

IRON MOUNTAIN INC
Form 10-K
March 01, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2012

or

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

**For the transition period from _____ to
Commission File Number 1-13045**

IRON MOUNTAIN INCORPORATED

(Exact name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of incorporation)

745 Atlantic Avenue, Boston, Massachusetts

(Address of principal executive offices)

23-2588479

(I.R.S. Employer Identification No.)

02111

(Zip Code)

617-535-4766

(Registrant's telephone number, including area code)

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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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark 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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of June 29, 2012, the aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant was approximately \$4.8 billion based on the closing price on the New York Stock Exchange on such date.

Number of shares of the registrant's Common Stock at February 8, 2013: 190,140,008

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**IRON MOUNTAIN INCORPORATED
2012 FORM 10-K ANNUAL REPORT**

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References in this Annual Report on Form 10-K to "the Company," "Iron Mountain," "IMI," "we," "us" or "our" include Iron Mountain Incorporated and its consolidated subsidiaries, unless the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K (the "Annual Report") is incorporated by reference from our definitive Proxy Statement for our 2013 Annual Meeting of Stockholders (our "Proxy Statement") to be filed with the Securities and Exchange Commission (the "SEC" or "Commission") within 120 days after the close of the fiscal year ended December 31, 2012.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 and other securities laws. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, future growth strategies, investment objectives, plans and current expectations, such as our (1) commitment to future dividend payments, (2) expected target leverage ratio, (3) expected internal revenue growth rate and capital expenditures for 2013, (4) expected increase in our Adjusted OIBDA margins in our International Business segment, (5) expected growth in cartons stored on behalf of existing customers, and (6) estimated range of tax payments and other costs expected to be incurred in connection with our proposed conversion to a real estate investment trust ("REIT"). These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements.

Although we believe that our forward-looking statements are based on reasonable assumptions, our expected results may not be achieved, and actual results may differ materially from our expectations. Important factors that could cause actual results to differ from expectations include, among others:

with regard to our estimated tax and other REIT conversion costs, our estimates may not be accurate, and such costs may turn out to be materially different than our estimates due to unanticipated outcomes in the private letter rulings ("PLR") from the U.S. Internal Revenue Service ("IRS"), changes in our support functions and support costs, the unsuccessful execution of internal planning, including restructurings and cost reduction initiatives, or other factors;

realizing the anticipated benefits to stockholders of our proposed REIT conversion, including the achievement of tax savings for us, increases in income distributable to stockholders, the potential to lower the cost of financing through increased ownership of currently leased real estate, maximizing our enterprise value and the expansion of our stockholder base;

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

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

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

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

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

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

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

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

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

the cost of our debt;

the impact of alternative, more attractive investments on dividends;

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

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

Other risks may adversely impact us, as described more fully under "Item 1A. Risk Factors" of this Annual Report.

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

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PART I

Item 1. Business.

A. Development of Business.

We store records, primarily paper documents and data backup media, and provide information management services that help organizations around the world protect their information, lower storage rental costs, comply with regulations, enable corporate disaster recovery, and better use their information for business advantages, regardless of its format, location or lifecycle stage. We offer comprehensive records management services, data protection & recovery services and information destruction services, along with the expertise and experience to address complex storage and information management challenges such as rising storage rental costs, and increased litigation, regulatory compliance and disaster recovery requirements. Founded in an underground facility near Hudson, New York in 1951, Iron Mountain Incorporated, a Delaware corporation, is a trusted partner to more than 155,000 clients throughout North America, Europe, Latin America and Asia Pacific. We have a diversified customer base consisting of commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations, including more than 94% of the Fortune 1000. As of December 31, 2012, we operated over 1,000 facilities, comprising 64.5 million square feet, in 35 countries on five continents and employed over 17,500 people.

Now in our 62nd year, we have experienced tremendous growth, particularly since successfully completing the initial public offering of our common stock in February 1996. We have grown from a U.S. business operating fewer than 85 facilities (6 million square feet) with limited storage and information management service offerings and annual revenues of \$104.0 million in 1995 into a global enterprise providing storage and a broad range of related information management services to customers in markets around the world with over 1,000 facilities (64.5 million square feet) and total revenues of more than \$3.0 billion for the year ended December 31, 2012. On January 5, 2009, we were added to the S&P 500 Index, and as of December 31, 2012 we were number 644 on the Fortune 1000.

Our success since becoming a public company in 1996 has been driven in large part by our execution of a consistent long-term growth plan to build industry leadership by extending our presence through service line and global expansion. This growth plan has been sequenced into three phases. The first phase involved establishing leadership and broad market access in our core storage solutions and related records management services and data protection & recovery services, primarily through acquisitions. In the second phase, we invested in building a successful selling organization to access new customers, converting previously unvented demand. While different parts of our business are in different stages of evolution along our three-phase strategy, in North America and our more developed international markets, we have transitioned to the third phase of our growth plan, which we call the capitalization phase. In this phase, which we expect to continue for many years, we seek to expand our relationships with our customers to continue solving their increasingly complex storage and information management problems. Growing our customer relationships means expanding our global storage and service offerings while maximizing our solid core businesses. In doing this, we continue to build what we believe to be a very durable business through disciplined execution.

Consistent with this model, we have transitioned from a growth strategy driven primarily by acquisitions of storage and information management services companies to a growth strategy that includes multiple sources of revenue growth. These sources of revenue growth include: (i) organic growth comprised of growth from existing customers, sales to new customers and acquiring customer relationships from third-parties; (ii) acquisitions of storage and information management services businesses; and (iii) the introduction of new rental streams and ancillary services.

We expect to achieve our long-term growth goals by focusing on expanding our global core storage rental business through increased incoming volumes and by offering our customers integrated services

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that address their increasingly complex storage and information management needs regardless of the format, location or lifecycle stage of their information. Storage rental is the key driver of our economics and allows us to expand our relationships with our customers through value-added services that flow from storage rental. Consistent with our overall strategy, we are focused on increasing incoming volumes on a global basis. There are multiple sources of new volumes available to us, and these sources inform our growth investment strategy. Our investments in sales and marketing support sales to new customers that do not currently outsource some or all of their storage and information management needs, as well as increased volumes from existing customers. We also expect to invest in the acquisitions of customer relationships and acquisitions of storage and information management services businesses. In North America and our more developed international markets, we expect that these acquisitions will primarily be fold-in acquisitions designed to optimize the utilization of existing assets, expand our presence and better serve customers. We also expect to use acquisitions to expand our presence in attractive, higher growth emerging markets. Finally, we are continuing to add new rental streams and ancillary services to our portfolio to support our long-term growth objectives and drive solid returns on invested capital.

At this stage in our evolution we also are focused on driving increased profitability and cash flow through a disciplined management approach and a focus on optimizing our business operations. Consisting of productivity initiatives, pricing program improvements and cost controls, our optimization strategy has produced significant and visible results. Between 2006 and 2010, we had compounded annual growth rates of 11% for Adjusted OIBDA, defined as operating income before (1) depreciation and amortization, (2) intangible impairments, (3) (gain) loss on disposal/write-down of property, plant and equipment, net and (4) costs associated with our 2011 proxy contest, the work of the Strategic Review Special Committee of our board of directors (the "Special Committee") and the proposed REIT conversion, discussed below (collectively "REIT Costs"), 17% for Adjusted Earnings per Share from Continuing Operations and 3% for Earnings per Share from Continuing Operations. During that same period, we reduced our capital expenditures (excluding real estate) as a percent of revenues from 13.4% in 2006 to 7.9% in 2010. These gains were driven primarily by cost reductions and the optimization of our North American Business segment as we increased Adjusted OIBDA margins in that segment by nearly 800 basis points between 2006 and 2010. Our current focus is on sustaining the high margin, high profitability levels of the North American Business segment while optimizing our International Business segment using the same strategies. We expect to achieve 25% Adjusted OIBDA margins in the International Business segment by the end of 2013, a 700 basis points improvement over 2010 levels. Beyond 2013, we expect to grow consolidated Adjusted OIBDA margins at a much slower rate because we will have already completed the major profit improvement initiatives in both the North American and International Business segments. In our more developed markets, continuous improvement initiatives will generate modest margin improvement, a portion of which we expect to reinvest in our business. In our emerging markets, margins should expand as the local businesses mature, and we will look to reinvest a portion of that improvement to support the growth of these businesses. For more detailed definitions and reconciliations of Adjusted OIBDA and Adjusted Earnings per Share from Continuing Operations and a discussion of why we believe these measures provide relevant and useful information to our current and potential investors, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Measures" of this Annual Report.

We are committed to delivering stockholder value. To that end, and supported by our increased profitability and strong cash flows, we initiated a stockholder payout program in February 2010 consisting of a share repurchase authorization of up to \$150.0 million and a dividend policy under which we have paid, and in the future intend to pay, cash dividends on our common stock. Our first ever quarterly cash dividend, declared in March 2010, was \$0.0625 per share. Subsequently, our board of directors approved an increase in the amount authorized under our share repurchase program of up to an additional \$1.05 billion, bringing the total authorization to \$1.2 billion. As of December 31, 2012,

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we have purchased 37.7 million shares of our common stock for approximately \$1.1 billion under this program. We have also increased our quarterly dividend on three occasions, including most recently in June 2012, when we announced an 8% increase to our regular quarterly dividend payments through 2013. The June 2012 increase to our quarterly dividend, to \$0.27 per share, represented a 332% increase over the quarterly dividend amount declared in March 2010.

In April 2011, we announced a three-year strategic plan to increase stockholder value. The key components of our plan are: (i) sustaining a leadership position in our North American Business segment; (ii) driving substantial improvements in our International Business segment; and (iii) committing to significant stockholder payouts of \$2.2 billion through 2013, with \$1.2 billion being paid out by May 2012. We fulfilled the commitment to return \$1.2 billion of capital to stockholders by May 2012. The remaining \$1.0 billion of the stockholder payout plan has been replaced by our regular quarterly dividends and the stockholder distributions and expenditures associated with our plan to convert to a REIT (the "Conversion Plan"). As part of our strategic plan, in June 2011, we completed the sale of our online backup and recovery, digital archiving and eDiscovery solutions businesses (the "Digital Business") for approximately \$395.4 million in cash. Additionally, in connection with our strategic portfolio review of certain international operations, we sold our New Zealand operations in October 2011, and we sold our Italian operations in April 2012.

Potential REIT Conversion

In June 2012, we announced our intention to pursue conversion to a REIT. The plan to convert to a REIT was unanimously approved by our board of directors following a thorough analysis and careful consideration of ways to maximize value through alternative financing, capital and tax strategies. Assuming we are successful in converting, we would plan to elect REIT status no sooner than our taxable year beginning January 1, 2014. Any REIT election made by us must be effective as of the beginning of a taxable year; therefore, if, as a calendar year taxpayer, we are unable to convert to a REIT by January 1, 2014, the next possible conversion date would be January 1, 2015.

Our Conversion Plan currently includes submitting requests for private letter rulings ("PLR") to the U.S. Internal Revenue Service (the "IRS"). Our PLR requests have multiple components, and the conversion to a REIT will require favorable rulings from the IRS on numerous technical tax issues, including the characterization of our racking assets as real estate. We submitted our PLR requests to the IRS during the third quarter of 2012, but the IRS may not provide a favorable response to our PLR requests until the second half of 2013 or at all.

Our ability to qualify as a REIT will depend upon our continuing compliance following our conversion to a REIT with various requirements, including requirements related to the nature of our assets, the sources of our income and the distributions to our stockholders. If we fail to qualify as a REIT, we will be subject to U.S. federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state, local and foreign taxes on our income and property. In particular, while state income tax regimes often parallel the U.S. federal income tax regime for REITs described above, many states do not completely follow U.S. federal rules and some may not follow them at all.

We believe that electing REIT status will maximize our enterprise value as we advance our strategy and provide significant benefits to our stockholders. A key component of our overall strategic plan is our capital allocation strategy to return excess cash to our stockholders, and we believe operating as a REIT aligns well with this strategy. In November 2012, we paid a \$700.0 million special dividend (the "Special Dividend") representing the initial distribution to satisfy the requirement that we pay to stockholders our accumulated earnings and profits which is estimated to be approximately \$1.0 billion to \$1.5 billion (the "E&P Distribution") in connection with our potential conversion to a REIT. The Special Dividend consisted of \$140.0 million paid in cash and \$560.0 million in common stock value.

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We issued 17.0 million new shares in connection with the Special Dividend. We also believe that through conversion to a REIT we may be able to expand our shareholder base and lower our cost of financing through increased ownership of currently leased real estate. We expect our long-term capital allocation strategy as a REIT will naturally shift toward increased use of equity to support lower leverage, though our leverage may increase in the short-term to fund the costs to support the Conversion Plan.

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview" and "Liquidity and Capital Resources" of this Annual Report for more information regarding our possible conversion to a REIT, including anticipated costs associated with the Conversion Plan, and Item 1A. "Risk Factors Risks Related to the Proposed REIT Conversion" of this Annual Report for a discussion of risks associated with our conversion to a REIT, including impediments to a conversion.

B. Description of Business.

Overview

We provide cost-effective secure storage for all major media, including paper (which is the primary form of records storage we provide), as well as secure off-site storage of data backup media. Our related information management services can be broadly divided into three major categories: records management services, data protection & recovery services, and information destruction services. Media formats can be broadly divided into physical and electronic records. We define physical records 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 e-mail and various forms of magnetic media such as computer tapes, hard drives and optical disks.

Our records management services include: flexible retrieval access, retention management and records management program development and implementation based on best practices to help customers comply with specific regulatory requirements and policy-based programs. Also included within records management services are our Document Management Solutions ("DMS"). DMS helps organizations gain better access to, and ultimately control over, their paper records by digitizing, indexing and hosting them in online archives to provide complete information lifecycle solutions. Within the records management services category, we have developed specialized services for vital records and regulated industries such as healthcare, energy, government and financial services.

Our data protection & recovery services include the secure handling and transportation of data backup media for fast and efficient data recovery in the event of a disaster, human error or virus as well as disaster preparedness, planning and support. Our technology-based data protection & recovery services include online backup and recovery solutions for desktop and laptop computers and remote servers. Since our sale of the Digital Business, we offer these technology-based services primarily through partnerships. Additionally, we serve as a trusted, neutral third party and offer technology escrow services to protect and manage source code and other proprietary information.

Our information destruction services almost exclusively consist of secure shredding services. Secure shredding services complete the lifecycle of a record and involve the shredding of sensitive documents in a way that ensures privacy and a secure chain of custody for the records. These services typically include either the scheduled pick-up of loose office records, which customers accumulate in specially designed secure containers that we provide, or the shredding of documents stored in our records facilities upon the expiration of their scheduled retention periods.

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Physical Records

Physical 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 their owners to ensure ready availability. Inactive physical records are the principal focus of the storage and information management services industry and 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 physical records market is medical records. These are active and semi-active records that are often stored off-site with, and serviced by, a storage and information management services vendor. Special regulatory requirements often apply to medical records. In addition to our core records management services, we provide consulting, facilities management, fulfillment and other outsourcing services relating to storage and information management.

Electronic Records

Electronic records management focuses on the storage of, and related services for, computer media that is either a backup copy of recently processed data or archival in nature. We believe the issues encountered by customers trying to manage their electronic records are similar to the ones they face in their physical records management programs and consist primarily of: (1) storage capacity and the preservation of data; (2) access to and control over the data in a secure environment; and (3) the need to retain electronic records due to regulatory requirements or for litigation support. 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. In addition to the physical storage and rotation of backup data that we provide, we offer online backup services through partnerships as an alternative way for businesses to store and access data. Online backup is a Web-based service that automatically backs up computer data from servers or directly from desktop and laptop computers over the Internet and stores it in secure data centers.

Growth of Market

We believe that the volume of stored physical and electronic records will continue to increase on a global basis for a number of reasons, including: (1) regulatory requirements; (2) concerns over possible future litigation and the resulting increases in volume and holding periods of records; (3) the continued proliferation of data processing technologies such as personal computers and networks; (4) inexpensive document producing technologies such as desktop publishing software and desktop printing; (5) the high cost of reviewing records and deciding whether to retain or destroy them; (6) the failure of many entities to adopt or follow policies on records destruction; and (7) the need to keep backup copies of certain records in off-site locations for business continuity purposes in the event of disaster.

We believe that the creation of paper-based information will be sustained, not in spite of, but because of, "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 a growing need for efficient, cost-effective, high quality technology solutions for electronic data protection and the management of electronic documents.

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Acquisitions in a Highly Fragmented Industry

The storage and information management services industry has long been and remains a highly fragmented industry with thousands of competitors in North America and around the world. Between 1995 and 2004 there was significant acquisition activity in the industry. Acquisitions were a fast and efficient way to achieve scale, expand geographically and broaden service offerings. We believe this acquisition activity, which is ongoing, is due to the opportunities for large providers to achieve economies of scale and meet customer demands for sophisticated, technology-based solutions. Attractive acquisition opportunities, many of which are small, in North America and internationally continue to exist, and we may pursue acquisition of these businesses where we believe they present a good opportunity to create value for our stockholders.

Characteristics of Our Business

We generate our revenues by renting storage space to a large and diverse customer base in 64.5 million square feet of real estate around the globe and providing to our customers core records management, data protection & recovery, information destruction, DMS services and an expanding menu of complementary products and services. Providing outsourced storage is the mainstay of our customer relationships and serves as the foundation for all our revenue growth. Core services, which are a vital part of a comprehensive records management program, consist primarily of the handling and transportation of stored records and information. In our secure shredding operations, core services consist primarily of the scheduled collection and shredding of records and documents generated by business operations. Additionally, core services include certain DMS services and recurring project revenues. As is the case with storage rental revenue, core service revenues are highly recurring in nature. In 2012, our storage rental and core service revenues represented approximately 89% of our total consolidated revenues. In addition to our core services, we offer a wide array of complementary products and services, including special project work, data restoration projects, fulfillment services, consulting services, technology services and product sales (including specially designed storage containers and related supplies). Furthermore, complementary services revenue includes recycled paper revenue. Complementary services address specific needs of our customers 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 all of our operating segments includes both core and complementary components.

In general, our North American Business and our International Business segments offer storage and the information management services discussed below, in their respective geographies. The amount of revenues derived from our North American Business and International Business segments and other relevant data, including financial information about geographic areas and product and service lines, for fiscal years 2010, 2011 and 2012 are set forth in Note 9 to Notes to Consolidated Financial Statements.

Secure Storage

We provide cost-effective secure storage for all major media, including paper (which is the primary form of records storage we provide) as well as secure off-site vaulting of data backup media. Renting secure space to customers for the purpose of storing paper records and data backup media is by far our largest source of revenue. Records storage consists primarily of the archival storage of records for long periods of time according to applicable laws, regulations and industry best practices. The secure off-site storage of data backup media is a key component of a company's disaster recovery and business continuity programs and storage rental charges are generally billed monthly on a per storage unit basis.

Hard copy business records are typically stored for long periods of time with limited activity in cartons packed by the customer. For some customers we store individual files on an open shelf basis, and these files are typically more active. Storage rental charges are generally billed monthly on a per

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storage unit basis, usually per cubic foot of records, and include the provision of space, racking systems, computerized inventory and activity tracking and physical security.

Vital records contain critical or irreplaceable data such as master audio and video recordings, film and other highly proprietary information, such as energy data. Vital records may require special facilities, either because of the data they contain or the media on which they are recorded. Accordingly, our charges for providing enhanced security and special climate-controlled environments for vital records are higher than for typical storage rental.

Service Offerings

Our information management services can be broadly divided into three major categories: records management services, data protection & recovery services and information destruction services. We offer both physical services and technology solutions in the records management and data protection & recovery categories. Currently, we offer only physical services in the information destruction services category.

Records Management Services

Central to any records management program is the handling and transportation of stored records and the eventual destruction of those records upon the expiration of their scheduled retention periods. This is accomplished through our extensive service and courier operations. Other records management services include our DMS services as well as Compliant Records Management and Consulting Services, Health Information Storage and Management Solutions, Entertainment Services, Energy Data Services, Discovery Services and other ancillary services.

Service and courier operations are an integral part of our comprehensive records management program for all physical media and include adding records to storage, temporarily removing records from storage, refiling of removed records, permanently withdrawing records from storage and destroying records. Service charges are generally assessed for each activity on a per unit basis. Courier operations consist primarily of the pick-up 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, 2012, our fleet consisted of approximately 3,700 owned or leased vehicles.

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 storing and managing digital information, coupled with the increasing availability of telecommunications bandwidth at lower costs, may create meaningful opportunities for us to provide solutions to our customers with respect to their digital records storage and management challenges. We continue to cultivate marketing and technology partnerships to support this anticipated growth.

The focus of our DMS business is to develop, implement and support comprehensive storage and information management solutions for the complete lifecycle of our customers' information. We seek to develop solutions that solve our customers' document management challenges by integrating the management of physical records, document conversion and digital storage. Our DMS services complement our core service offerings and enhance our existing customer relationships. We differentiate our offerings from our competitors by providing solutions that integrate and expand our existing portfolio of products and services. The trend towards increased usage of Electronic Document Management ("EDM") systems represents another opportunity for us to manage active records. Our DMS services provide the bridge between customers' physical documents and their EDM solutions.

We offer records management services that have been tailored for specific industries, such as health care, or to address the needs of customers with more specific requirements based on the critical nature of their records. For example, medical records tend to be more active in nature and are typically

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stored on specialized open shelving systems that provide easier access to individual files. In addition to storing medical records, we provide health care information services, which include the handling, filing, processing and retrieval of medical records used by hospitals, private practitioners and other medical institutions, as well as 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 and delivery), temporary staffing, contract coding, facilities management and imaging.

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. We also sell a full line of specially designed corrugated cardboard storage cartons.

Other complementary lines of business that we operate include fulfillment services and professional consulting services. Fulfillment services are performed by our wholly owned subsidiary, Iron Mountain Fulfillment Services, Inc. ("IMFS"). IMFS stores marketing literature and other materials for its customers and delivers this material to sales offices, trade shows and prospective customers' locations based on current and prospective customer needs. In addition, IMFS assembles custom marketing packages and orders and manages and provides detailed reporting on customer marketing literature inventories. A growing element of the content we manage and fulfill is stored digitally and printed on demand by IMFS. Digital print allows marketing materials such as brochures, direct mail, flyers, pamphlets and newsletters to be personalized to the recipient with variable messages, graphics and content.

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

We sold our domain name management product line in 2010 and the Digital Business, including our former wholly owned subsidiaries, Mimosa Systems, Inc. and Stratify, Inc., and our New Zealand operations in 2011. Also, we sold our Italian operations in April 2012. Consistent with our treatment of acquisitions, we eliminated all revenues associated with these businesses, which have all been reflected as discontinued operations for financial reporting purposes, from the calculation of our internal growth rates for 2010, 2011 and 2012.

Data Protection & Recovery Services

Our data protection & recovery services are designed to comply with applicable laws and regulations and to satisfy industry best practices with regard to disaster recovery and business continuity purposes. We provide data protection & recovery services for both physical and electronic records. We also offer technology escrow services in this category.

Physical data protection & recovery services consist of the 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. Frequently, backup tapes are rotated from our facilities back to

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our customers' data centers. We also manage tape library relocations and support disaster recovery testing and execution.

Online backup is a Web-based service that automatically backs up computer data from servers or directly from desktop or laptop computers over the Internet and stores it in secure data centers. After the sale of the Digital Business, we continue to offer this service pursuant to a reseller agreement with Autonomy Corporation plc, a corporation formed under the laws of England and Wales ("Autonomy").

Through our technology escrow services business, we act as a trusted, neutral, third party, safeguarding valuable technology assets such as software source code, object code and data in secure, access-protected escrow accounts. Acting in this intermediary role, we help document and maintain intellectual property integrity. The result is increased control and leverage for all parties, enabling them to protect themselves, while maintaining competitive advantage.

Information Destruction Services

Our information destruction services consist primarily of physical secure shredding operations. Secure shredding is a natural extension of our hard copy records management services, completing the lifecycle of a record, and involves the shredding of sensitive documents for customers that, in many cases, also use our services for management of archival records. These services typically include the scheduled pick-up of loose office records that 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. Through a combination of plant-based shredding operations and mobile shredding units consisting of custom built trucks, we are able to offer secure shredding services to our customers throughout the U.S., Canada, the United Kingdom, Ireland, Australia and Latin America.

Financial Characteristics of Our Business

Our financial model is based on the recurring nature of our various revenue streams. The historical predictability of our revenues and the resulting Adjusted OIBDA allow us to operate with a high degree of financial leverage. Our business has the following financial characteristics:

Recurring Revenues. We derive a majority of our consolidated revenues from fixed periodic, usually monthly, storage rental fees charged to customers based on the volume of their records stored. Once a customer places physical 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 rental without incurring additional labor or marketing expenses or significant capital costs. Similarly, contracts for the storage of electronic backup media involve primarily fixed monthly rental payments. Our annual revenues from these fixed periodic storage rental fees have grown for 24 consecutive years. For each of the three years 2010 through 2012, storage rental revenues, which are stable and recurring, have accounted for over 55% or more of our total consolidated revenues. This stable and growing storage rental revenue base also provides the foundation for increases in service revenues and Adjusted OIBDA.

Historically Non-Cyclical Storage Rental Business. Historically, we have not experienced significant reductions in our storage rental business as a result of economic downturns although, during recent economic slowdowns, the rate at which some customers added new cartons to their inventory was below historical levels. However, during the recent economic downturn, which was more severe and lasted longer than other recent downturns, destruction rates increased as some customers have been more willing to incur additional short-term service costs in exchange for lower storage rental costs in the long-term. In addition, we have experienced longer sales cycles and lower incoming volumes from existing customers, due in large part, we believe, to high unemployment rates and generally lower levels of business activity. Combined, these impacts have resulted in lower net volume growth rates. The net effect of these factors has been the continued growth of our storage rental revenue base, albeit at a lower rate. For each of the three years 2010 through 2012, total net volume growth has been approximately 2% on a global basis.

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Inherent Growth from Existing Physical Records Customers. Our physical records customers have, on average, sent us additional cartons at a faster rate than stored cartons have been destroyed or permanently removed. However, during the recent economic downturn, the combination of lower incoming volumes from existing customers, due in large part, we believe, to high unemployment rates and generally lower business activity, and increased destruction rates, as described above, resulted in lower consolidated net volume growth in recent quarters, including negative net volume growth from existing customers at times in certain markets. Since reaching unusually high levels in 2009, our destruction rates have stabilized at rates closer to historical norms. After the economy has improved, we expect our growth from existing customers should improve although we cannot give any assurance as to how much, if any, improvement we will realize. We believe the continued growth of our physical records storage rental revenues is the result of a number of factors, including the trend toward increased records retention, albeit at a lower rate of growth, customer satisfaction with our services and net price increases.

Diversified and Stable Customer Base. As of December 31, 2012, we had over 155,000 clients in a variety of industries in 35 countries around the world. We currently provide storage and information management services to commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations, including more than 94% of the Fortune 1000. No single customer accounted for as much as 2% of our consolidated revenues in any of the years ended December 31, 2010, 2011 and 2012. For each of the three years 2010 through 2012, the average annual volume reduction due to customers terminating their relationship with us was less than 3%.

Capital Expenditures Related Primarily to Business Line Growth and Ongoing Operations. Our business requires significant capital expenditures to support our expected storage rental revenue and service revenue growth and ongoing operations, new products and services and increased profitability. As the nature of our business has evolved over time, so has the nature of our capital expenditures. Every year we expend capital to support a number of different objectives. The majority of our capital goes to support business line growth and our ongoing operations. Additionally, we invest capital to acquire or construct real estate. We also expend capital to support the development and improvement of products and services and projects designed to increase our profitability. These expenditures are generally relatively small and discretionary in nature. Below are descriptions of the major types of capital expenditures we are likely to make in a given year:

Capital to support business line growth these expenditures are primarily related to capacity expansion such as investments in new building outfitting, carton storage systems, tape storage systems and containers, shredding plants and bins and technology service storage and processing capacity.

Capital to acquire/construct real estate these expenditures are directly related to the acquisition of real estate, either through the purchase or construction of a new facility or the buyout of an existing lease.

Capital to support ongoing business operations these expenditures are primarily related to major repairs and/or the replacement of assets, such as facilities, warehouse equipment and computers. This category also includes operational support initiatives such as sales and marketing and information technology projects to support infrastructure requirements.

Capital for new product development these expenditures are directly related to the development of new products or services in support of our integrated value proposition.

Capital for product improvement these expenditures are primarily related to product and service enhancements that support our leadership position in the industry. Spending in this area includes items such as increased feature functionality, security upgrades or system enhancements.

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Capital to support operational efficiencies these expenditures are primarily related to driving increased profitability through cost savings and operating efficiencies and include items such as facility consolidations and systems to support operating process improvements.

Following is a table presenting our capital expenditures for 2010, 2011 and 2012 organized by the nature of the spending as described above:

Nature of Capital Spend (dollars in millions)	Year Ended December 31,		
	2010(1)(2)	2011(1)(2)	2012(1)(2)
Business Line Growth	\$ 116	\$ 81	\$ 61
Real Estate	14	20	54
Business Operations(3)	65	84	75
Product Development	10	2	4
Product Improvement	31	14	12
Operational Efficiencies	8	18	42
Total Capital	\$ 244	\$ 218	\$ 248
Less: Real Estate and REIT Capital Expenditures	(14)	(20)	(66)
Total Capital, Net of Real Estate and REIT Capital Expenditures	\$ 230	\$ 198	\$ 182

We believe that capital expenditures, net of real estate and capital expenditures that are part of our REIT Costs, incurred as a percent of revenues is a meaningful metric for investors because it indicates the efficiency with which we are investing in the growth and operational efficiency of our business. For the years 2010 through 2012, our total capital expenditures, net of real estate and capital expenditures that are part of our REIT Costs, incurred as a percent of revenues were approximately 8%, 7% and 6%, respectively. This decrease since 2010 is due primarily to our disciplined approach to capital management, a shift toward less capital intensive service revenues and moderating growth rates in our physical storage rental business.

Following is a table presenting our capital expenditures as a percent of total revenues for 2010, 2011 and 2012 organized by the nature of the spending as described above:

Nature of Capital Spend	Year Ended December 31,		
	2010(1)(2)	2011(1)(2)	2012(1)(2)
Business Line Growth	4.0%	2.7%	2.0%
Real Estate	0.5%	0.7%	1.8%
Business Operations(3)	2.2%	2.8%	2.5%
Product Development	0.3%	0.1%	0.1%
Product Improvement	1.1%	0.5%	0.4%
Operational Efficiencies	0.3%	0.6%	1.4%
Total Capital	8.4%	7.2%	8.3%
Less: Real Estate and REIT Capital Expenditures	(0.5)%	(0.7)%	(2.2)%