IRON MOUNTAIN INC/PA
Form 10-K/A
June 05, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

(Mark One)

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

For the Fiscal Year Ended December 31, 2002

or

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

For the transition period from ______________ to ______________

Commission File Number 1-13045

IRON MOUNTAIN INCORPORATED

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2588479**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
745 Atlantic Avenue, Boston, Massachusetts	**02111**
(Address of principal executive offices)	(Zip Code)

617-535-4766
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

As of June 28, 2002, the aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant was $2,232,338,238.25 based on the closing price on the New York Stock Exchange on such date.

Number of shares of the registrant's Common Stock at June 2, 2003: 85,265,119

EXPLANATORY NOTE:

This Amendment No. 1 on Form 10-K/A is being filed for the purpose of amending and restating Items 1, 6, 7 and 15, as well as, amending Notes 6 and 12 to the Company's Consolidated Financial Statements included in the Company's Form 10-K for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 21, 2003. The changes are primarily for the purpose of compliance with Regulation G as a result of having filed a Shelf Registration Statement on Form S-3 on May 23, 2003. Except with respect to Item 15(b) (which updates the Form 10-K for Current Reports on Form 8-K between March 21, 2003 and June 5, 2003), this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K.

IRON MOUNTAIN INCORPORATED
2002 FORM 10-K/A ANNUAL REPORT

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PART I

Item 1. Business.

A. Development of Business.

We are the leader in records and information management services ("RIMS"). We are an international, full-service provider of records and information management and related services, enabling customers to outsource these functions. We have a diversified customer base that includes more than half of the Fortune 500 and numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations. Our comprehensive solutions help customers save money and manage risks associated with legal and regulatory compliance, protection of vital assets, and business continuity challenges.

Our core business records management services include: records management program development and implementation based on best-practices; secure, cost-effective storage for all major media, including paper, which is the dominant form of records storage, flexible retrieval access and retention of records; digital archiving services for secure, legally compliant and cost-effective long-term archiving of electronic records; secure shredding services that ensure privacy and a secure chain of record custody; and customized services for vital records, film and sound and regulated industries such as healthcare and financial services.

Our off-site data protection services include: disaster recovery planning, testing, impact analysis and consulting; secure, off-site vaulting of backup tapes for fast and efficient data recovery in the event of a disaster, human error or virus; managed, online data backup and recovery services for personal computers and server data; and intellectual property escrow services to secure source code and other proprietary information with a trusted, neutral third party.

In addition to our core records management and off-site data protection services, we sell storage materials, including cardboard boxes and magnetic media, and provide consulting, facilities management, fulfillment and other outsourcing services.

Iron Mountain was founded in 1951 in an underground facility near Hudson, New York. Now in our 52nd year, we have experienced tremendous growth and organizational change particularly since successfully completing the initial public offering of our common stock in February 1996. Since then, we have built ourselves from a regional business with limited product offerings and annual revenues of $104 million in 1995 into the leader in records and information management services, providing a full range of services to customers in markets around the world. For the year ended December 31, 2002, we had total revenues of more than $1.3 billion.

The growth since 1995 has been accomplished primarily through the acquisition of domestic and international records management companies. The goal of our current acquisition program is to supplement internal growth by continuing to establish a footprint in targeted international markets and adding fold-in acquisitions both domestically and internationally. Having substantially completed our North American geographic expansion by the end of 2000, we shifted our focus from growth through acquisitions to internal revenue growth. In 2001, as a result of this shift, internal revenue growth exceeded growth through acquisitions for the first time since we began our acquisition program in 1996. This was also the case in 2002. In addition, our capital expenditures, made primarily to support internal growth, exceeded the aggregate acquisition consideration we conveyed in both 2001 and 2002. We expect this trend to continue and to achieve this internal growth through the use of aggressive selling efforts to acquire new customers and by offering a wide range of complementary and ancillary services to expand our new and existing customer relationships.

On February 1, 2000, we completed our most important acquisition to date by merging with Pierce Leahy Corp. in a stock-for-stock merger valued at $1.0 billion, including the assumption of debt and

related transaction costs. Since the merger, we had been integrating the cultures, operating systems and procedures, and information technology systems of Iron Mountain and Pierce Leahy. We completed the integration process in 2002 ahead of schedule. See Note 7 to Notes to Consolidated Financial Statements.

As of December 31, 2002, we provided services to over 150,000 customer accounts in 81 markets in the United States and 47 markets outside of the United States, employed over 11,500 people and operated approximately 650 records management facilities in the United States, Canada, Europe and Latin America.

B. Description of Business.

The Records and Information Management Services Industry

Overview

Companies in the RIMS industry store and manage information in a variety of media formats, which can broadly be divided into paper and electronic records, and provide a wide range of services related to the records stored. We refer to our general paper storage and management services as "business records management." Paper records are defined to include paper documents, as well as all other non-electronic media such as microfilm and microfiche, master audio and videotapes, film, X-rays and blueprints. Electronic records include various forms of magnetic media such as computer tapes and hard drives and optical disks. We include in our electronic records storage and management services (i) "off-site data protection" and (ii) "digital archiving services."

Paper Records

Paper records may be broadly divided into two categories: active and inactive. Active records relate to ongoing and recently completed activities or contain information that is frequently referenced. Active records are usually stored and managed on-site by the organization that originated them to ensure ready availability. Inactive paper records are the principal focus of the RIMS industry. Inactive records consist of those records that are not needed for immediate access but which must be retained for legal, regulatory and compliance reasons or for occasional reference in support of ongoing business operations. A large and growing specialty subset of the paper records market is medical records. These are active and semi-active records that are often stored off-site with and serviced by a RIMS vendor. Special regulatory requirements often apply to medical records.

Electronic Records

Electronic records management focuses on the storage of, and related services for, computer media that are either a backup copy of recently processed data or archival in nature. Customer needs for data backup and recovery and archiving are distinctively different. Backup data exists because of the need of many businesses to maintain backup copies of their data in order to be able to recover the data in the event of a system failure, casualty loss or other disaster. It is customary (and a best-practice) for data processing groups to rotate backup tapes to off-site locations on a regular basis and to require multiple copies of such information at multiple sites. We refer to these services as off-site data protection.

In addition to the physical rotation and storage of backup data, we have introduced electronic vaulting services as an alternative way for businesses to transfer data to us, and to access the data they have stored with us. Electronic vaulting is a Web-based service that automatically backs up computer data over the Internet and stores it off site in one of our secure data centers. In early 2003, we announced an expansion of the electronic vaulting service to include backup and recovery for personal

computer data, answering customers' needs to protect critical business data, which is often orphaned and unprotected on employee laptops and desktop personal computers.

There is a growing need for better ways of archiving data for legal, regulatory and compliance reasons and for occasional reference in support of ongoing business operations. Historically, businesses have relied on backup tapes for storing archived data, but this process can be costly and ineffective when attempting to search and retrieve the data for litigation or other needs. In addition, many industries, such as healthcare and financial services, are facing increased governmental regulation mandating the way in which electronic records are stored and managed. To help customers meet these growing storage challenges, we introduced digital archiving services. We have experienced early market adoption of the service, especially for e-mail archiving, which enables businesses to identify and retrieve electronic records quickly and cost-effectively, while maintaining regulatory compliance.

Growth of Market

We believe that the volume of stored paper and electronic records will continue to increase for a number of reasons, including: (i) the rapid growth of inexpensive document producing technologies such as facsimile, desktop publishing software and desktop printing; (ii) the continued proliferation of data processing technologies such as personal computers and networks; (iii) regulatory requirements; (iv) concerns over possible future litigation and the resulting increases in volume and holding periods of documentation; (v) the high cost of reviewing records and deciding whether to retain or destroy them; (vi) the failure of many entities to adopt or follow policies on records destruction; and (vii) audit requirements to keep backup copies of certain records in off-site locations.

We believe that paper-based information will continue to grow, not in spite of, but because of, new "paperless" technologies such as e-mail and the Internet. These technologies have prompted the creation of hard copies of such electronic information and have also led to increased demand for electronic records services, such as the storage and off-site rotation of backup copies of magnetic media. In addition, we believe that the proliferation of digital information technologies and distributed data networks has created an emerging need for efficient, cost-effective, high quality solutions for digital archiving and the management of electronic documents.

Consolidation of a Highly Fragmented Industry

There was significant consolidation within the highly fragmented RIMS industry from 1995 to 2000. Most RIMS companies serve a single local market, and are often either owner-operated or ancillary to another business, such as a moving and storage company. We believe that the consolidation trend will continue because of the industry's capital requirements for growth, opportunities for large RIMS providers to achieve economies of scale and customer demands for more sophisticated technology-based solutions.

We believe that the consolidation trend in the industry is also due to, and will continue as a result of, the preference of certain large organizations to contract with one vendor in multiple cities and countries for multiple services. In particular, customers increasingly demand a single, large, sophisticated company to handle all of their important paper and electronic records needs. Large, national and multinational companies are better able to satisfy these demands than smaller competitors. We have made, and intend to continue to make, acquisitions of our competitors, many of whom are small, single city operators.

Description of Our Business

We generate our revenues by providing storage for a variety of information media formats, core records management services and an expanding menu of complementary products and services to a large and diverse customer base. Providing outsourced storage for records and information is the

mainstay of our customer relationships and provides the foundation for our revenue growth. The core services, which are a vital part of a comprehensive records management program, are highly recurring in nature and therefore very predictable. Core services consist primarily of the handling and transportation of stored records and information. In our secure shredding business, core services consist primarily of the scheduled collection and handling of sensitive records. In 2002, our storage and core service revenues represented approximately 85% of our total revenues. In addition to our core services, we offer a wide array of complementary products and services such as performing special project work, selling RIMS-related products, providing fulfillment services and consulting on records management issues. These services address more specific needs and are designed to enhance our customers' overall records management programs. These services complement our core services; however, they are more episodic and discretionary in nature. Revenue generated by our business records and off-site data protection businesses includes both core and complementary components.

Our various operating segments offer the products and services discussed below. In general, our business records management segment offers records management, healthcare information services, vital records services, and service and courier operations in the United States and Canada. Our off-site data protection segment offers data backup and recovery disaster services, vital records services, service and courier operations, and intellectual property protection services in the United States. Our international segment offers elements of all our product and services lines outside the United States and Canada. Our corporate and other segment includes our secure shredding, fulfillment, consulting and digital archiving services. Some of our complementary services and products are offered within all of our segments. The amount of revenues derived from our business records management, off-site data protection, international, and corporate and other operating segments and other relevant data for fiscal years 2000, 2001 and 2002 are set forth in Note 12 to Notes to Consolidated Financial Statements.

Business Records Management

The hard copy business records stored by our customers with us by their nature are not very active. These types of records are stored in cartons packed by the customer. We use a proprietary order processing and inventory management system known as the *SafekeeperPLUS®* system to efficiently store and later retrieve a customer's cartons. As a central component of our integration plan for the Pierce Leahy transaction, we developed the *SafekeeperPLUS®* system and carried out a city-by-city conversion program that was completed in 2002. Storage charges are generally billed monthly on a per storage unit basis, usually either per carton or per cubic foot of records, and include the provision of space, racking, computerized inventory and activity tracking and physical security.

Off-Site Data Protection

Off-site data protection services consist of the storage and rotation of backup computer media as part of corporate disaster recovery and business continuity plans. Computer tapes, cartridges and disk packs are transported off-site by our courier operations on a scheduled basis to secure, climate-controlled facilities, where they are available to customers 24 hours a day, 365 days a year, to facilitate data recovery in the event of a disaster. We use various proprietery information technology systems such as *MediaLink* and *SecureBase* software to manage this process. We also manage tape library relocations and support disaster recovery testing and execution. In addition, we have introduced electronic vaulting services as part of our off-site data protection services product line. Our electronic vaulting service automatically backs up personal computer and server data over the Internet and stores it off site in one of our secure data centers, always available in the event of a disaster.

Healthcare Information Services

Healthcare information services principally include the handling, storage, filing, processing and retrieval of medical records used by hospitals, private practitioners and other medical institutions.

Medical records tend to be more active in nature and are typically stored on specialized open shelving systems that provide easier access to individual files. Healthcare information services also include recurring project work and ancillary services. Recurring project work involves the on-site removal of aged patient files and related computerized file indexing. Ancillary healthcare information services include release of information (medical record copying), temporary staffing, contract coding, facilities management and imaging.

Vital Records Services

Vital records contain critical or irreplaceable data such as master audio and video recordings, film, software source code and other highly proprietary information. Vital records may require special facilities or services, either because of the data they contain or the media on which they are recorded. Our charges for providing enhanced security and special climate-controlled environments for vital records are higher than for typical storage functions. We provide the same ancillary services for vital records as we provide for our other storage operations.

Service and Courier Operations

Service and courier operations are an integral part of a comprehensive records management program for all physical media including paper and electronic records. They include adding records to storage, temporary removal of records from storage, refiling of removed records, permanent withdrawals from storage, and destruction of records. Service charges are generally assessed for each procedure on a per unit basis. The *SafekeeperPLUS®* system controls the service processes from order entry through transportation and invoicing for business records management while *MediaLink* and *SecureBase* systems manage the process for the off-site data protection services.

Courier operations consist primarily of the pickup and delivery of records upon customer request. Charges for courier services are based on urgency of delivery, volume and location and are billed monthly. As of December 31, 2002, we were utilizing a fleet of more than 2,100 owned or leased vehicles.

Secure Shredding

Secure shredding is a natural extension of our records management services, completing the lifecycle of a record. The service involves the shredding of sensitive documents for corporate customers that, in many cases, also use our services for management of less sensitive archival records. We believe that customers are motivated by increased privacy regulation and the desire to protect their proprietary trade secrets. These services typically include the scheduled pick-up of loose office records which customers accumulate in specially designed secure containers we provide. Complementary to our shredding operations is the sale of the resultant waste paper to third-party recyclers. We currently perform these services in 40 cities and seek to expand our presence in this business through acquisitions and internal start-ups that leverage our existing records management infrastructure.

Intellectual Property Protection Services

We provide intellectual property protection services through our wholly owned subsidiary, DSI Technology Escrow Services, Inc. DSI specializes in third party technology escrow services that protect intellectual property assets such as software source code. In addition, DSI assists in securing intellectual property as collateral for lending, investments and other joint ventures, in managing domain name registrations and transfers, and provides expertise and assistance to brokers and dealers in complying with electronic records regulations of the Securities and Exchange Commission, the Commission or SEC.

Digital Archiving Services

Our digital archiving services focus on archiving digital information with long-term preservation requirements. These services represent the digital analogy to our paper records management services. Because of increased litigation risks and regulatory mandates, companies are increasingly aware of the need to apply the same records management policies and retention schedules to electronic data as they do paper records. Typical digital records include e-mail, e-statements, images, electronic documents retained for legal or compliance purposes and other data documenting business transactions.

The growth rate of mission-critical digital information is accelerating, driven in part by the use of the Internet as a distribution and transaction medium. The rising cost and increasing importance of digital information management, coupled with the increasing availability of telecommunications bandwidth at lower costs, may create meaningful opportunities for us. We continue to cultivate marketing and technology partnerships to support this anticipated growth.

We believe the issues encountered by customers trying to manage their electronic records are similar to the ones they face in their business records management programs and consist primarily of: (i) storage capacity and the preservation of data; (ii) access to and control over the data in a secure environment; and (iii) the need to retain electronic records due to regulatory compliance or for litigation support. Our digital archiving service is representative of our commitment to address evolving records management needs and expand the array of services we offer.

Complementary Services and Products

We offer a variety of additional services which customers may request or contract for on an individual basis. These services include conducting records inventories, packing records into cartons or other containers, and creating computerized indices of files and individual documents. We also provide services for the management of active records programs. We can provide these services, which generally include document and file processing and storage, both off-site at our own facilities and by supplying our own personnel to perform management functions on-site at the customer's premises.

Other complementary lines of business that we operate include fulfillment services and professional consulting services. Fulfillment services are performed by our wholly owned subsidiary, COMAC, Inc. COMAC stores customer marketing literature and delivers this material to sales offices, trade shows and prospective customers' sites based on current and prospective customer orders. In addition, COMAC assembles custom marketing packages and orders, and manages and provides detailed reporting on customer marketing literature inventories.

We provide professional consulting services to customers, enabling them to develop and implement comprehensive records and information management programs. Our consulting business draws on our experience in RIMS to analyze the practices of companies and assist them in creating more effective programs of records and information management. Our consultants work with these customers to develop policies for document review, analysis and evaluation and for scheduling of document retention and destruction.

We also sell: (i) a full line of specially designed corrugated cardboard, metal and plastic storage containers; (ii) magnetic media products including computer tapes, cartridges and drives, tape cleaners and supplies and CDs; and (iii) computer room equipment and supplies such as racking systems, furniture, bar code scanners and printers.

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Financial Characteristics of Our Business

Our financial model is based on the recurring nature of our revenues. The historical predictability of this revenue stream and the resulting EBITDA[1] (earnings from continuing operations before interest, taxes, depreciation and amortization) allow us to operate with a high degree of financial leverage. Our primary financial goal has always been, and continues to be, to increase consolidated EBITDA in relation to capital invested, even as our focus has shifted from growth through acquisitions to internal revenue growth. EBITDA is a source of funds for investment in continued growth and for servicing indebtedness. Our business has the following financial characteristics:

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1 We believe that EBITDA (earnings before interest, taxes, depreciation and amortization) is useful to investors because it is an important financial measure used in evaluating our performance, as EBITDA is an internally generated source of funds for investment in continued growth and for servicing indebtedness. Externally, holders of our publicly issued debt use EBITDA and EBITDA-based calculations as important criteria for evaluating us and, as a result, all of our bond indentures and covenants include EBITDA and EBITDA-based calculations as primary measures of financial performance. However, EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States and you should not consider EBITDA to be a substitute for operating or net income (as determined in accordance with accounting principles generally accepted in the United States, or GAAP) as indicators of our performance or for cash flow from operations (as determined in accordance with GAAP) as a measure of our liquidity. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussions of other measures of performance determined in accordance with GAAP and our sources and applications of cash flow.

Recurring Revenues. We derive a majority of our consolidated revenues from fixed periodic, usually monthly, fees charged to customers based on the volume of records stored. Our revenues from these fixed periodic storage fees have grown for 56 consecutive quarters. Once a customer places paper records in storage with us and until those records are destroyed or permanently removed, for which we typically receive a service fee, we receive recurring payments for storage fees without incurring additional labor or marketing expenses or significant capital costs. Similarly, contracts for the storage of electronic backup media consist primarily of fixed monthly payments. In each of the last five years, storage revenues, which are stable and recurring, have accounted for approximately 58% of our total revenues. This stable and growing storage base also provides the foundation for increases in revenues and EBITDA.

Historically Non-Cyclical Business. We have not experienced any significant reductions of our storage business as a result of past general economic downturns, although we can give no assurance that this would be the case in the future. During this most recent economic slowdown some customers delayed or postponed expenditures for certain complementary records management projects. Additionally, the rate at which customers added new cartons to their inventory with us slowed somewhat, which may be a result of current economic conditions. We believe that companies that have outsourced RIMS programs are less likely during economic downturns to incur the move-out costs and other expenses associated with switching vendors or moving their RIMS programs in-house. However, some customers may cancel or delay certain non-recurring or discretionary expenditures as a means of reducing their short-term costs.

Inherent Growth from Existing Paper Records Customers. Our paper records customers have on average generated additional Cartons[2] at a faster rate than stored Cartons have been destroyed or permanently removed. From January 1, 1998 through December 31, 2001, our annual Net Carton Growth From Existing Customers[3]

ranged from approximately 4% to approximately 6%. For the twelve months ended December 31, 2002, Net Carton Growth from Existing Customers was between 3% to 4%. We believe the consistent growth of our paper storage revenues is the result of a number of factors, including: (i) the trend toward increased records retention;

(ii) customer satisfaction with our services; and (iii) the costs and inconvenience of moving storage operations in-house or to another provider of RIMS.

2 We define "Carton" as a measurement of volume equal to a single standard storage carton, approximately 1.2 cubic feet.

3 We define "Net Carton Growth From Existing Customers" as the increase in net Cartons attributable to existing customers without giving effect to the loss of approximately 1.0 million Cartons in fires attributed to arson in March 1997 in two of our facilities in South Brunswick Township, New Jersey. See Item 3. "Legal Proceedings". This calculation also excludes our Latin American and European operations as well as a portion of our medical records operations.

Diversified and Stable Customer Base. As of December 31, 2002, we had over 150,000 customer accounts in a variety of industries. We currently provide services to more than half of the Fortune 500 and numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations. No customer accounted for more than 2% of our consolidated revenues for the year ended December 31, 2002. From January 1, 1998 through December 31, 2002, average annual permanent removals of Cartons, not including destructions, represented approximately 3% of total Cartons stored.

Capital Expenditures Related Primarily to Growth. Our RIMS business requires limited annual capital expenditures made in order to maintain our current revenue stream. From January 1, 1998 through December 31, 2002, over 85% of our aggregate capital expenditures were growth-related investments, primarily in storage systems, which include racking, building improvements and leasehold improvements, computer systems hardware and software, and new buildings. These growth-related capital expenditures are primarily discretionary and create additional capacity for increases in revenues and EBITDA.

Growth Strategy

Our objective is to maintain our position as the leader in RIMS. Domestically, we seek to be one of the largest RIMS providers in each of our geographic markets. Internationally, our objectives are to continue to capitalize on our expertise in the RIMS industry and to make additional acquisitions and investments in selected international markets. Our primary avenues of growth are: (i) increased business with existing customers; (ii) addition of new customers; (iii) the introduction of new products and services such as secure shredding, electronic vaulting and digital archiving; and (iv) selective acquisitions in new and existing markets.

Growth from Existing Customers

Our existing customers storing paper records contribute to storage and storage-related service revenues growth because on average they generate additional Cartons at a faster rate than old Cartons are destroyed or permanently removed. In order to maximize growth opportunities from existing customers, we seek to maintain high levels of customer retention by providing premium customer service through our local management staff.

Through our local account management staff, we leverage existing business relationships with our customers by selling complementary services and products. Services include records tracking, indexing, customized reporting, vital records management and consulting services.

Addition of New Customers

Our sales force is dedicated to two primary objectives: establishing new customer account relationships and expanding new and existing customer relationships by offering a wide array of complementary services and products. In order to accomplish these objectives, our sales force draws on our national marketing organization and senior management. As a result of acquisitions and our decision to recruit additional qualified sales professionals, we have increased the size of our sales force to approximately 450 such professionals as of December 31, 2002 from approximately 390 as of December 31, 2001.

Introduction of New Products and Services

We continue to expand our menu of products and services. We have significantly increased our presence in the secure shredding industry and have developed new electronic vaulting and digital archiving services. These new products and services allow us to further penetrate our existing customer accounts and attract new customers in previously untapped markets.

Growth through Domestic Acquisitions

Our domestic acquisition strategy includes expanding geographically, as necessary, and increasing our presence and scale within existing markets through "fold-in" acquisitions. We have a successful record of acquiring and integrating RIMS companies. Between January 1, 1996 and December 31, 2000, we completed 66 domestic acquisitions for total consideration of approximately $2 billion. During 2001 and 2002, we completed 18 domestic acquisitions for total consideration of $78.6 million. We intend to continue our domestic acquisition program. However, given the small number of large acquisition prospects and our increased revenue base, future acquisitions are expected to be less significant to overall domestic revenue growth than they were prior to 2001.

International Growth Strategy

We also intend to continue to make acquisitions and investments in RIMS businesses outside the United States. We have acquired and invested in, and seek to acquire and invest in, RIMS companies

in countries, and, more specifically, markets within such countries, where we believe there is sufficient demand from existing multinational customers or the potential for growth. Since beginning our international expansion program in January 1999, directly and through joint ventures, we have expanded our operations into Canada, Europe and Latin America. Through December 31, 2000, we completed 12 international acquisitions for total consideration of $119.2 million. During 2001 and 2002, we completed eight international acquisitions for total consideration of $41.7 million. These transactions have taken, and may continue to take, the form of acquisitions of the entire business or controlling or minority investments, with a long-term goal of full ownership. In addition to the criteria we use to evaluate domestic acquisition candidates, we also evaluate the presence in the potential market of our existing clients as well as the risks uniquely associated with an international investment, including those risks described below.

The experience, depth and strength of local management are particularly important in our international acquisition strategy. As a result, we have formed joint ventures with, or acquired significant interests in, target businesses throughout Europe and Latin America. We have a 50.1% controlling interest in each of our Iron Mountain Europe Limited, Iron Mountain South America, Ltd. and Sistemas de Archivo Corporativo (a Mexican limited liability company) subsidiaries. Iron Mountain South America has in some cases bought controlling, yet not full, ownership in local businesses in order to enhance our local market expertise. We believe this strategy, rather than an outright acquisition, may, in certain markets, better position us to expand the existing business, although our long-term goal is to acquire full ownership of each such business. The local partner benefits from our expertise in the RIMS industry, our access to capital and our technology, and we benefit from our local partner's knowledge of the market, relationships with customers and their presence in the community.

Our international investments are subject to risks and uncertainties relating to the indigenous political, social, regulatory, tax and economic structures of other countries, as well as fluctuations in currency valuation, exchange controls, expropriation and governmental policies limiting returns to foreign investors. At this time, there can be no assurance as to whether any international investment will be successful in achieving our objectives.

The amount of our revenues derived from international operations and other relevant financial data for fiscal years 2000, 2001 and 2002 are set forth in Note 12 to Notes to Consolidated Financial Statements. For the year ended December 31, 2002, we derived approximately 14% of our total revenues from outside of the United States.

Customers

Our customer base is diversified in terms of revenues and industry concentration. We track customer accounts based on invoices. Accordingly, depending upon how many invoices have been arranged at the request of a customer, one organization may represent multiple customer accounts. As of December 31, 2002, we had over 150,000 customer accounts in a variety of industries. We currently provide services to more than half of the Fortune 500 and numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations. No customer accounted for more than 2% of our consolidated revenues for the year ended December 31, 2002.

Competition

We compete with our current and potential customers' internal RIMS capabilities. We can provide no assurance that these organizations will begin or continue to use an outside company such as Iron Mountain for their future records and information management services.

We compete with multiple RIMS providers in all geographic areas where we operate. We believe that competition for customers is based on price, reputation for reliability, quality of service and scope and scale of technology and that we generally compete effectively based on these factors.

We also compete with other RIMS providers for companies to acquire. Some of our competitors may possess substantial financial and other resources. If any such competitor were to devote additional resources to the RIMS business and such acquisition candidates or focus their strategy on our markets, our results of operations could be adversely affected.

Alternative Technologies

We derive most of our revenues from the storage of paper documents and storage-related services. This storage requires significant physical space. Alternative storage technologies exist, many of which require significantly less space than paper. These technologies include computer media, microform, CD-ROM and optical disk. To date, none of these technologies has replaced paper as the principal means for storing information. However, we can provide no assurance that our customers will continue to store most of their records in paper format. A significant shift by our customers to storage of data through non-paper based technologies, whether now existing or developed in the future, could adversely affect our business. We continue to invest in additional services such as electronic vaulting and digital archiving, designed to address our customers' need for efficient, cost-effective, high quality solutions for electronic records and information management.

Employees

As of December 31, 2002, we employed approximately 8,800 full-time employees in the United States. Directly and through majority-owned joint ventures, as of December 31, 2002, we employed approximately 3,000 full-time employees outside of the United States. A small percentage of our employees are represented by unions. These unionized employees are located in California and one city in Canada. As of December 31, 2002, the aggregate number of unionized employees was approximately 350.

All domestic non-union employees are eligible to participate in our benefit programs, which include medical, dental, life, short and long-term disability, retirement/401(k) and accidental death and dismemberment plans. Unionized employees receive these types of benefits through their unions. In addition to base compensation and other usual benefits, all full-time domestic employees participate in some form of incentive-based compensation program that provides payments based on profits, collections or attainment of specified objectives for the unit in which they work. International employees participate in separate benefit and incentive-based compensation programs. Management believes that we have good relationships with our employees and unions.

Insurance

For strategic risk transfer purposes, we maintain a comprehensive insurance program with insurers that we believe to be reputable and that have adequate market security in amounts that we believe to be appropriate. Property insurance is purchased on an all-risk basis, including flood, earthquake and terrorism, subject to certain policy conditions, sublimits and deductibles, and inclusive of the replacement cost of real and personal property, including leasehold improvements, business income loss and extra expense. Separate policies for insurer defined Critical Earthquake Zone exposures are maintained at what we believe to be appropriate limits and deductibles for that exposure. Included among other types of insurance that we carry are: workers compensation, general liability, umbrella, automobile, and directors and officers liability policies, subject to certain policy conditions, sublimits and deductibles. In 2002, we established a wholly owned Vermont domiciled captive insurance company as a subsidiary; through the subsidiary we retain and reinsure a portion of our property loss exposure.

Our standard form of storage contract sets forth an agreed maximum valuation for each carton or other storage unit held by us, which serves as a limitation of liability for loss or damage, as permitted under the Uniform Commercial Code. In contracts containing such limits, such values are nominal, and

we believe that in typical circumstances our liability would be so limited in the event of loss or damage to stored items for which we may be held liable. However, some of our agreements with large volume accounts, some of the contracts assumed in our acquisitions and some of our contracts outside the RIMS businesses contain no such limits or contain higher limits or supplemental insurance arrangements. See "Item 3. Legal Proceedings" for a description of claims by particular customers seeking to rescind their contracts, including limitations on liability, as a result of the fires experienced at our South Brunswick Township, New Jersey facilities in 1997.

Environmental Matters

Some of our currently and formerly owned or operated properties were previously used by entities other than us for industrial or other purposes that involved the use or storage of hazardous substances or petroleum products or may have involved the generation of hazardous wastes. In some instances these properties included the operation of underground storage tanks or the presence of asbestos-containing materials. We have undertaken remediation activities at some of our properties. Although we regularly conduct limited environmental reviews of real property that we intend to purchase, we have not undertaken an in-depth environmental review of all of our owned and operated properties. Under various federal, state and local environmental laws, we may be potentially liable for environmental compliance and remediation costs to address contamination, if any, located at owned and operated properties as well as damages arising from such contamination. Environmental conditions for which we might be liable may also exist at properties that we may acquire in the future. In addition, future regulatory action and environmental laws may impose costs for environmental compliance that do not exist today.

We currently transfer a portion of our risk of financial loss due to currently undetected environmental matters by purchasing a pollution liability insurance policy, which covers all owned and leased locations. Coverage is provided for both liability and remediation costs.

Internet Website

Our Internet address is www.ironmountain.com. Under the "Investor Relations" category on our Internet website, we make available through a hyperlink to a third party SEC website, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such forms are electronically filed or furnished to the SEC. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this

Annual Report.

PART II

Item 6. Selected Consolidated Financial and Operating Information.

The following selected consolidated statements of operations, balance sheet and other data have been derived from our audited consolidated financial statements. The selected consolidated financial and operating information set forth below should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the Notes thereto included elsewhere in this filing.

	Year Ended December 31,				
	1998	**1999**	**2000(2)**	**2001**	**2002(3)**
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Storage	$ 230,702	$ 317,387	$ 585,664	$ 694,474	$ 759,536
Service and Storage Material Sales (1)	169,219	214,002	418,501	491,244	558,961
Total Revenues	399,921	531,389	1,004,165	1,185,718	1,318,497
Operating Expenses:					
Cost of Sales (excluding depreciation) (1)	208,073	272,770	500,565	576,538	622,299
Selling, General and Administrative	95,867	128,948	246,559	306,934	332,332
Depreciation and Amortization	48,301	65,422	126,810	153,591	109,840
Stock Option Compensation Expense			15,110		
Merger-related Expenses			9,133	3,673	796
Total Operating Expenses	352,241	467,140	898,177	1,040,736	1,065,267
Operating Income	47,680	64,249	105,988	144,982	253,230
Interest Expense, Net	45,673	54,425	117,975	134,742	136,632
Other (Income) Expense, Net	(1,384)	(17)	6,045	18,371	(3,351)
Income (Loss) from Continuing Operations Before Provision for Income Taxes and Minority Interest	3,391	9,841	(18,032)	(8,131)	119,949
Provision for Income Taxes	6,558	10,579	9,125	26,036	49,295
Minority Interests in Earnings (Losses) of Subsidiaries		322	(2,224)	(1,929)	3,629
(Loss) Income from Continuing Operations before Discontinued Operations, Extraordinary Charges and Cumulative Effect of Change in Accounting Principle	(3,167)	(1,060)	(24,933)	(32,238)	67,025
Income from Discontinued Operations (net of tax)	201	241			1,116
Loss on Sale of Discontinued Operations (net of tax benefit)		(13,400)			
Extraordinary Charges (net of tax benefit)			(2,892)	(11,819)	(3,453)
					(6,396)

	Year Ended December 31,				
Cumulative Effect of Change in Accounting Principle (net of minority interest)					
Net (Loss) Income	$ (2,966)	$ (14,219)	$ (27,825)	$ (44,057)	$ 58,292
Net (Loss) Income per Common Share Basic:					
(Loss) Income from Continuing Operations	$ (0.08)	$ (0.02)	$ (0.31)	$ (0.39)	$ 0.79
Income from Discontinued Operations (net of tax)	0.01	0.01			0.01
Loss on Sale of Discontinued Operations (net of tax benefit)		(0.27)			
Extraordinary Charges (net of tax benefit)			(0.04)	(0.14)	(0.04)
Cumulative Effect of Change in Accounting Principle (net of minority interest)					(0.08)
Net (Loss) Income Basic	$ (0.07)	$ (0.28)	$ (0.35)	$ (0.53)	$ 0.69

Net (Loss) Income per Common Share Diluted:					
(Loss) Income from Continuing Operations	$ (0.08)	$ (0.02)	$ (0.31)	$ (0.39)	$ 0.78
Income from Discontinued Operations (net of tax)	0.01	0.01			0.01
Loss on Sale of Discontinued Operations (net of tax benefit)		(0.27)			
Extraordinary Charges (net of tax benefit)			(0.04)	(0.14)	(0.04)
Cumulative Effect of Change in Accounting Principle (net of minority interest)					(0.07)
Net (Loss) Income Diluted	$ (0.07)	$ (0.28)	$ (0.35)	$ (0.53)	$ 0.68
Weighted Average Common Shares Outstanding Basic	41,205	50,018	79,688	83,666	84,651

Weighted Average Common Shares Outstanding Diluted	41,205	50,018	79,688	83,666	86,071

	Year Ended December 31,				
	1998	1999	2000	2001	2002
	(In thousands)				
Other Data:					
EBITDA (4)	$ 97,365	$ 129,366	$ 228,977	$ 282,131	$ 362,792
EBITDA as a Percentage of Total Revenues	24.3%	24.3%	22.8%	23.8%	27.5%
Ratio of Earnings to Fixed Charges	1.1x	1.1x	0.9x(5)	1.0x(5)	1.7x

	As of December 31,				
	1998	1999	2000	2001	2002
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and Cash Equivalents	$ 1,715	$ 3,830	$ 6,200	$ 21,359	$ 56,292
Total Assets	967,385	1,317,212	2,659,096	2,859,906	3,230,655
Total Debt	456,178	612,947	1,355,131	1,496,099	1,732,097
Shareholders' Equity	338,882	488,754	924,458	885,959	944,861

Reconciliation of (Loss) Income from Continuing Operations before Discontinued Operations, Extraordinary Charges and Cumulative Effect of Change in Accounting Principle to EBITDA:

		Year Ended December 31,				
		1998	1999	2000	2001	2002
		(In thousands)				
(Loss) Income from Continuing Operations before Discontinued Operations, Extraordinary Charges and Cumulative Effect of Change in Accounting Principle		$ (3,167)	$ (1,060)	$ (24,933)	$ (32,238)	$ 67,025
Add: Depreciation and Amortization		48,301	65,422	126,810	153,591	109,840
Interest Expense, Net.	&					