529	8,664	9.1%	7.8%	5.1%
Total Revenue	$ 746,028	$ 779,791	$ 33,763	4.5%	2.8%	2.2%

	Six Months Ended June 30,			Percentage Change		
	2009	2010	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
Storage	$ 825,667	$ 870,892	$ 45,225	5.5%	3.3%	3.3%
Core Service	464,838	479,417	14,579	3.1%	0.2%	(0.3)%
Total Core Revenue	1,290,505	1,350,309	59,804	4.6%	2.2%	2.0%
Complementary Services	178,869	205,988	27,119	15.2%	12.9%	10.6%
Total Revenue	$ 1,469,374	$ 1,556,297	$ 86,923	5.9%	3.5%	3.0%

(1) Constant currency growth rates are calculated by translating the 2009 results at the 2010 average exchange rates.

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

Our consolidated storage revenues increased $19.8 million, or 4.8%, to $435.6 million and increased $45.2 million, or 5.5%, to $870.9 million for the three and six months ended June 30, 2010, respectively, from $415.8 million and $825.7 million for the three and six months ended June 30, 2009, respectively. The increase is attributable to internal revenue growth of 3.2% and 3.3% for the three and six month periods ended June 30, 2010, respectively. Gains were moderated by economic effects that have constrained storage volume growth in recent quarters. Foreign currency exchange rate fluctuations added approximately 1.5% and 2.1% to our storage revenue growth rate for the three and six month periods ended June 30, 2010, respectively. Current economic factors resulting in lower pricing and longer new sales cycles in our digital business and lower new sales and higher destruction rates in our physical business led to a moderation in our storage growth rate.

Consolidated service revenues consisting of core service and complementary services increased $13.9 million, or 4.2%, to $344.1 million and increased $41.7 million, or 6.5%, to $685.4 million for the three and six months ended June 30, 2010, respectively, from $330.2 million and $643.7 million for the three and six months ended June 30, 2009, respectively. Service revenue internal growth was 1.0% and 2.7% for the three and six month periods as complementary service revenue internal growth of 5.1% and 10.6% for the three and six month periods was offset by negative core service revenue internal growth of 0.6% and 0.3% in the three and six months ended June 30, 2010. Complementary service revenues increased on a year-over-year basis primarily due to $22.3 million more revenue from the sale of recycled paper resulting from higher recycled paper pricing in the first half of 2010 compared to the first half of 2009. Core service revenue internal growth in the three and six months ended June 30, 2010 was constrained by current economic trends and pressures on activity-based service revenues related to the handling and transportation of items in storage. Favorable foreign currency exchange rate

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fluctuations for the three and six months of 2010 compared to the same period in 2009 increased reported service revenues by 2.2% and 3.0%, respectively.

For the reasons stated above, our consolidated revenues increased $33.8 million, or 4.5%, to $779.8 million for the three months ended and increased $86.9 million, or 5.9%, to $1,556.3 million for the six months ended June 30, 2010, from $746.0 million and $1,469.4 million for the three and six months ended June 30, 2009. Internal revenue growth was 2.2% and 3.0% for the three and six months ended June 30, 2010, respectively. We calculate internal revenue growth in local currency for our international operations. For the three and six months ended June 30, 2010, foreign currency exchange rate fluctuations positively impacted our reported revenues by 1.8% and 2.5%, respectively, primarily due to the strengthening of the British pound sterling, Canadian dollar and Euro against the U.S. dollar, based on an analysis of weighted average rates for the comparable periods.

Internal Growth Eight-Quarter Trend

	2008		2009				2010	
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Storage Revenue	7.5%	7.7%	7.4%	6.4%	6.8%	4.5%	3.4%	3.2%
Service Revenue	8.8%	5.2%	0.4%	1.3%	(3.7)%	0.2%	4.5%	1.0%
Total Revenue	8.1%	6.6%	4.2%	4.1%	2.0%	2.6%	3.9%	2.2%

During the past eight quarters our storage internal growth rate has ranged between 3% and 8%. The internal growth rate for service revenue is inherently more volatile than the storage revenue internal growth rate due to the more discretionary nature of certain complementary services we offer, such as large special projects, software licenses, and the volatility of prices for recycled paper. These revenues are often event driven and impacted to a greater extent by economic downturns as customers defer or cancel the purchase of certain services as a way to reduce their short-term costs, and may be difficult to replicate in future periods. As a commodity, recycled paper prices are subject to the volatility of that market. We expect our consolidated internal revenue growth for 2010 to be approximately 3%. The internal growth rate for service revenues reflects the following: (1) growth in North American storage-related service revenues, increased special project revenues and higher recycled paper revenues through the third quarter of 2008; (2) a large public sector contract in Europe that was completed in the third quarter of 2008; (3) declines in commodity prices for recycled paper and fuel, beginning in the fourth quarter of 2008, and improving through the end of 2009 and into the second quarter of 2010; (4) the expected softness in our complementary service revenues, such as project revenues and fulfillment services, beginning in the fourth quarter of 2008; and (5) pressures on activity-based service revenues related to the handling and transportation of items in storage and secure shredding.

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OPERATING EXPENSES

Cost of Sales

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

	Three Months Ended June 30,		Dollar	Percentage Change		% of Consolidated Revenues		Percentage Change
	2009	2010	Change	Actual	Constant Currency	2009	2010	(Favorable)/ Unfavorable
Labor	$ 155,777	$ 154,095	$ (1,682)	(1.1)%	(3.1)%	20.9%	19.8%	(1.1)%
Facilities	98,570	98,925	355	0.4%	(1.4)%	13.2%	12.7%	(0.5)%
Transportation	27,161	26,647	(514)	(1.9)%	(3.6)%	3.6%	3.4%	(0.2)%
Product Cost of Sales and Other	31,190	28,860	(2,330)	(7.5)%	(9.2)%	4.2%	3.7%	(0.5)%
	$ 312,698	$ 308,527	$ (4,171)	(1.3)%	(3.2)%	41.9%	39.6%	(2.3)%

	Six Months Ended June 30,		Dollar	Percentage Change		% of Consolidated Revenues		Percentage Change
	2009	2010	Change	Actual	Constant Currency	2009	2010	(Favorable)/ Unfavorable
Labor	$ 310,388	$ 310,933	$ 545	0.2%	(2.7)%	21.1%	20.0%	(1.1)%
Facilities	203,203	206,374	3,171	1.6%	(1.0)%	13.8%	13.3%	(0.5)%
Transportation	55,260	52,921	(2,339)	(4.2)%	(6.6)%	3.8%	3.4%	(0.4)%
Product Cost of Sales and Other	60,827	63,531	2,704	4.4%	1.7%	4.1%	4.1%	0.0%
	$ 629,678	$ 633,759	$ 4,081	0.6%	(2.0)%	42.9%	40.7%	(2.2)%

Labor

Labor expense was unfavorably impacted by 2.0 and 2.9 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. Excluding the effect of currency rate fluctuations, labor expense decreased in constant currency terms by 4.2% and 2.7% during the three and six months ended June 30, 2010, respectively, primarily due to productivity gains in our North American Physical Business.

Facilities

Facilities costs were unfavorably impacted by 1.8 and 2.6 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. The largest component of our facilities cost is rent expense, which, in constant currency terms, increased by $1.4 million for the first six months of 2010 over the first six months of 2009, but remained flat at approximately 12% of consolidated storage revenues for both the six months ended June 30, 2009 and 2010. Other facilities costs decreased by approximately $3.3 million in constant currency terms for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to decreases in utilities costs of approximately $4.1 million, which was partially offset by increased property taxes and insurance of $1.0 million.

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Transportation

Transportation expenses were unfavorably impacted by 1.7 and 2.4 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. Transportation expenses decreased in constant currency terms during the three and six months ended June 30, 2010 as compared to 2009. A decrease of $2.5 million in vehicle lease expense for the first six months of 2010 compared to the first six months of 2009 was due to the capitalization of leased vehicles upon renewal. The lease cost did not change, but the categorization of charges did, resulting in the cost now being allocated to depreciation and interest. There was also a $1.7 million decrease in courier subcontractor costs in the first six months of 2010 compared to the first six months of 2009, reflecting the benefit of productivity gains from ongoing transportation improvement initiatives.

Product Cost of Sales and Other

Product cost of sales and other, which includes cartons, media and other service, storage and supply costs, is highly correlated to complementary revenue streams. These costs were unfavorably impacted by 2.7 percentage points of currency rate changes during the six months ended June 30, 2010. For the six months ending June 30, 2010, product cost of sales and other increased by $2.7 million as compared to the prior year on an actual basis.

Selling, General and Administrative Expenses

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

	Three Months Ended June 30,		Dollar	Percentage Change		% of Consolidated Revenues		Percentage Change
	2009	2010	Change	Actual	Constant Currency	2009	2010	(Favorable)/ Unfavorable
General and Administrative	$ 110,345	$ 116,708	$ 6,363	5.8%	4.2%	14.8%	15.0%	0.2%
Sales, Marketing & Account Management	65,878	74,512	8,634	13.1%	11.8%	8.8%	9.6%	0.8%
Information Technology	35,660	40,854	5,194	14.6%	13.7%	4.8%	5.2%	0.4%
Bad Debt Expense	3,971	3,582	(389)	(9.8)%	(10.6)%	0.5%	0.5%	0.0%
	$ 215,854	$ 235,656	$ 19,802	9.2%	7.8%	28.9%	30.2%	1.3%

	Six Months Ended June 30,		Dollar	Percentage Change		% of Consolidated Revenues		Percentage Change
	2009	2010	Change	Actual	Constant Currency	2009	2010	(Favorable)/ Unfavorable
General and Administrative	$ 219,831	$ 241,189	$ 21,358	9.7%	7.4%	15.0%	15.5%	0.5%
Sales, Marketing & Account Management	127,707	139,602	11,895	9.3%	7.3%	8.7%	9.0%	0.3%
Information Technology	71,322	80,538	9,216	12.9%	11.7%	4.9%	5.2%	0.3%
Bad Debt Expense	7,387	8,179	792	10.7%	9.1%	0.5%	0.5%	0.0%
	$ 426,247	$ 469,508	$ 43,261	10.1%	8.1%	29.0%	30.2%	1.2%

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General and Administrative

General and administrative expenses were unfavorably impacted by 1.6 and 2.3 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. In constant currency terms, compensation expense, including medical and other benefits, decreased by $1.9 million and increased by $4.8 million in the three and six months ended June 30, 2010, respectively, over the same periods in 2009. The increase during the six months ended June 30, 2010 is primarily a result of merit increases, $1.1 million of incremental cost related to the acquisition of Mimosa Systems, Inc ("Mimosa"), and increased headcount primarily related to our continued investment in our hybrid records management services. In addition, legal costs and professional fees (related to project and cost saving initiatives) increased $4.6 million and $9.2 million in the three and six months ended June 30, 2010.

Sales, Marketing & Account Management

Sales, marketing and account management expenses were unfavorably impacted by 1.3 and 2.0 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. In constant currency terms, the increase of $9.5 million in the six months ended June 30, 2010 is primarily related to increased compensation of $7.1 million, as a result of merit increases, $3.5 million of incremental cost related to the Mimosa acquisition, and increased discretionary spending of $3.0 million associated with various marketing programs and initiatives, partially offset by a decline in commission expense of $0.8 million.

Information Technology

Information technology expenses were unfavorably impacted by 0.9 and 1.2 percentage points of currency rate changes during the three and six months ended June 30, 2010, respectively. In constant currency terms, information technology expenses increased $8.4 million during the six months ended June 30, 2010 due to increased compensation of $4.8 million, of which $2.7 million relates to the Mimosa acquisition, and increased professional fees of $2.9 million.

Bad Debt Expense

Consolidated bad debt expense decreased $0.4 million to $3.6 million (0.5% of consolidated revenues) for the three months ended June 30, 2010 from $4.0 million (0.5% of consolidated revenues) for the three months ended June 30, 2009. Consolidated bad debt expense increased $0.8 million to $8.2 million (0.5% of consolidated revenues) for the six months ended June 30, 2010 from $7.4 million (0.5% of consolidated revenues) for the six months ended June 30, 2009. We maintain an allowance for doubtful accounts that is calculated based on our past loss experience, current and prior trends in our aged receivables, current economic conditions, and specific circumstances of individual receivable balances. We continue to monitor our customers' payment activity and make adjustments based on their financial condition and in light of historical and expected trends.

Depreciation, Amortization, and (Gain) Loss on Disposal/Writedown of Property, Plant and Equipment, Net

Depreciation expense increased $5.3 million and $14.1 million for the three and six months ended June 30, 2010, respectively, compared to the three and six months ended June 30, 2009, primarily due to additional depreciation expense related to capital expenditures and acquisitions, including storage systems, which include racking, building and leasehold improvements, computer systems hardware and software, and buildings.

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Amortization expense increased $1.4 million and $2.0 million for the three and six months ended June 30, 2010, respectively, compared to the three and six months ended June 30, 2009, primarily due to the increased amortization of intangible assets, such as customer relationship intangible assets and intellectual property acquired through business combinations.

Consolidated gain on disposal/writedown of property, plant and equipment, net of $1.2 million for the six months ended June 30, 2010, consisted primarily of a gain on the disposition of certain owned equipment of $2.7 million in North America, offset by impairment losses related to certain owned facilities in North America of $1.6 million.

Consolidated gain on disposal/writedown of property, plant and equipment, net of $0.8 million for the six months ended June 30, 2009, consisted primarily of a $1.9 million gain on an owned storage facility in France, which was taken by eminent domain in the first quarter of 2009, offset by write-offs of certain fixed assets in North America and Europe.

OPERATING INCOME and ADJUSTED OIBDA

As a result of all the foregoing factors, consolidated operating income increased $12.4 million, or 9.0%, to $150.4 million (19.3% of consolidated revenues) for the three months ended June 30, 2010 from $138.1 million (18.5% of consolidated revenues) for the three months ended June 30, 2009. As a result of all the foregoing factors, consolidated operating income increased $23.9 million, or 9.2%, to $283.1 million (18.2% of consolidated revenues) for the six months ended June 30, 2010 from $259.3 million (17.6% of consolidated revenues) for the six months ended June 30, 2009. Consolidated Adjusted OIBDA increased $18.1 million, or 8.3%, to $235.6 million (30.2% of consolidated revenues) for the three months ended June 30, 2010 from $217.5 million (29.2% of consolidated revenues) for the three months ended June 30, 2009. As a result of all the foregoing factors, consolidated Adjusted OIBDA increased $39.6 million, or 9.6%, to $453.0 million (29.1% of consolidated revenues) for the six months ended June 30, 2010 from $413.4 million (28.1% of consolidated revenues) for the six months ended June 30, 2009.

OTHER EXPENSES, NET

Interest Expense, Net

Consolidated interest expense, net increased $1.1 million to $56.2 million (7.2% of consolidated revenues) and $2.1 million to $112.8 million (7.2% of consolidated revenue) for the three and six months ended June 30, 2010, respectively, from $55.2 million (7.4% of consolidated revenues) and $110.7 million (7.5% of consolidated revenues) for the three and six months ended June 30, 2009, primarily due to an increase in our weighted average interest rate, which was 6.8% and 7.0% as of June 30, 2009 and 2010, respectively.

Other (Income) Expense, Net (in thousands)

	Three Months Ended June 30,		Dollar	Six Months Ended June 30,		Dollar
	2009	**2010**	**Change**	**2009**	**2010**	**Change**
Foreign currency transaction (gains) losses, net	$ (17,127)	$ 3,625	$ 20,752	$ (9,638)	$ 8,890	$ 18,528
Other, net	(1,267)	394	1,661	(1,601)	3,948	5,549
	$ (18,394)	$ 4,019	$ 22,413	$ (11,239)	$ 12,838	$ 24,077

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Net foreign currency transaction losses of $8.9 million, based on period-end exchange rates, were recorded in the six months ended June 30, 2010. Losses resulted primarily from changes in the exchange rate of the British pound sterling, certain Latin American currencies and the Euro against the U.S. dollar compared to December 31, 2009, as these currencies relate to our intercompany balances with and between our European and Latin American subsidiaries, offset by gains as a result of British pound sterling and forward foreign currency swap contracts and Euro denominated bonds held by IMI.

Net foreign currency transaction gains of $9.6 million, based on period-end exchange rates, were recorded in the six months ended June 30, 2009. Gains resulted primarily from changes in the exchange rate of the British pound sterling, Brazilian Real and Chilean Peso against the U.S. dollar compared to December 31, 2008, as these currencies relate to our intercompany balances with and between our European and Latin American subsidiaries, offset by losses as a result of British pound sterling denominated debt and forward contracts, as well as changes in the exchange rate of the Russian Ruble against the U.S. dollar, as it relates to our intercompany balances with and between our European subsidiaries.

The charge of $4.7 million included in other (income) expense, net in the six months ended June 30, 2010 consists of losses related to the impact of the change in IME's fiscal year-end. Since its inception, IME has operated with an October 31 fiscal year-end. Therefore, IME's financial results have historically been consolidated with IMI's results with a two month lag. In order to better align our European processes with the enterprise, the IME fiscal year-end was changed to December 31 to match our fiscal year-end. The $4.7 million charge represents the net impact of this change for the two years ended December 31, 2009.

Provision for Income Taxes

Our effective tax rate for the three and six months ended June 30, 2009 was 13.6% and 28.4%, respectively. Our effective tax rate for the three and six months ended June 30, 2010 was 53.7% and 57.1%, respectively, resulting in an increase of $34.7 million and $44.6 million in the provision for income taxes, respectively, over the same prior year periods. The primary reconciling items between the federal 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, 2009, foreign currency gains were recorded in lower tax jurisdictions associated with our marking-to-market of intercompany loan positions while foreign currency losses were recorded in higher tax jurisdictions associated with our marking-to-market of debt and derivative instruments, which reduced the 2009 tax rate by 25.8% and 11.6% for the three and six months ended June 30, 2009, respectively. 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 the 2010 tax rate by 13.1% and 16.0% for the three and six months ended June 30, 2010, 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.

Our effective tax rate is subject to future variability due to, among other items: (a) changes in the mix of income from foreign jurisdictions; (b) tax law changes; (c) volatility in foreign exchange gains and (losses); and (d) the timing of the establishment and reversal of tax reserves. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. We are subject to examination by various tax authorities in jurisdictions in which we have significant business operations. We regularly assess the likelihood of additional assessments by tax authorities and provide for these matters as appropriate. Although we believe our tax estimates are appropriate, the final determination of tax audits and any related litigation could result in changes in our estimates.

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NET INCOME

As a result of all the foregoing factors, consolidated net income for the three months ended June 30, 2010 decreased $45.8 million, or 52.3%, to $41.8 million (5.4% of consolidated revenues) from net income of $87.5 million (11.7% of consolidated revenues) for the three months ended June 30, 2009. Consolidated net income for the six months ended June 30, 2010 decreased $46.9 million, or 40.9%, to $67.6 million (4.3% of consolidated revenues) from net income of $114.5 million (7.8% of consolidated revenues) for the six months ended June 30, 2009. The increase in operating income noted above, offset by the foreign currency exchange rate impacts and the impact of the change in IME's fiscal year-end included in other income (expense), net and the impact of our tax rate for the first six months of 2010 and the resulting increase in the provision for income taxes described above, contributed to the decrease in net income. Net loss attributable to noncontrolling interests was $0.1 million and $2.0 million for the three and six months ended June 30, 2009, respectively, and resulted in a benefit to net income attributable to Iron Mountain Incorporated. For the three and six months ended June 30, 2010, net income attributable to noncontrolling interests resulted in a decrease in net income attributable to Iron Mountain Incorporated of $0.5 million and $0.7 million, respectively. These represent our noncontrolling partners' share of earnings/losses in our majority-owned international subsidiaries that are consolidated in our operating results.

Segment Analysis (in thousands)

Corporate and our operating segments are discussed below. Our reportable operating segments are North American Physical Business, International Physical Business and Worldwide Digital Business. See Note 7 to Notes to Consolidated Financial Statements. Our North American Physical Business, which consists of the United States and Canada, offers the storage of paper documents, as well as all other non-electronic media such as microfilm and microfiche, master audio and videotapes, film, X-rays and blueprints, including healthcare information services, vital records services, service and courier operations, and the collection, handling and disposal of sensitive documents for corporate customers ("Hard Copy"); the storage and rotation of backup computer media as part of corporate disaster recovery plans, including service and courier operations ("Data Protection"); information destruction services ("Destruction"); and the storage, assembly, and detailed reporting of customer marketing literature and delivery to sales offices, trade shows and prospective customers' sites based on current and prospective customer orders ("Fulfillment"). Our International Physical Business segment offers information management services throughout Europe, Latin America and Asia Pacific, including Hard Copy, Data Protection and Destruction (in the U.K., Australia and New Zealand). Our Worldwide Digital Business offers information management services for electronic records conveyed via telecommunication lines and the Internet, including online backup and recovery solutions for server data and personal computers, as well as email archiving, third party intellectual property escrow services that protect intellectual property assets such as software source code, and electronic discovery services for the legal market that offers in-depth discovery and data investigation solutions. 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 primarily relate 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.

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North American Physical Business

	Three Months Ended June 30,			Percentage Change		
	2009	2010	Dollar Change	Actual	Constant Currency	Internal Growth
Segment Revenue	$ 524,309	$ 544,295	$ 19,986	3.8%	2.6%	2.5%
Segment Adjusted OIBDA(1)	$ 212,881	$ 242,581	$ 29,700	14.0%	12.6%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	40.6%	44.6%				

	Six Months Ended June 30,			Percentage Change		
	2009	2010	Dollar Change	Actual	Constant Currency	Internal Growth
Segment Revenue	$ 1,035,840	$ 1,084,781	$ 48,941	4.7%	3.3%	3.2%
Segment Adjusted OIBDA(1)	$ 407,771	$ 464,395	$ 56,624	13.9%	12.3%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	39.4%	42.8%				

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

During the six months ended June 30, 2010, revenue in our North American Physical Business segment increased 4.7% over the six months ended June 30, 2009, primarily due to internal growth of 3.2%. Internal growth was due to storage internal growth of 3.3% related to increased Hard Copy and Data Protection revenues and service internal growth of 3.2%. Current economic factors have led to a moderation in our storage growth rate, as a result of lower new sales and higher destruction rates in our physical business. Core service revenue growth was also constrained by current economic trends and pressures on activity-based services revenues related to the handling and transportation of items in storage. Our core services business yielded negative internal growth of 2.3%, which was more than offset by complementary services revenues internal growth of 19.8%, due primarily to higher recycled paper prices. Additionally, favorable foreign currency rate changes related to Canada resulted in increased 2010 revenue, as measured in U.S. dollars, of 1.5%. Adjusted OIBDA as a percentage of segment revenue increased in 2010 due mainly to productivity gains, pricing actions, disciplined cost management, partially offset by a $4.2 million increase in professional fees (related to project and cost savings initiatives).

International Physical Business

	Three Months Ended June 30,			Percentage Change		
	2009	2010	Dollar Change	Actual	Constant Currency	Internal Growth
Segment Revenue	$ 163,997	$ 174,936	$ 10,939	6.7%	2.9%	2.3%
Segment Adjusted OIBDA(1)	$ 31,728	$ 30,817	$ (911)	(2.9)%	(5.8)%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	19.3%	17.6%				

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	Six Months Ended June 30, 2009	Six Months Ended June 30, 2010	Dollar Change	Percentage Change Actual	Percentage Change Constant Currency	Internal Growth
Segment Revenue	$ 320,670	$ 354,369	$ 33,699	10.5%	4.2%	3.8%
Segment Adjusted OIBDA(1)	$ 60,888	$ 64,933	$ 4,045	6.6%	1.0%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	19.0%	18.3%				

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

Revenue in our International Physical Business segment increased 10.5% during the six months ended June 30, 2010 over the same period last year due to foreign currency fluctuations in 2010, primarily in Europe, which resulted in increased 2010 revenue, as measured in U.S. dollars, compared to 2009 of approximately 6.3%. Total internal revenue growth for the segment was 3.8%, supported by solid 6.0% storage internal growth and strong core services internal growth of 5.1%. These gains were offset slightly by the 8.7% reduction in complementary revenue internal growth. Adjusted OIBDA as a percentage of segment revenue decreased in the three and six months ended June 30, 2010 primarily due to increased compensation expense related to investments in our hybrid records management services, partially offset by productivity gains, pricing actions and disciplined cost management.

Worldwide Digital Business

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Dollar Change	Percentage Change Actual	Percentage Change Constant Currency	Internal Growth
Segment Revenue	$ 57,722	$ 60,560	$ 2,838	4.9%	5.2%	(0.6)%
Segment Adjusted OIBDA(1)	$ 13,303	$ 6,853	$ (6,450)	(48.5)%	(47.8)%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	23.0%	11.3%				

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2010	Dollar Change	Percentage Change Actual	Percentage Change Constant Currency	Internal Growth
Segment Revenue	$ 112,864	$ 117,147	$ 4,283	3.8%	3.6%	(1.0)%
Segment Adjusted OIBDA(1)	$ 23,496	$ 13,954	$ (9,542)	(40.6)%	(40.5)%	
Segment Adjusted OIBDA(1) as a Percentage of Segment Revenue	20.8%	11.9%				

(1)

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

During the six months ended June 30, 2010, revenue in our Worldwide Digital Business segment increased 3.8% over the same period in 2009. Mimosa, which we acquired in February 2010, contributed $5.2 million, or a 4.6% increase in revenue. This increase was offset by lower pricing and longer new sales cycles in our digital business. In the six months ended June 30, 2010, Adjusted OIBDA in the Worldwide Digital Business segment decreased compared to the same period in 2009 due to the impact of revenue mix and increased costs associated with the integration of Mimosa.

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Corporate

	Three Months Ended June 30, 2009	2010	Dollar Change	Percentage Change
Segment Adjusted OIBDA(1)	$ (40,436)	$ (44,643)	$ (4,207)	(10.4)%
Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue	(5.4)%	(5.7)%		

	Six Months Ended June 30, 2009	2010	Dollar Change	Percentage Change
Segment Adjusted OIBDA(1)	$ (78,706)	$ (90,252)	$ (11,546)	(14.7)%
Segment Adjusted OIBDA(1) as a Percentage of Consolidated Revenue	(5.4)%	(5.8)%		

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

During the six months ended June 30, 2010, expenses in the Corporate segment increased 14.7% over the six months ended June 30, 2009. This increase is primarily driven by higher professional fees of $5.5 million related to productivity and cost saving initiatives, an insurance deductible of $2.9 million associated with the recent Chilean earthquake, increased stock-based compensation of $1.7 million, other expenses including marketing, recruiting and telephone and, to a lesser extent, increased compensation reflecting merit increases and higher benefit costs.

Liquidity and Capital Resources

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

	2009	2010
Cash flows from operating activities	$ 248,291	$ 268,098
Cash flows from investing activities	(137,925)	(290,568)
Cash flows from financing activities	(70,431)	(79,187)
Cash and cash equivalents at the end of period	316,056	340,479

Net cash provided by operating activities was $268.1 million for the six months ended June 30, 2010 compared to $248.3 million for the six months ended June 30, 2009. The 8.0% increase resulted primarily from an increase in working capital of $28.4 million, an increase in various non-cash charges of $11.5 million, and an increase in realized foreign exchange gains of $8.2 million, offset by a decrease in net income, excluding non-cash charges of $28.3 million over the same period last year.

Due to the nature of our businesses, we make significant capital expenditures and additions to customer acquisition costs, which are included in cash flows from investing activities. Our capital expenditures are primarily related to growth and include investments in storage systems, information systems and discretionary investments in real estate. Cash paid for our capital expenditures, cash paid for acquisitions (net of cash acquired) and additions to customer acquisition costs during the six months ended June 30, 2010 amounted to $138.0 million, $122.9 million and $5.5 million, respectively. For the six months ended June 30, 2010, capital expenditures, net, cash paid for acquisitions (net of cash acquired) and additions to customer acquisition costs were funded with cash flows provided by operating activities and cash equivalents on hand. Excluding potential future acquisitions, we expect our

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capital expenditures to be approximately $280 million in the year ending December 31, 2010. Included in our estimated capital expenditures for 2010 is approximately $20 million of opportunity-driven real estate purchases.

Net cash used in financing activities was $79.2 million for the six months ended June 30, 2010. During the six months ended June 30, 2010, we had gross borrowings under our revolving credit and term loan facilities and other debt of $39.9 million, $9.2 million of proceeds from the exercise of stock options and employee stock purchase plan and $1.3 million of excess tax benefits from stock-based compensation. We used the proceeds from these financing transactions to repay $66.2 million on our revolving credit and term loans and other debt, $50.6 million to repurchase our common stock and $12.7 million to pay dividends on our common stock.

In February 2010, our board of directors approved a share repurchase program authorizing up to $150.0 million in repurchases of our common stock. This represented approximately 3% of our outstanding common stock based on the closing price on February 19, 2010. All purchases are subject to stock price, market conditions, corporate and legal requirements and other factors. In addition, in February 2010, our board of directors adopted a dividend policy under which we intend to pay quarterly cash dividends on our common stock. The first quarterly dividend of $0.0625 per share was paid on April 15, 2010 to shareholders of record on March 25, 2010 in the aggregate amount of $12.7 million. The second quarterly dividend of $0.0625 per share was paid on July 15, 2010 to shareholders of record on June 25, 2010 in the aggregate amount of $12.6 million. Declaration and payment of future quarterly dividends is at the discretion of our board of directors. If we continue the $0.0625 per share quarterly dividend we anticipate that the 2010 annual dividend payout will be approximately $50 million based on our total outstanding shares as of February 19, 2010 (of which the fourth quarter 2010 payment would not be paid until January, 2011, if declared).

The following table is a summary of our repurchase activity under all of our share repurchase programs during the first six months of 2010:

	2010	
	Shares	**Amount**
		(In thousands)
Prior year authorization as of January 1,		$
Authorizations		150,000
Repurchases paid	(2,022,443)	(50,523)
Repurchases unsettled	(163,200)	(3,750)
Authorization remaining as of June 30,		$ 95,727

Financial instruments that potentially subject us to market risk consist principally of cash, money market funds and time deposits. As of June 30, 2010, we had significant concentrations of liquid investments with eight global banks and seven "Triple A" rated money market funds which we consider to be large, highly rated investment grade institutions. As of June 30, 2010, our cash and cash equivalent and restricted cash balance was $375.6 million, including money market funds and time deposits amounting to $266.7 million. A substantial portion of these money market funds are invested in U.S. treasuries.

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We are highly leveraged and expect to continue to be highly leveraged for the foreseeable future. Our consolidated debt as of June 30, 2010 was comprised of the following (in thousands):

Revolving Credit Facility(1)	$	12,054
Term Loan Facility(1)		398,250
7 1/4% GBP Senior Subordinated Notes due 2014(2)		225,008
7 3/4% Senior Subordinated Notes due 2015(2)		435,399
6 5/8% Senior Subordinated Notes due 2016(2)		317,282
7 1/2% CAD Senior Subordinated Notes due 2017(the "Subsidiary Notes")(3)		165,751
8 3/4% Senior Subordinated Notes due 2018(2)		200,000
8% Senior Subordinated Notes due 2018(2)		49,763
6 3/4% Euro Senior Subordinated Notes due 2018(2)		310,185
8% Senior Subordinated Notes due 2020(2)		300,000
8 3/8% Senior Subordinated Notes due 2021(2)		548,088
Real Estate Mortgages, Capital Leases and Other		205,035
Total Long-term Debt		3,166,815
Less Current Portion		(37,662)
Long-term Debt, Net of Current Portion	$	3,129,153

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(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.

(2) 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.

(3) 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.

Our credit facility consists of revolving credit facilities, where we can borrow, subject to certain limitations as defined in the credit agreement we entered into on April 16, 2007 governing this facility (the "Credit Agreement"), up to an aggregate amount of $765 million (including Canadian dollar and multi-currency revolving credit facilities), and a $410 million term loan facility. Our revolving credit facility is supported by a group of 24 banks. Our subsidiaries, Canada Company and Iron Mountain Switzerland GmbH, may borrow directly under the Canadian revolving credit and multi-currency revolving credit facilities, respectively. Additional subsidiary borrowers may be added under the multi-currency revolving credit facility. The revolving credit facility terminates on April 16, 2012. With respect to the term loan facility, quarterly loan payments of approximately $1.0 million are required through maturity on April 16, 2014, at which time the remaining outstanding principal balance of the term loan facility is due. The interest rate on borrowings under the Credit Agreement varies depending on our choice of interest rate and currency options, plus an applicable margin. IMI guarantees the obligations of each of the subsidiary borrowers under the Credit Agreement, and substantially all of our U.S. subsidiaries guarantee the obligations of IMI and the subsidiary borrowers. The capital stock or other equity interests of most of our U.S. subsidiaries, and up to 66% of the capital stock or other equity

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interests of our first tier foreign subsidiaries, are pledged to secure the Credit Agreement, together with all intercompany obligations of foreign subsidiaries owed to us or to one of our U.S. subsidiary guarantors. As of June 30, 2010, we had $12.1 million of outstanding borrowings under the revolving credit facility, of which $4.5 million was denominated in U.S. dollars and the remaining balance was denominated in Euro (EUR 2.7 million) and Australian dollars (AUD 5.0 million); we also had various outstanding letters of credit totaling $2.6 million. The remaining availability, based on IMI's leverage ratio, which is calculated based on the last 12 months' earnings before interest, taxes, depreciation and amortization ("EBITDA"), and other adjustments as defined in the Credit Agreement and current external debt, under the revolving credit facility on June 30, 2010, was $750.4 million. The interest rate in effect under the revolving credit facility and term loan facility was 3.2% and 2.1%, respectively, as of June 30, 2010.

The Credit Agreement, our indentures and other agreements governing our indebtedness contain certain restrictive financial and operating covenants, including covenants that restrict our ability to complete acquisitions, pay cash dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions. The covenants do not contain a rating trigger. Therefore, a change in our debt rating would not trigger a default under the Credit Agreement and our indentures and other agreements governing our indebtedness. Our revolving credit and term loan facilities, as well as our indentures, use EBITDA-based calculations as primary measure of financial performance, including leverage ratios. IMI's revolving credit and term leverage ratio was 3.3 and 3.1 as of December 31, 2009 and June 30, 2010, respectively, compared to a maximum allowable ratio of 5.5. Similarly, our bond leverage ratio, per the indentures, was 4.1 and 3.8 as of December 31, 2009 and June 30, 2010, respectively, compared to a maximum allowable ratio of 6.5. Noncompliance with these leverage ratios would have a material adverse effect on our financial condition and liquidity. We were in compliance with all debt covenants in material agreements as of June 30, 2010 and we do not expect the debt covenants and restrictions to limit our recently approved share repurchase program or dividends under our dividend policy as more fully discussed above.

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

In February 2010, we acquired 100% of Mimosa, a leader in enterprise-class digital content archiving solutions, for approximately $112 million in cash. Mimosa, based in Santa Clara, California, provides an on-premises integrated archive for email, SharePoint data and files, and complements our existing enterprise-class, cloud-based digital archive services. NearPoint, Mimosa's enterprise archiving platform, has applications for retention and disposition, eDiscovery, compliance supervision, classification, recovery, and end-user search, enabling customers to reduce risk, and lower their eDiscovery and storage costs.

To expand our geographical footprint in Europe, in May 2010 we acquired the remaining 87% interest of our joint venture in Greece (Safe doc S.A.) for a cash purchase price of approximately $4.7 million and now control 100% of our Greek operations, which provide storage and records management services. The carrying value of the 13% interest that we had previously acquired and accounted for under the equity method of accounting amounted to approximately $0.4 million and the fair value of such interest on the date of acquisition was approximately $0.5 million and resulted in a gain being recorded on the date of transaction to other (income) expense, net included in the accompanying consolidated statement of operations of approximately $0.1 million during the second quarter of 2010.

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As a result of the February 27, 2010 earthquake in Chile, we experienced damage to certain of our 13 owned and leased records management facilities in that region. None of our facilities were destroyed by fire or significantly impacted by water damage. However, the structural integrity of five buildings was compromised, and some of the racking included in certain buildings was damaged or destroyed. Some customer materials were impacted by this event. Revenues from this country represent less than 1% of our consolidated enterprise revenues. We believe we carry adequate property and liability insurance and do not expect that this event will have a material impact to our consolidated results of operations or financial condition.

During the quarter ended June 30, 2010, we received payments from our insurance carrier of approximately $21.0 million. Such amount represents a portion of our business personal property, business interruption, and expense claims filed with our insurance carriers. We expect to utilize cash from our insurance settlements to fund capital expenditures and for general working capital needs. Recoveries from the business interruption portion of our insurance claim will be recorded as other income in the consolidated statement of operations when received. We expect to receive proceeds from our property claims that exceed the carrying value of the related assets. We, therefore, expect to record gains on the disposal/writedown of property, plant and equipment, net in our statement of operations in future periods when cash received to date exceeds the carrying value of the related property, plant and equipment, net. Proceeds from our business personal property claims are reflected in our statement of cash flows under proceeds from sales of property and equipment and other, net included in the investing activities section when received. We have reflected approximately $6.4 million of the cash proceeds received to date as proceeds from sales of property and equipment, net, in our statement of cash flows for the six months ended June 30, 2010. Proceeds from our business interruption claims are reflected in our statement of cash flows as a component of net income included in the operating activities section when received.

In August 2010, we called $200 million of the $431.3 million aggregate principal amount outstanding of our $7^3/_4$% Senior Subordinated Notes due 2015 (the "$7^3/_4$% notes") at a redemption price of 101.292% for each one thousand dollars of principal amount of notes redeemed, plus accrued and unpaid interest, all of which will be paid in September 2010. We will record a charge to other expense (income), net of approximately $1.8 million in the third quarter of 2010 related to the early extinguishment of the $7^3/_4$% notes being redeemed. This charge consists of the call premium and deferred financing costs, net of original issue premiums related to the $7^3/_4$% notes.

We expect to meet our cash flow requirements for the next twelve months from cash generated from operations, existing cash, cash equivalents, borrowings under the Credit Agreement and other financings, which may include secured credit facilities, securitizations and mortgage or capital lease financings. We expect to meet our long-term cash flow requirements using the same means described above, as well as the potential issuance of debt or equity securities as we deem appropriate. See Notes 3, 5, and 8 to Notes to Consolidated Financial Statements.

Net Operating Losses, Research Credits and Foreign Tax Credit Carryforwards

We have federal net operating loss carryforwards of $91.6 million ($32.0 million, tax effected) which begin to expire in 2019 through 2029, to reduce future federal taxable income at June 30, 2010. We have an asset for state net operating losses of $19.7 million (net of federal tax benefit), which begins to expire in 2010 through 2029, subject to a valuation allowance of approximately 81%. We have assets for foreign net operating losses of $29.7 million, with various expiration dates, subject to a valuation allowance of approximately 81%. Additionally, at June 30, 2010, we have federal research credits of $2.9 million, which begin to expire in 2010 through 2029 and state research credits of approximately $1 million (net of federal tax benefit) which begin to expire in 2025 through 2029. We also have foreign tax credits of $67.2 million, which begin to expire in 2014 through 2020. Based on

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current expectations and plans, we expect to fully utilize our foreign tax credit carryforwards prior to their expiration. All figures include amounts recorded as part of the Mimosa acquisition.

Inflation

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

Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information is recorded, processed, summarized and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding what is required to be disclosed by a company in the reports that it files under the Exchange Act. As of June 30, 2010 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

In May 2006, we filed an eviction lawsuit against a tenant, Digital Encoding Factory, LLC ("DEF"), leasing space in our Boyers, Pennsylvania records storage facility for its failure to make required rent payments. In October 2006, DEF and two related companies, EDA Acquisition, LLC, and Media Holdings, LLC, filed a lawsuit against us in U.S. Federal District Court for the Western District of Pennsylvania alleging that they started a digital scanning business in our Boyers, Pennsylvania, records storage facility because we verbally agreed to refer customer digital scanning business in the facility to them (the "Pittsburgh Lawsuit") and promised substantial business. The plaintiffs contended that we breached this alleged verbal agreement and sought to recover damages in the range of $6.5 million to $53.5 million. We disputed the plaintiffs' claims and contended that there was no such verbal agreement. A bench trial occurred in the case in March 2010. In July 2010, we executed an agreement with the plaintiffs settling the case before the judge reached a decision in the matter. The legal proceedings related to this event did not have a material impact to our consolidated results of operations or financial condition.

In July 2006, we experienced a significant fire in a leased records and information management facility in London, England, that resulted in the complete destruction of the facility and its contents. The London Fire Brigade ("LFB") issued a report in which it was concluded that the fire resulted either from human agency, i.e., arson, or an unidentified ignition device or source, and its report to the Home Office concluded that the fire resulted from a deliberate act. The LFB also concluded that the installed sprinkler system failed to control the fire due to the primary electric fire pump being disabled prior to the fire and the standby diesel fire pump being disabled in the early stages of the fire by third-party contractors. We have received notices of claims from customers or their subrogated insurance carriers under various theories of liabilities arising out of lost data and/or records as a result of the fire. Certain of those claims have resulted in litigation in courts in the United Kingdom. We deny any liability in respect of the London fire and we have referred these claims to our excess warehouse legal liability insurer, which has been defending them to date under a reservation of rights. Certain of the claims have been settled for nominal amounts, typically one to two British pounds sterling per carton, as specified in the contracts, which amounts have been or will be reimbursed to us from our primary property insurer. An entity that provided certain security services related to the destroyed facility as a contractor to us is a defendant in an action by the owner of the property, seeking damages in the amount of approximately 10.7 million British pounds sterling for negligence and breach of duty. The security service provider recently petitioned the court hearing the matter to join Iron Mountain (UK) as a third party defendant, seeking contribution in respect of its liability (if any) to the owner of the building, and the court has granted the motion. We believe there are meritorious defenses available to us with respect to the claim. Many claims, including substantial claims, remain outstanding; others have been resolved pursuant to consent orders. We believe we carry adequate property and liability insurance. We do not expect that legal proceedings related to this event will have a material impact to our consolidated results of operations or financial condition.

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

There were no sales of unregistered securities for the three months ended June 30, 2010. The following table sets forth our common stock repurchased for the three months ended June 30, 2010:

Issuer Purchases of Equity Securities

Period(1)	Total Number of Shares Purchased(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(4) (In Thousands)
April 1, 2010 - April 30, 2010	209,125	$ 27.11	209,125	$ 133,581
May 1, 2010 - May 31, 2010	560,937	$ 24.83	560,937	$ 119,651
June 1, 2010 - June 30, 2010	1,005,618	$ 23.79	1,005,618	$ 95,727
Total	1,775,680	$ 24.51	1,775,680	

(1) Information is based on trade dates of repurchase transactions.

(2) Consists of shares of our common stock, par value $.01 per share. All repurchases were made pursuant to an announced plan. All repurchases were made in open market transactions under the terms of a Rule 10b5-1 plan adopted by us.

(3) In February 2010, we announced that our board of directors had authorized a stock repurchase program for up to $150 million of our common stock from time to time on the open market or in privately negotiated transactions. The board of directors did not specify an expiration date for this program.

(4) Dollar amounts represented reflect $150 million minus the total aggregate amount purchased in such month and all prior months during which the repurchase program was in effect and exclude commissions paid in connection therewith.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Iron Mountain Incorporated. *(Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on March 5, 2010, File No. 001-13045.)*
4.1	Form of stock certificate representing shares of Common Stock, $.01 par value per share, of Iron Mountain Incorporated. *(Incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-3, filed with the Commission on June 28, 2010, File No. 333-167837.)*

10.1 Amendment to the 2002 Stock Incentive Plan. *(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on June 9, 2010, File No. 001-13045.)*

10.2 Amendment to the 2006 Senior Executive Incentive Program. *(Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on June 9, 2010, File No. 001-13045.)*

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Exhibit No.	Description
10.3	Amendment to the 2003 Senior Executive Incentive Program. *(Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Commission on June 9, 2010, File No. 001-13045.)*
10.4	Restated Compensation Plan for Non-Employee Directors dated as of June 4, 2010. *(Filed herewith.)*
12	Statement re: Computation of Ratios.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer. *(Furnished herewith.)*
32.2	Section 1350 Certification of Chief Financial Officer. *(Furnished herewith.)*
101	The following materials from Iron Mountain Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Equity, (iv) Consolidated Statements of Comprehensive Income (Loss), (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text. *(Furnished herewith.)*

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	IRON MOUNTAIN INCORPORATED
August 5, 2010	By: /s/ BRIAN P. MCKEON
(DATE)	Brian P. McKeon *Executive Vice President and* *Chief Financial Officer* *(Principal Financial and Accounting Officer)*