GROWTH | STABILITY | LEADERSHIP | TECHNOLOGY

IRON MOUNTAIN®

# The Leader in Records & Information Management

1999 ANNUAL REPORT

# ABOUT OUR COMPANY

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*Iron Mountain Incorporated is the global leader in records and information management services. Iron Mountain's services include off-site records storage and management for business, healthcare, and vital records; data security services including the off-site storage and rotation of electronic records, disaster recovery support, and technology escrow services; and related consulting services and product sales. Iron Mountain provides storage and management services for all information media, including paper, computer disks and tapes, microfilm and microfiche, master audio and video tapes, film and optical disks, X-rays and blueprints.*

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## PIERCE LEAHY ACQUISITION AND RELATED FINANCIAL INFORMATION

On February 1, 2000, Iron Mountain Incorporated completed its acquisition of Pierce Leahy Corp. Because the transaction was structured as a reverse merger, Iron Mountain merged with and into Pierce Leahy, and Pierce Leahy survived the merger. Immediately after the merger, Pierce Leahy changed its name to Iron Mountain Incorporated. Iron Mountain is considered the acquiring entity for accounting purposes, and the Company adopted Iron Mountain's financial statements as its own upon the completion of the merger. This 1999 Annual Report includes limited historical and pro forma financial information for Pierce Leahy. Iron Mountain's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 filed with the Securities and Exchange Commission includes all required historical financial information for Pierce Leahy. You can access the Company's Annual Report on Form 10-K on the SEC's website at http://www.sec.gov or via Iron Mountain's website at www.ironmountain.com. You may also obtain a copy of the Company's Annual Report on Form 10-K by written or telephone request to Investor Relations at the corporate headquarters address and telephone number. Throughout this Report, the references to "Iron Mountain" and "The Company" refer to both Iron Mountain prior to the merger with Pierce Leahy as well as the combined company subsequent to the merger.

## FINANCIAL HIGHLIGHTS

| (dollars in thousands) | 95 | 96 | 97 | 98 | 99 | 99PF** |
|---|---|---|---|---|---|---|
| Total Revenues | $104,436 | $138,718 | $ 208,765 | $383,961 | $ 519,549 | $861,811 |
| Storage Revenues | 64,165 | 85,826 | 125,968 | 230,702 | 317,387 | 507,482 |
| Storage Revenues as a Percentage of Total Revenues | 61.4% | 61.9% | 60.3% | 60.1% | 61.1% | 58.9% |
| EBITDA* | 26,124 | 33,629 | 50,218 | 95,981 | 129,671 | 228,008 |
| EBITDA as a Percentage of Total Revenues | 25.0% | 24.2% | 24.1% | 25.0% | 25.0% | 26.5% |

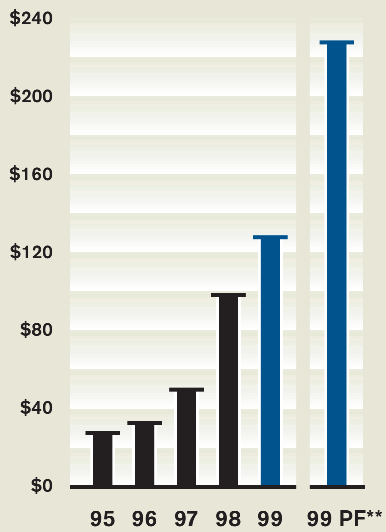
*Earnings Before Interest, Taxes, Depreciation, Amortization, Extraordinary Items, Other Income, and Merger-Related Expenses
** Pro Forma for the Pierce Leahy acquisition only and excluding any anticipated synergies.

### EBITDA

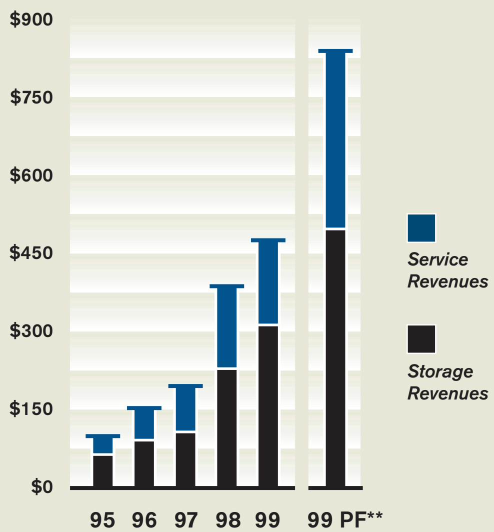
The Company believes that EBITDA is the standard financial measure of performance used for valuing companies in the records and information management industry. EBITDA is a useful common yardstick as it measures the capacity of companies to generate cash without reference to how they are capitalized, how they account for significant non-cash charges for depreciation and amortization associated with assets used in the business (the bulk of which are long-lived assets in the records and information management business), or what their tax attributes may be. Additionally, since EBITDA is a basic source of funds not only for growth but to service indebtedness, lenders in both the private and public debt markets use EBITDA-based calculations as a primary determinant of borrowing capacity.

The total or enterprise value of a records and information management business is often expressed as a multiple of EBITDA, with the multiple varying in relation to such factors as size, efficiency, growth rate and perceived quality and predictability of EBITDA. Accordingly, Iron Mountain's primary financial objective is to build shareholder value by growing EBITDA.

EBITDA (IN MILLIONS)




REVENUES (IN MILLIONS)



# To Our Shareholders

In 1999, Iron Mountain achieved a major strategic goal in becoming the undisputed global leader in records and information management services.

Increasingly crisp execution of our growth strategy of geographic expansion through acquisition and strong internal growth drove this outcome. Reaching agreement to acquire Pierce Leahy, our best and largest competitor, accelerated and largely completed the process. Additionally, Iron Mountain's 1999 financial performance was strong as revenues grew 35% and EBITDA operating margins continued to improve. We are proud of our performance in 1999.

We began the year with the following five major objectives and achieved significant progress on all of them:

***Substantially complete our U.S. footprint through acquisition or start-up in new cities.*** During the year, we acquired 11 companies in the U.S. for total consideration of $181 million. These acquisitions, together with start-ups anchored by major new accounts, allowed us to expand into 10 new domestic markets.

***Continue the evolution from acquisition-driven growth to internal growth.*** We earned excellent returns from investments we began making in 1997 to increase and improve our sales operation. Organic growth for 1999 increased to 13% versus 12% for 1998 and 10% for 1997. In addition to increasing the size of our sales force, we upgraded sales management and structure. We delivered new resources and information technology to our field sales team. These changes yielded improvements in sales force productivity and record performance.

***Make meaningful progress in building our market presence in Europe and Latin America.*** In January 1999, Iron Mountain entered its first international market by purchasing control of the second largest records management company in the U.K., British Data Management (renamed Iron Mountain Europe Limited). As our efforts gathered momentum, we closed five more transactions in Europe and one in Mexico for a total investment of $80 million. We also entered into a joint venture with highly regarded Latin American partners to invest in promising companies in the region. Partnering on a local basis should allow us to expand more rapidly, gaining benefit from our partners' local knowledge and business relationships while reducing our risk.

***Begin broadening and deepening our line of complementary services.*** We are committed to identifying, analyzing and developing complementary service offerings purchased by decision-makers in our existing customer base. Secure information destruction services, also referred to as "confidential shredding", is an example. Iron Mountain already provides secure destruction services in six markets as an adjunct to our paper records management business. These services present a good opportunity for us, because the financial characteristics are similar to our core businesses - a high degree of recurring revenues and similar margins. We expect to execute a two-pronged tactical approach, expanding both by acquisition and start-ups. In 1999, we launched a nascent management organization and acquisition program. We completed our first acquisition in January 2000.

***Strengthen our balance sheet in order to take advantage of new business opportunities.*** We entered the year with a significant number of attractive investment opportunities. To avoid missing any of these, we raised $160 million of new equity and $150 million of long-term, fixed rate debt. The proceeds of these transactions were used to pay down short term, floating rate debt or were retained as cash for future investments. The equity offering meaningfully broadened our Company's shareholder base and increased the total market float. We remain committed to using a prudent level of financial leverage in our capital structure to increase returns on equity.

In addition to all these important accomplishments in 1999, Iron Mountain made a strategic leap forward by negotiating a merger with Pierce Leahy Corp., which closed February 1, 2000. Discussions with Pierce Leahy occurred sporadically over several years. The Boards of Directors of both companies believed that a merger would be in the best interests of the combined shareholders, customers, and employees. The transaction was negotiated through the summer and fall and announced on October 20.

Pierce Leahy reported revenues in 1999 of $342 million and EBITDA of $105 million. The majority of Pierce Leahy's revenue is concentrated in Iron Mountain's largest core business, the storage and service of paper records. The operations of the two companies overlap in 56 cities in the U.S. and the U.K., and Pierce Leahy brings market leadership in Canada with operations in nine cities.

Integrating Pierce Leahy and Iron Mountain is a large task. In scope and scale, it equates to the task we have already completed through integrating the 66 companies acquired over the last four years. As of the writing of this letter, we have made good progress; the organization's structure is set, the operational "best practices" analysis is largely completed, and the systems integration is in motion. We expect to complete the integration over the next three years. We are determined to retain key talent and build management bench strength while redirecting a number of key people toward other growth opportunities in the U.S. and internationally. We are confident that our organization is up to the task, and are fortunate to have a business with the strong financial foundation of recurring revenues to support the effort.

As a result of the successful implementation of our business plan, we are now "The Leader in Records and Information Management." Today we operate an expanding global business with operations in 77 markets in the U.S., nine in Canada, 17 in the U.K. and other countries of Europe, and four in Latin America. The foundation to further capitalize on the leadership position we have built is taking form.

Of course, along with leadership comes responsibilities. For Iron Mountain, these responsibilities include investing the resources necessary to provide our customers with innovative service solutions, both today and in the future. On a combined basis with Pierce Leahy, Iron Mountain has run rate revenues of over $900 million. These revenues will fuel our growth as we provide the broader range of information storage services our customers expect from us.

The year 2000 has started at a fast pace. Since the beginning of the year we have announced six acquisitions for an investment of $73 million (not including the Pierce Leahy transaction). We continue to pursue our proven strategy of emphasizing and investing for internal growth, supplementing that growth with fold-in acquisitions in existing markets, and prudent market expansion internationally. Successfully expanding complementary services will add another dimension. Concurrently, we expect steady margin improvement through well-rehearsed acquisition integration programs and by increasing the local scale of our businesses.

One new opportunity seems particularly compelling: the prospects for a "Digital Iron Mountain." With the explosive growth of the Internet, organizations continue to generate and store electronic records at ever-faster rates. According to one estimate, Global 2000 corporations are doubling their digital storage needs each year, and Internet-based companies are increasing their storage needs five to eight times a year. As mainstream businesses adopt more business-to-business Internet applications, their data growth is likely to accelerate even faster.

These trends drive storage revenue growth and sustain the need for our traditional services. They will also open new opportunities for Iron Mountain to build upon its knowledge of records and information management, as well as its reputation as a trusted repository of critical data. Our goal is to create new service offerings that have attractive margins, substantial growth opportunities, and a recurring revenue stream. We will share details of our plans with our shareholders when we are closer to implementation.

Even with all of this growth and change, we remain focused on a strategy that builds on the strengths of our business: recurring revenue and momentum for inherent growth from a diversified customer base. We are confident that we deliver significant value to our customers. We will continue to provide them the services they need today while leading them toward new and appropriate solutions for tomorrow.

Just as important, we offer value to our employees as well. Iron Mountain is committed to upholding our principles of providing competitive compensation and benefits in a fair and open work environment. Most importantly, we create opportunities for our employees - to be "a company to invest your career with." We thank all of the "Iron Mountaineers" who were responsible for our success in 1999, as well as those who have recently joined us from Pierce Leahy and other acquisitions. We welcome them and look forward to supporting their continued success under the Iron Mountain banner.

Lastly, we thank you, our shareholders for your support and trust.

With continued pride and enthusiasm,

C. Richard Reese

C. Richard Reese
Chairman and Chief Executive Officer

*Clearly, Iron Mountain's most significant event in 1999 was reaching agreement to merge with Pierce Leahy Corp., then a NYSE-listed competitor. Pierce Leahy was a premier provider in the RIMS industry focused on business records management services with broad coverage of the U.S. and Canda. We could not conceive of a business combination that offers more value creation opportunity for our shareholders.*

*Pierce Leahy brings far more than business volume to Iron Mountain. As a sophisticated, successful industry participant and formidable competitor, Pierce Leahy offered a differentiated approach delivered through a strong organization. Combining the two organizations will strengthen Iron Mountain as our integration efforts are focused on preserving the best attributes and business practices of each company.*

*We are pleased to welcome all Pierce employees to the Iron Mountain family. Importantly, Leo W. Pierce, Sr., founder of Pierce Leahy in 1969 and a leader in developing the industry, has joined us as Chairman Emeritus. Peter Pierce, a 30-year veteran of the industry who presided over Pierce Leahy's impressive growth as its President, has assumed the role of President of Iron Mountain, Inc. and is responsible for running the hardcopy records management business.*

*Even against the backdrop of the Pierce Leahy transaction and our dramatic growth of the past four years, our business fundamentals remain unchanged. That is why the same themes reappear in Iron Mountain's annual report each year—Growth, Stability, Leadership and Technology. These central themes have sustained the Company's success since 1951. Continued execution along these themes will determine Iron Mountain's success for the foreseeable future.*

# Growth is driven by increasing demand, expanding market presence, and new service offerings.

Iron Mountain crafted a growth strategy in 1994 based on the premise that technology and data creation trends would expand primary demand for our services and create new service opportunities.

Six years later, the validity of that premise continues to be proven every day—as has our strategy, which remains unchanged.

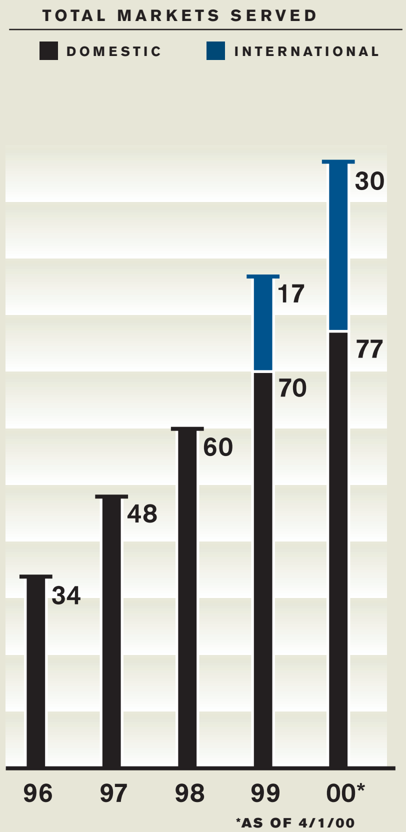
Now, as then, the components of our growth strategy are sales of new accounts, penetration of existing accounts, new market and fold-in acquisitions, and new service offerings. The emphasis on each component varies geographically, according to the development of each market.

For example, Iron Mountain's international efforts are still focused primarily on platform-building through acquisition. In just over one year, we have established a presence in 30 markets—and we expect most other important platforms to be in place within 24 months. As that happens, we are beginning to shift our focus to more organized selling efforts that capitalize on our relationships with U.S. multinational customers.

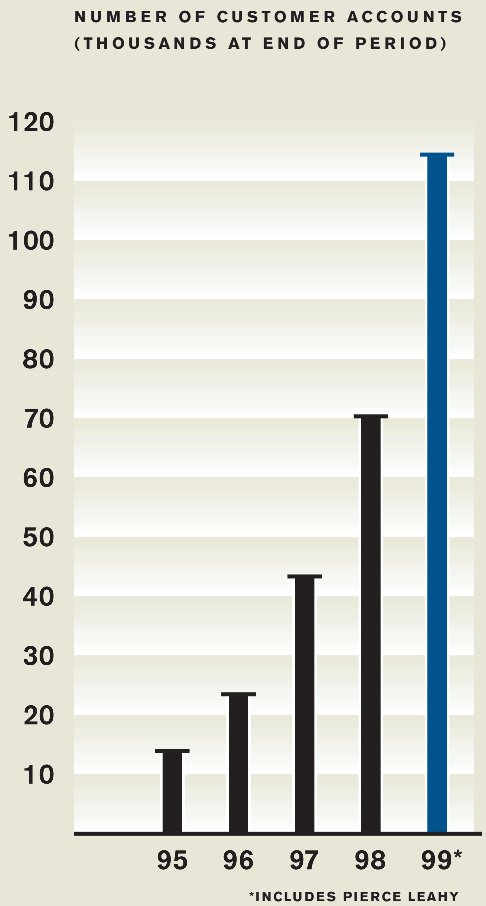
In the U.S., our platform is largely in place and our geographic presence solidified. Accordingly, over the past three years, we have increased our emphasis on new sales. As a result, our internal growth rate has improved every year as we reap the returns on investment in our sales force. In 1999, internal growth comprised roughly half of our overall domestic growth. We expect this growth to remain strong as we continue to invest in an account management organization incentivized to pursue new revenue opportunities and introduce new services.

Our new service offerings will target the same decision-makers to whom we currently sell, present opportunities to consolidate fragmented markets, and leverage our local resources. We prefer businesses with strong recurring revenue streams where national presence translates into competitive advantage. We expect that secure destruction and some of our emerging services for digital storage will meet these objectives and be increasingly important sources of growth.

With a sales force twice the size that it was a year ago—and covering more markets than ever before—Iron Mountain is well-positioned to continue pursuing—and generating—new growth in all its forms.

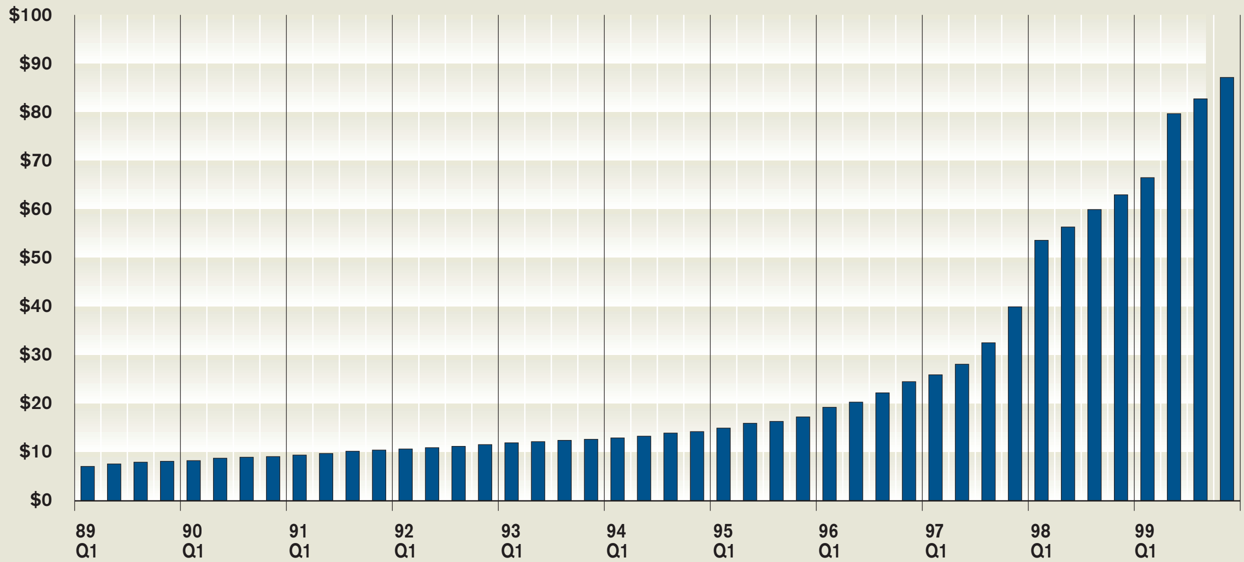



Expanding the number of records storage relationships is the focus of the Company's growth strategy. These typically long-term relationships with customers provide the stability and momentum that are the hallmarks of Iron Mountain's business.




Management's objective in pursuing its acquisition program is to enhance shareholder value over time by acquiring businesses at prices which make sense in relation to their anticipated contributions to Iron Mountain's cash flow after integration, and to do so with currency—whether cash or stock—which increases returns on equity while maintaining a sound capital structure.

**QUARTERLY STORAGE REVENUES**
**(DOLLARS IN MILLIONS)**




The stability imparted by Iron Mountain's growing and recurring storage revenues is clearly reflected in its history of 44 consecutive quarters of storage revenue growth.

*Technology and data creation trends expand primary demand for Iron Mountain's services.*

# Stability ensures consistent growth in a world of uncertainty.

As companies grow, so does the volume of records and information they need to store and manage. That is why, in a global business environment often characterized by volatility and uncertainty, Iron Mountain stands as a rock of stability. We accumulate valuable relationships with inherent growth characteristics and have delivered successively higher levels of storage revenue for 44 consecutive quarters. Storage and storage-related services drive over 90 percent of our revenue and gross margin.

But the inevitability of growth in records volume is not the only reason for our stability. We further solidify our financial strength every time we make an acquisition—by identifying and pursuing companies with business and financial models similar to our own. The companies we have acquired since 1998—from Pierce Leahy to those in Europe and Latin America—all share the same financial characteristics as Iron Mountain, highlighted by unparalleled revenue visibility and predictability.

Our stability is also enhanced by the diversity of our customer base by industry, geography and company size. This diversity enables Iron Mountain to continue to thrive during economic downturns or when individual industries, markets, or national economies falter.

Today, the Iron Mountain customer base is more diversified than ever. We now serve more than 115,000 customers across three continents and all industries. No single account represents more than two percent of our revenue. This broad revenue base, complemented by our strong customer relationships and increased focus on internal growth, bodes well for a future that is both stable and profitable.

# Leadership is maintained by acting on the responsibilities that accompany it.

Look at our corporate tagline and you will notice a significant change. No longer do we refer to Iron Mountain as "The World's Largest Records Management Company"—even though we are. Today, we prefer to be called "The Leader in Records and Information Management," because size alone is not our primary competitive differentiator.

Certainly, our size gives us certain advantages. It creates career opportunities that enable us to attract and retain the best people. It lowers our cost of capital. And it allows us to make more significant overhead and infrastructure investments that can be leveraged over a larger customer and revenue base.

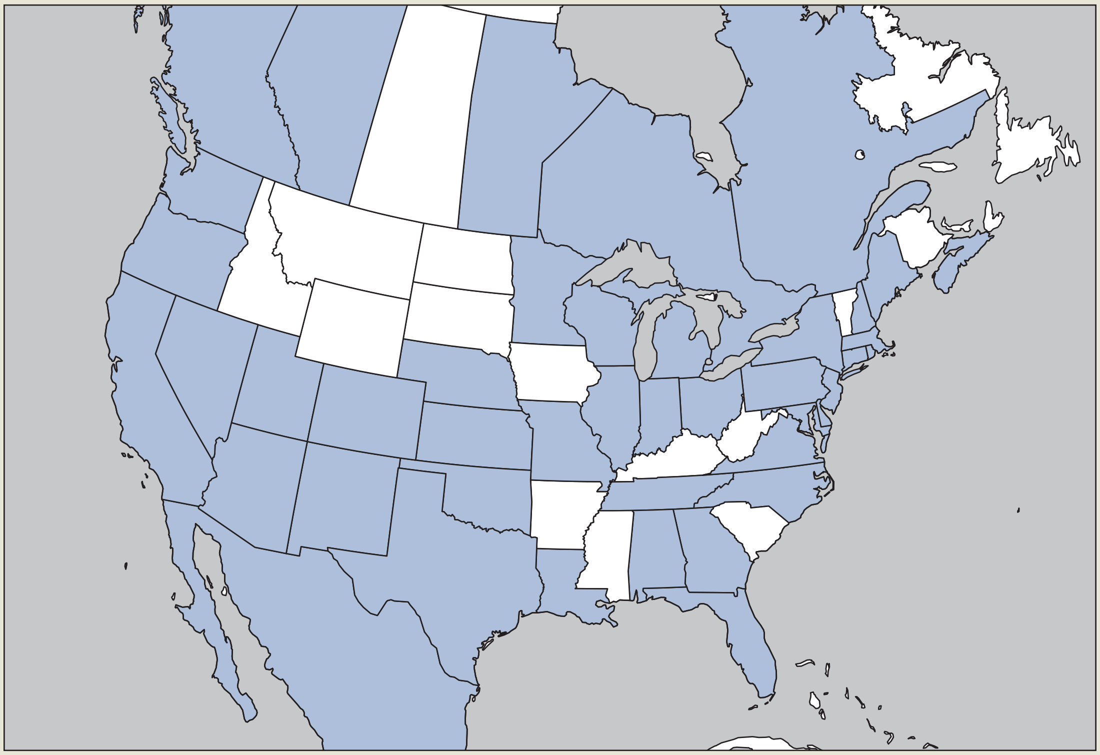
But "largest" and "best" are not necessarily synonymous. By referring to our company as "The Leader in Records and Information Management," we acknowledge both our size and our commitment to staying at the forefront of our industry in every way.

Leadership also comes with responsibilities. As the leader, we have an obligation to continually invest in technology and new services to respond to our customers' evolving needs. Both customers and the marketplace look to us to advance the art of records and information management services. Our leadership position requires that we expand geographically, even globally, to be where our customers need us.

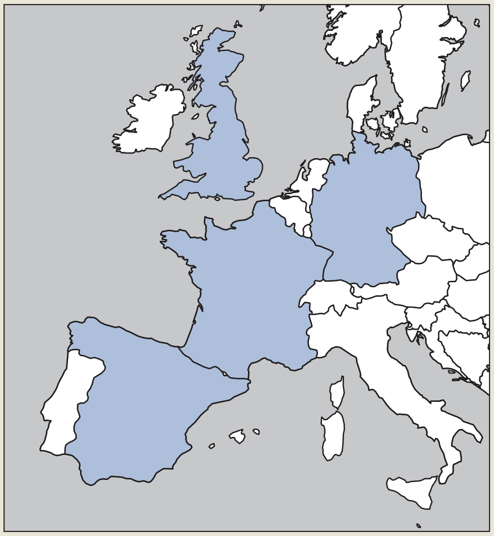
At Iron Mountain, we take the responsibilities of leadership seriously. That is why we continue to make major strategic acquisitions in key global markets. Since 1998, we have established a presence in 30 cities outside the U.S. and entered seven new countries. We also take seriously our obligation to set standards for conduct in our relationships with employees, competitors, and customers, particularly as we enter new, developing markets.

Why does Iron Mountain work so hard when we are already acknowledged as the industry leader? Simple. We expect to remain the industry leader.

## EXPANDING GLOBAL PRESENCE



Markets Served: United States - 77   Canada - 9   Mexico - 4

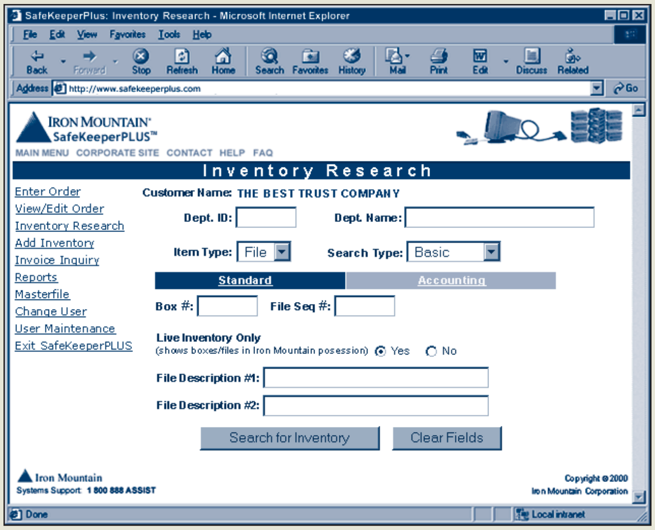


Markets Served: Europe - 17

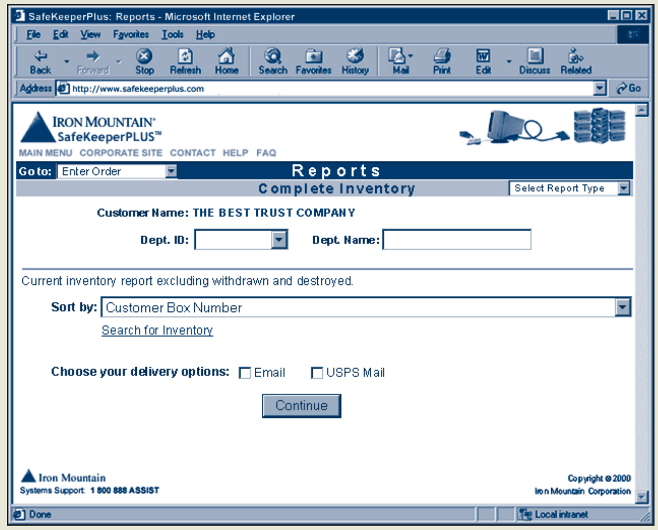
Iron Mountain has delivered on its stated acquisition objective of expanding its geographic reach. Since 1995, the Company has completed 70 acquisitions, established its presence in 80 new markets and launched its international expansion.

# SafekeeperPLUS

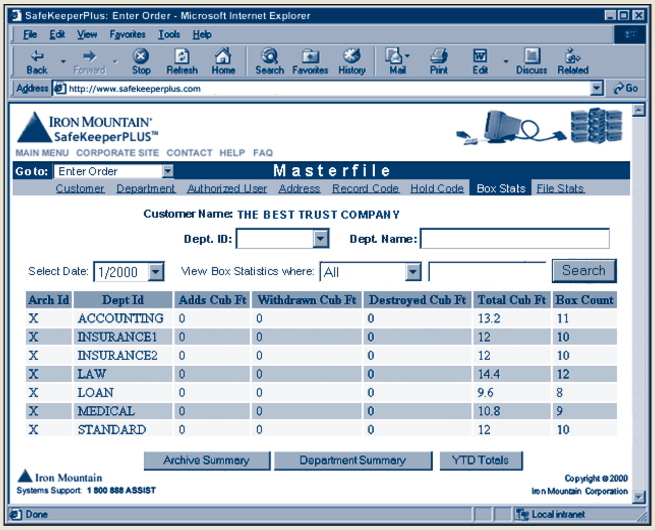
## THE INDUSTRY'S MOST ADVANCED RECORDS MANAGEMENT SYSTEM



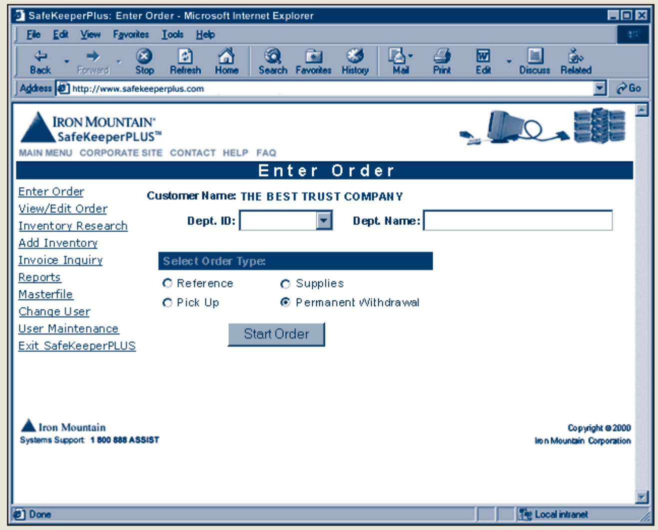

QUERY CARTONS AND FILES




REPORTS DELIVERED BY E-MAIL




SYSTEM-DRIVEN RECORDS RETENTION




SECURE INTERNET RETRIEVALS

# Technology delivers value when it provides new ways to serve customers better.

A key component of Iron Mountain's strategy is to deploy technology to provide value-added services for our customers, improve our operating efficiencies, and create management information. Since beginning our acquisition strategy, we have been extremely successful converting each new company to our technology platform to increase efficiencies while simultaneously developing new functionality to enhance customer service. We now face the task of integrating the separate technology platforms of the Pierce Leahy organization with our existing operations.

We have identified the differences in functionality between both systems and have started the programming to enhance the system. The result will be a new SafekeeperPLUS system with functionality matching that previously offered by both companies. Our customers will experience significant service option upgrades in the near future. We expect to begin conversion of local market operations during the fourth quarter of 2000.

In hindsight, strategic investments that we had previously made in system infrastructure were very timely. We are in the process of implementing our back office systems and sales force management systems to the broader organization.

We have also been very busy understanding the opportunities of the Internet. In the first phase of our Internet strategy, we leveraged the power of the Web as a customer service channel. This is a classic "win/win" solution that has already improved the service experience for many customers while enabling Iron Mountain to drive greater efficiency.

We are now focusing on the second phase of our strategy—to use the Internet as a distribution channel to deliver new recurring revenue services that complement our traditional business lines. Iron Mountain has an unparalleled reputation as the trusted repository of information. We plan to leverage our brand, customer relationships, physical presence in over 100 markets and sales networks to deliver services, some of which will arise from partnerships with technology providers. We are in the process of hiring key management to develop and launch these new services. Because these markets are still early in their development, it is impossible to predict their impact on Iron Mountain. However, we believe that the long-term market potential is significant and that we are in an excellent position to capitalize on the future.

Technology investments will remain a key component of our strategy as we move forward.

# In 1999, Iron Mountain made a number of noteworthy moves that strengthened our balance sheet and afforded us financial flexibility.

We continually strive to maintain ready access to the markets and raise capital in advance of the need. The saying 'timing is everything' was especially apropos for Iron Mountain in 1999.

We de-levered our Company in May of last year by raising $160 million through the issuance of 5.8 million shares of primary equity. We could not have moved as boldly to consummate the Pierce Leahy transaction without having done so. Our leverage ratio of total debt to EBITDA was about 4.6 after the equity sale and now it stands at 5.2 after acquiring our more highly leveraged competitor. As we have consistently stated, we wish to manage the Company at debt levels of between 4.5 and 5.5 times EBITDA. Through internal growth (and before acquisitions), this ratio can be naturally reduced by approximately 50 basis points per year.

In 1999 we successfully replaced more of our variable rate debt with fixed rate debt in what we viewed then, and obviously now, as a very attractive market. We raised $150 million of 12-year, 8.25% high yield debt. Early in 2000, we closed a new revolving credit facility of $400 million with a syndicate of 15 banks, many of which have provided credit to the industry for a long time. As of March 1, about $200 million of this new line is unused and over 80% of our total debt of $1.2 billion is fixed rate which has no principal repayments scheduled for more than six years.

We strive to use debt to drive equity returns and to use cash as the primary currency for acquisitions that will be accounted for under the purchase method. Pursuing this strategy means we are likely to continue to have high levels of interest and goodwill amortization charges. Therefore, we will remain an EBITDA-valued company for the foreseeable future. We believe that the proposal to eliminate the pooling-of-interests method of accounting for acquisitions is increasingly focusing the financial community on the value of intangible assets. The goodwill on our balance sheet represents the customer relationships we have acquired. These relationships increase in value because our customers as a group have always given us more business volume each year.

We recognize the importance of clear, consistent communication with investors. The Pierce Leahy merger adds some complexity to our reporting because for the first time we will have meaningful integration costs running through our income statement. Integration expenses associated with changes to 'old' Iron Mountain's operations and personnel cannot be capitalized under the purchase method of accounting for acquisitions. As a result, we expect to take a restructuring charge addressing some of these expenses when our plans are finalized. Further, over the next two years, we will have other integration costs that must be expensed as incurred. These will be isolated as merger-related expenses in financial income statements. What should not be lost in the complexity of this reporting is that our estimated total integration costs of $15 million are less than 2% of the Pierce Leahy transaction value and Iron Mountain's annual revenue run rate.

Even before our recent leap in scale, Iron Mountain was investing in the infrastructure required to support a $2+ billion international, multi-divisional company. We are well along with the implementation and conversion to our new Oracle financial software and are upgrading the systems supporting most of our key functional areas. We continue evolving our organization into a fully divisionalized structure that we believe is critical to maintaining market focus and strong internal growth.

Another significant milestone in 1999 was our switch to the New York Stock Exchange (NYSE). The NYSE listing, coupled with the expanded float and broader shareholder base arising from two successful follow-on offerings of stock, increased trading volume and liquidity.

Iron Mountain remains committed to providing investor access to management and clear, consistent communication with the financial community. We continue to enhance our investor relations Web site (www.ironmountain.com) with new features including audio replays of our quarterly conference calls. We welcome Iron Mountain shareholders to attend our Third Annual Analyst Day event in late September, and we actively solicit your feedback and questions.

Sincerely,

John F. Kenny, Jr.
Executive Vice President and Chief Financial Officer

# 1999

SECTION

## FINANCIAL REVIEW

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

*(In thousands, except per share data)*

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

| Year Ended December 31, | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Consolidated Statements of Operations Data:** | | | | | |
| Revenues: | | | | | |
| Storage | $ 64,165 | $ 85,826 | $ 125,968 | $ 230,702 | $ 317,387 |
| Service and Storage Material Sales | 40,271 | 52,892 | 82,797 | 153,259 | 202,162 |
| Total Revenues | 104,436 | 138,718 | 208,765 | 383,961 | 519,549 |
| Operating Expenses: | | | | | |
| Cost of Sales (excluding depreciation) | 52,277 | 70,747 | 106,879 | 192,113 | 260,930 |
| Selling, General and Administrative | 26,035 | 34,342 | 51,668 | 95,867 | 128,948 |
| Depreciation and Amortization | 12,341 | 16,936 | 27,107 | 48,301 | 65,422 |
| Total Operating Expenses | 90,653 | 122,025 | 185,654 | 336,281 | 455,300 |
| Operating Income | 13,783 | 16,693 | 23,111 | 47,680 | 64,249 |
| Interest Expense, Net | 11,838 | 14,901 | 27,712 | 45,673 | 54,425 |
| Other Income, Net | – | – | – | 1,384 | 17 |
| Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Minority Interest Expense | 1,945 | 1,792 | (4,601) | 3,391 | 9,841 |
| Provision (Benefit) for Income Taxes | 1,697 | 1,435 | (80) | 6,558 | 10,579 |
| Minority Interest Expense | – | – | – | – | 322 |
| Income (Loss) from Continuing Operations | 248 | 357 | (4,521) | (3,167) | (1,060) |
| Income from Discontinued Operations | – | – | – | 201 | 241 |
| Loss on Sale of Discontinued Operations | – | – | – | – | (13,400) |
| Income (Loss) Before Extraordinary Charge | 248 | 357 | (4,521) | (2,966) | (14,219) |
| Extraordinary Charge (net of tax benefit) | – | 2,126 | – | – | – |
| Net Income (Loss) Before Warrant Accretion | 248 | (1,769) | (4,521) | (2,966) | (14,219) |
| Accretion of Redeemable Put Warrant | 2,107 | 280 | – | – | – |
| Net Loss Applicable to Common Stockholders | $ (1,859) | $ (2,049) | $ (4,521) | $ (2,966) | $ (14,219) |
| | | | | | |
| Net Loss per Common Share–Basic and Diluted: | | | | | |
| Income (Loss) from Continuing Operations | $ (32.61) | $ 0.00 | $ (0.26) | $ (0.12) | $ (0.03) |
| Income from Discontinued Operations | – | – | – | 0.01 | 0.01 |
| Loss on Sale of Discontinued Operations | – | – | – | – | (0.41) |
| Income (Loss) Before Extraordinary Charge | (32.61) | 0.00 | (0.26) | (0.11) | (0.43) |
| Extraordinary Charge (net of tax benefit) | – | (0.15) | – | – | – |
| Net Loss Applicable to Common Stockholders | $ (32.61) | $ (0.15) | $ (0.26) | $ (0.11) | $ (0.43) |
| Weighted Average Common Shares Outstanding–Basic and Diluted | 57 | 13,911 | 17,172 | 27,470 | 33,345 |
| Pro Forma(1): | | | | | |
| Net Loss Applicable to Common Stockholders | $ (0.16) | $ (0.13) | $ (0.26) | $ (0.11) | $ (0.43) |
| Weighted Average Common Shares Outstanding | 11,676 | 15,206 | 17,172 | 27,470 | 33,345 |

| Year Ended December 31, | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Other Data:** | | | | | |
| EBITDA from Continuing Operations(2) | $ 26,124 | $ 33,629 | $ 50,218 | $ 95,981 | $ 129,671 |
| EBITDA from Continuing Operations as a Percentage of Total Revenues | 25.0% | 24.2% | 24.1% | 25.0% | 25.0% |

| As of December 31, | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and Cash Equivalents | $ 1,585 | $ 3,453 | $ 24,510 | $ 1,715 | $ 3,830 |
| Total Assets | 186,881 | 281,799 | 636,786 | 967,385 | 1,317,212 |
| Total Debt | 121,874 | 184,733 | 428,018 | 456,178 | 612,947 |
| Stockholders' Equity | 21,011 | 52,384 | 137,733 | 338,882 | 488,754 |

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(1) Represents pro forma earnings per share as if the preferred stock that was converted into Company common stock in connection with the Company's initial public offering had been converted for all periods presented.

(2) Based on the Company's experience in the records and information management services ("RIMS") industry, management believes that EBITDA is an important tool for measuring the performance of RIMS companies (including potential acquisition targets) in several areas, such as liquidity, operating performance and leverage. In addition, lenders use EBITDA-based calculations as a criterion in evaluating RIMS companies, and substantially all of the Company's financing agreements contain covenants in which EBITDA-based calculations are used as a measure of financial performance. However, EBITDA should not be considered an alternative to operating or net income (as determined in accordance with generally accepted accounting principles ("GAAP")) as an indicator of the Company's performance or to cash flow from operations (as determined in accordance with GAAP) as a measure of liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operation–Overview" and "–Liquidity and Capital Resources" for discussions of other measures of performance determined in accordance with GAAP and the Company's sources and applications of cash flow.

The following discussion should be read in conjunction with "Selected Consolidated Financial and Operating Information" and the Company's Consolidated Financial Statements and the Notes thereto and the other financial and operating information included elsewhere in this Annual Report.

## OVERVIEW

The Company's primary financial objective has been to increase consolidated EBITDA, which is a source of funds for investment in continued internal growth and growth through acquisitions and to service indebtedness. The Company has benefited from growth in consolidated EBITDA from continuing operations, which has increased from $50.2 million for 1997 to $129.7 million for 1999 (a compound annual growth rate of 60.7%). However, the pursuit of this objective has negatively affected other measures of the Company's financial performance, such as consolidated net income.

For the years ended December 31, 1997 through 1999, the Company experienced consolidated net losses. The Company attributes such losses in part to significant charges associated with the pursuit of its growth strategy, namely:

- increases in depreciation expense associated with expansion of storage capacity;
- increases in goodwill amortization associated with acquisitions accounted for under the purchase method; and
- increases in interest expense associated with the borrowings used to fund acquisitions.

In June 1999, in order to focus on its RIMS business, the Company decided to sell its information technology staffing business ("IT Staffing"), Arcus Staffing. The Company acquired Arcus Staffing in January 1998 as part of its acquisition of Arcus Group. The Company has accounted for the sale of Arcus Staffing as a loss from discontinued operations. Accordingly, the results of operations of Arcus Staffing have been segregated from continuing operations and reported as a separate line item on the consolidated statements of operations discussed in Note 9 of the Company's Notes to Consolidated Financial Statements. The net loss on the sale of Arcus Staffing ($13.4 million) consists primarily of the write-off of nondeductible goodwill.

The Company's revenues consist of storage revenues as well as service and storage material sales revenues. Storage revenues consist of periodic charges related to the storage of materials (either on a per unit or per cubic foot of records basis) and have accounted for approximately 60% of total revenues in each of the last five years. In certain circumstances, based upon customer requirements, storage revenues include periodic charges associated with normal, recurring service activities. Service and storage material sales revenues are comprised of charges for related service activities, the sale of storage materials and courier operations. Courier operations consist primarily of the pickup and delivery of records upon customer request. Related service revenues arise from additions of new records, temporary removal of records from storage, refiling of removed records, destructions of records, permanent withdrawals from storage and sales of specially designed storage containers, magnetic media, including computer tapes and related supplies. Customers are generally billed on a monthly basis on contractually agreed-upon terms.

Cost of sales (excluding depreciation) consists primarily of wages and benefits for field personnel, facility occupancy costs, vehicle and other equipment costs and supplies. Of these, wages and benefits and facility occupancy costs are the most significant.

Selling, general and administrative expenses consist primarily of wages and benefits for management, administrative, sales and marketing personnel, as well as expenses related to travel, communications, professional fees, bad debts, training, office equipment and supplies.

The Company's depreciation and amortization charges result primarily from the capital-intensive nature of its business and the acquisitions that the Company has completed. The principal components of depreciation relate to racking systems and related equipment, new buildings and leasehold improvements, equipment for new facilities and computer system hardware and software. Amortization relates primarily to goodwill arising from acquisitions and customer acquisition costs. The Company has accounted for all of its acquisitions under the purchase method. Since the purchase price for RIMS companies is usually substantially in excess of the fair value of their net assets, these purchases have given rise to significant goodwill and, accordingly, significant levels of amortization. Although amortization is a non-cash charge, it does decrease reported consolidated net income. Because certain of the Company's acquisitions have given rise to nondeductible goodwill, the Company's effective tax rate is higher than the statutory rate.

EBITDA (earnings before interest, taxes, depreciation, amortization, extraordinary items, other income and merger-related expenses) is an important financial performance measure in the RIMS industry, both for determining the value of companies within the industry and for defining standards for borrowing from institutional lenders. Merger-related expenses are primarily those expenses directly related to the merger of Iron Mountain and Pierce Leahy that cannot be capitalized and include the cost of exiting certain facilities, certain severance and pay-to-stay payments, certain system conversion costs and other transaction-related costs (some of the aforementioned costs may be reported separately as restructuring charges). The Company's EBITDA margins from continuing operations were 24.1% for 1997, 25.0% for 1998 and 25.0% for 1999. The adoption in 1999 of newly-issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), negatively impacted the Company's 1999 EBITDA margin. Excluding the impact of SOP 98-1, the Company's EBITDA margin for 1999 would have been 25.6%. SOP 98-1 requires certain computer software costs associated with internal use software (primarily data conversion costs), which were previously capitalizable, to be expensed as incurred. Further, the Company acquired 18 RIMS businesses in 1997, 15 in 1998 and 17 in 1999, most of which had lower EBITDA margins than the rest of its business. The Company generally did not realize anticipated synergies relating to such acquisitions immediately. Nonetheless, the Company was able to increase its recent EBITDA margins through improved overall operating efficiencies, economies of scale and the realization of synergies in connection with earlier acquisitions.

On February 1, 2000, the Company completed its acquisition of Pierce Leahy in a stock-for-stock merger valued at approximately $1.1 billion, including the assumption of debt and related transaction costs as discussed in Note 17 of Notes to the Company's Consolidated Financial Statements.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information derived from the Company's consolidated statements of operations, expressed as a percentage of total consolidated revenues.

| **Year Ended December 31,** | **1997** | **1998** | **1999** |
|---|---|---|---|
| Revenues: | | | |
| Storage | 60.3% | 60.1% | 61.1% |
| Service and Storage Material Sales | 39.7 | 39.9 | 38.9 |
| Total Revenues | 100.0 | 100.0 | 100.0 |
| Operating Expenses: | | | |
| Cost of Sales (Excluding Depreciation) | 51.2 | 50.0 | 50.2 |
| Selling, General and Administrative | 24.7 | 25.0 | 24.8 |
| Depreciation and Amortization | 13.0 | 12.6 | 12.6 |
| Total Operating Expenses | 88.9 | 87.6 | 87.6 |
| Operating Income | 11.1 | 12.4 | 12.4 |
| Interest Expense | 13.3 | 11.9 | 10.5 |
| Other Income, Net | – | 0.4 | 0.0 |
| Income (Loss) from Continuing Operations Before Provision for Income Taxes and Minority Interest Expense | (2.2) | 0.9 | 1.9 |
| Provision for Income Taxes | – | 1.7 | 2.0 |
| Minority Interest Expense | – | – | 0.1 |
| Loss from Continuing Operations | (2.2) | (0.8) | (0.2) |
| Income from Discontinued Operations | – | 0.1 | 0.1 |
| Loss on Sale of Discontinued Operations | – | – | (2.6) |
| Net Loss Applicable to Common Stockholders | (2.2)% | (0.7)% | (2.7)% |
| | | | |
| EBITDA from Continuing Operations | 24.1% | 25.0% | 25.0% |

## YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Consolidated storage revenues increased $86.7 million, or 37.6%, to $317.4 million for the year ended December 31, 1999 from $230.7 million for the year ended December 31, 1998, primarily due to the completion of 32 acquisitions during 1999 and 1998. Consolidated internal revenue growth was 10.9% and resulted primarily from net increases in records and other media stored by existing customers and from sales to new customers.

Consolidated service and storage material sales revenues increased $48.9 million, or 31.9%, to $202.2 million for the year ended December 31, 1999 from $153.3 million for the year ended December 31, 1998, primarily due to acquisitions. Internal revenue growth was 16.7% and resulted from increases in service and storage material sales to existing customers and the addition of new customer accounts.

For the reasons discussed above, total consolidated revenues increased $135.6 million, or 35.3%, to $519.5 million for the year ended December 31, 1999 from $384.0 million for the year ended December 31, 1998. Total internal revenue growth was 13.2%.

Consolidated cost of sales (excluding depreciation) increased $68.8 million, or 35.8%, to $260.9 million (50.2% of consolidated revenues) for the year ended December 31, 1999 from $192.1 million (50.0% of consolidated revenues) for the year ended December 31, 1998. The dollar increase was primarily attributable to the additional facility and personnel costs needed to service the increase in records and other media stored.

Consolidated selling, general and administrative expenses increased $33.1 million, or 34.5%, to $128.9 million (24.8% of consolidated revenues) for the year ended December 31, 1999 from $95.9 million (25.0% of consolidated revenues) for the year ended December 31, 1998. The dollar increase is primarily attributable to:

- the adoption, effective January 1, 1999, of SOP 98-1, which requires certain computer software costs associated with internal use software (primarily data conversion costs) that were previously capitalizable to be expensed as incurred ($3.3 million in 1999);
- the addition of personnel and other overhead costs related primarily to the acquisitions of First American Records Management, Inc. and Data Base, Inc. ("Data Base");
- increased investment in sales and marketing to drive internal growth; and
- increased personnel, office and overhead costs to support growth.

Consolidated depreciation and amortization expense increased $17.1 million, or 35.4%, to $65.4 million (12.6% of consolidated revenues) for the year ended December 31, 1999 from $48.3 million (12.6% of consolidated revenues) for the year ended December 31, 1998. The dollar increase is primarily attributable to the additional depreciation and amortization expense related to acquisitions and capital expenditures, including racking systems, information systems and expansion of storage capacity in existing facilities.

As a result of the foregoing factors, consolidated operating income increased $16.6 million, or 34.8%, to $64.2 million (12.4% of consolidated revenues) for the year ended December 31, 1999 from $47.7 million (12.4% of consolidated revenues) for the year ended December 31, 1998.

Consolidated interest expense increased $8.8 million, or 19.2%, to $54.4 million for the year ended December 31, 1999 from $45.7 million for the year ended December 31, 1998. The increase was primarily attributable to increased indebtedness related to the financing of acquisitions and capital expenditures. Such increase was partially offset by lower effective interest rates for the year ended December 31, 1999 compared to the same period in 1998.

As a result of the foregoing factors, consolidated income from continuing operations before the provision for income taxes and minority interest expense increased $6.5 million to income of $9.8 million (1.9% of consolidated revenues) for the year ended December 31, 1999 from income of $3.4 million (0.9% of consolidated revenues) for the year ended December 31, 1998. The provision for income taxes was $10.6 million for the year ended December 31, 1999 compared to $6.6 million for the year ended December 31, 1998. The Company's effective tax rate is higher than statutory rates primarily due to the amortization of the nondeductible portion of goodwill associated with particular acquisitions (the tax laws generally permit deduction of goodwill amortization for asset purchases, but not for acquisitions of stock). In connection with its 1999 acquisitions, the Company recorded approximately $148.5 million in nondeductible goodwill.

Consolidated net loss increased $11.3 million to a net loss of $14.2 million (2.7% of consolidated revenues) for the year ended December 31, 1999 from a consolidated net loss of $3.0 million (0.7% of consolidated revenues) for the year ended December 31, 1998. The increase in net loss is primarily due to the loss on sale of discontinued operations of $13.4 million.

As a result of the foregoing factors, consolidated EBITDA from continuing operations increased $33.7 million, or 35.1%, to $129.7 million (25.0% of consolidated revenues) for the year ended December 31, 1999 from $96.0 million (25.0% of consolidated revenues) for the year ended December 31, 1998.

## YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Consolidated storage revenues increased $104.7 million, or 83.1%, to $230.7 million for the year ended December 31, 1998 from $126.0 million for the year ended December 31, 1997, primarily due to the completion of 33 acquisitions during 1998 and 1997. Internal revenue growth was 10.2% and resulted primarily from net increases in records and other media stored by existing customers and from sales to new customers.

Consolidated service and storage material sales revenues increased $70.5 million, or 85.1%, to $153.3 million for the year ended December 31, 1998 from $82.8 million for the year ended December 31, 1997, primarily due to acquisitions. Internal revenue growth was 14.6% and resulted from increases in service and storage material sales to existing customers and the addition of new customer accounts.

For the reasons discussed above, total consolidated revenues increased $175.2 million, or 83.9%, to $384.0 million for the year ended December 31, 1998 from $208.8 million for the year ended December 31, 1997. Total internal revenue growth was 11.9%.

Consolidated cost of sales (excluding depreciation) increased $85.2 million, or 79.7%, to $192.1 million (50.0% of consolidated revenues) for the year ended December 31, 1998 from $106.9 million (51.2% of consolidated revenues) for the year ended December 31, 1997. The dollar increase is primarily attributable to the increase in records and other media stored and expenses related to facility relocations. The decrease as a percentage of revenues is primarily attributable to:

- particular data security acquisitions, including the Arcus Group acquisition and the acquisition of a software escrow business, acquired in the third quarter of 1997, with a higher gross margin than the rest of the Company; and
- the closing of redundant facilities associated with particular acquisitions.

Consolidated selling, general and administrative expenses increased $44.2 million, or 85.5%, to $95.9 million (25.0% of consolidated revenues) for the year ended December 31, 1998 from $51.7 million (24.7% of consolidated revenues) for the year ended December 31, 1997. The dollar increase is primarily attributable to:

- the addition of overhead attributable to the Arcus Group acquisition;
- additional salespeople, primarily related to the acquisitions of Arcus Group and Safesite Records Management Corporation and its decision to significantly increase its selling resources;
- increased personnel, office and overhead costs to support growth; and
- recruiting, relocation and training expenses associated with acquisition integration.

Consolidated depreciation and amortization expense increased $21.2 million, or 78.2%, to $48.3 million (12.6% of consolidated revenues) for the year ended December 31, 1998 from $27.1 million (13.0% of consolidated revenues) for the year ended December 31, 1997. The dollar increase is primarily attributable to the additional depreciation and amortization expense related to acquisitions and capital expenditures, including racking systems, information systems and expansion of storage capacity in existing facilities.

As a result of the foregoing factors, consolidated operating income increased $24.6 million, or 106.3%, to $47.7 million (12.4% of consolidated revenues) for the year ended December 31, 1998 from $23.1 million (11.1% of consolidated revenues) for the year ended December 31, 1997.

Consolidated interest expense increased $18.0 million, or 64.8%, to $45.7 million for the year ended December 31, 1998 from $27.7 million for the year ended December 31, 1997. The increase is primarily attributable to increased indebtedness related to the financing of acquisitions and capital expenditures. Such increase was partially offset by lower effective interest rates for the year ended December 31, 1998 compared to the same period in 1997.

Consolidated other income for the year ended

December 31, 1998 is comprised of a $1.7 million gain resulting from the settlement of several insurance claims, including a significant claim under the Company's business interruption insurance policy, related to the March 1997 fires at the Company's South Brunswick Township, New Jersey facilities. A $0.3 million loss on a foreign currency transaction in connection with the acquisition of Iron Mountain Europe partially offset such gain.

As a result of the foregoing factors, consolidated income (loss) from continuing operations before the provision (benefit) for income taxes increased $8.0 million to income of $3.4 million (0.9% of consolidated revenues) for the year ended December 31, 1998 from a loss of $4.6 million (2.2% of consolidated revenues) for the year ended December 31, 1997. The provision for income taxes was $6.6 million for the year ended December 31, 1998 compared to a benefit of $0.1 million for the year ended December 31, 1997. The Company's effective tax rate is higher than statutory rates primarily due to the amortization of the nondeductible portion of goodwill associated with particular acquisitions (the tax laws generally permit deduction of goodwill amortization for asset purchases, but not for acquisitions of stock). In connection with its 1998 acquisitions, the Company recorded approximately $128.1 million in nondeductible goodwill.

Consolidated net loss decreased $1.5 million to a net loss of $3.0 million (0.7% of consolidated revenues) for the year ended December 31, 1998 from a consolidated net loss of $4.5 million (2.2% of consolidated revenues) for the year ended December 31, 1997.

As a result of the foregoing factors, consolidated EBITDA from continuing operations increased $45.8 million, or 91.1%, to $96.0 million (25.0% of consolidated revenues) for the year ended December 31, 1998 from $50.2 million (24.1% of consolidated revenues) for the year ended December 31, 1997.

## RECENT CONSOLIDATED QUARTERLY FINANCIAL DATA

The following table sets forth, for the quarterly periods indicated, information derived from the Company's consolidated statements of operations. The unaudited quarterly information has been prepared on the same basis as the annual financial information and, in management's opinion, includes all adjustments (consisting of normal recurring accruals) necessary to present fairly the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for the year or for any future period.

| **(In thousands)** | **1998** | | | | **1999** | | | |
|---|---|---|---|---|---|---|---|---|
| **Three Months Ended** | **Mar. 31** | **June 30** | **Sept. 30** | **Dec. 31** | **Mar. 31** | **June 30** | **Sept. 30** | **Dec. 31** |
| Revenues: | | | | | | | | |
| Storage | $ 52,948 | $ 55,592 | $ 59,506 | $ 62,656 | $ 67,722 | $ 79,928 | $ 82,339 | $87,398 |
| Service and Storage Material Sales | 36,108 | 37,872 | 39,038 | 40,241 | 41,649 | 51,837 | 54,568 | 54,108 |
| Total Revenues | 89,056 | 93,464 | 98,544 | 102,897 | 109,371 | 131,765 | 136,907 | 141,506 |
| Operating Expenses: | | | | | | | | |
| Cost of Sales (Excluding Depreciation) | 44,917 | 46,756 | 49,506 | 50,934 | 54,435 | 66,167 | 69,226 | 71,102 |
| Selling, General and Administrative | 22,360 | 23,638 | 24,069 | 25,800 | 27,875 | 32,938 | 33,381 | 34,754 |
| Depreciation and Amortization | 11,058 | 11,903 | 12,630 | 12,710 | 13,595 | 16,281 | 16,338 | 19,208 |
| Total Operating Expenses | 78,335 | 82,297 | 86,205 | 89,444 | 95,905 | 115,386 | 118,945 | 125,064 |
| Operating Income | $ 10,721 | $ 11,167 | $ 12,339 | $ 13,453 | $ 13,466 | $ 16,379 | $ 17,962 | $16,442 |
| | | | | | | | | |
| EBITDA from Continuing Operations | $ 21,779 | $ 23,070 | $ 24,969 | $ 26,163 | $ 27,061 | $ 32,660 | $ 34,300 | $35,650 |

## LIQUIDITY AND CAPITAL RESOURCES

**Recent Financings and Sources of Funds.** In May 1999, the Company issued and sold an aggregate of 5,750,000 shares (including 750,000 to cover over-allotments) of its common stock in an underwritten public offering (the "1999 Equity Offering"). Net proceeds after deducting underwriters' discounts were $153.8 million and were used to repay outstanding bank debt, to repurchase all of the Company's common stock issued in connection with the Data Base acquisition and for general corporate purposes.

The Company's net cash provided by financing activities was $257.9 million for the year ended December 31, 1999, consisting primarily of the net proceeds of $153.8 million from the 1999 Equity Offering, the net proceeds of $149.5 million from the sale of the Company's 8 1/4% Senior Subordinated Notes due 2011 (the "1999 Notes") and $11.6 million of proceeds from Iron Mountain Europe's minority shareholder to fund Iron Mountain Europe's acquisitions, offset by $14.5 million of net repayment of indebtedness and a payment of $39.5 million in connection with the repurchase of the Company's common stock issued in connection with the Data Base acquisition. As of December 31, 1999, outstanding borrowings under the Company's $250 million credit facility (the "Credit Agreement") amounted to $5.0 million.

As of December 31, 1999, the annual maturities of the Company's indebtedness for the years ending December 31, 2000, 2001, 2002, 2003 and 2004 were $9.9 million, $18.5 million, $8.3 million, $3.4 million and $3.3 million, respectively. See Note 4 of Notes to the Company's Consolidated Financial Statements. None of the Company's public debt is subject to scheduled mandatory redemption before 2006.

Effective February 1, 2000, the Company amended and restated the Credit Agreement (the "Amended Credit Agreement") to repay Pierce Leahy's credit facility, to increase the aggregate principal amount available to $400.0 million and to include the ability to borrow in certain foreign currencies. The facility matures on January 27, 2005. Interest on borrowings under the Amended Credit Agreement will be paid at the Company's choice of four different variable interest rates. Restrictive covenants under the Amended Credit Agreement are similar to those contained in the Credit Agreement. See Note 4 of Notes to Iron Mountain's Consolidated Financial Statements. As of March 1, 2000, the Company had outstanding borrowings of approximately $201 million under the Amended Credit Agreement, which were used to fund, among other things, the repayment of Pierce Leahy's revolving credit facility, the purchase price of recent acquisitions, general corporate expenses and merger costs.

As of March 1, 2000, the Company had approximately $1.2 billion of total debt, of which $1.0 billion had fixed interest rates and $0.2 billion had variable interest rates.

Net cash provided by continuing operations was $56.3 million for the year ended December 31, 1999, compared to $67.1 million for the same period in 1998. The decrease was primarily attributable to the increase in accounts receivable and other current assets, offset by the increase in EBITDA and accrued expenses.

At December 31, 1999, the Company had estimated net operating loss carryforwards of approximately $59 million for federal income tax purposes. As a result of such loss carryforwards, cash paid for income taxes has historically been substantially lower than the provision for income taxes. The preceding net operating loss carryforwards do not include additional preacquisition net operating loss carryforwards of Arcus Group. Any tax benefit realized will be recorded as a reduction of goodwill when, and if, realized. The Arcus Group carryforwards expire in nine years.

**Capital Investments.** As the Company has sought to increase its EBITDA, it has made significant capital investments, consisting primarily of: (i) acquisitions, (ii) the purchase and construction of real estate, (iii) other capital expenditures and (iv) customer acquisition costs. These investments have been primarily funded through cash flows from operations, borrowings under the Credit Agreement, a portion of the net proceeds from the sale of the 1999 Notes and the net proceeds from the 1999 Equity Offering.

Cash paid for acquisitions was $212.2 million in 1999. In connection with the acquisition of Data Base, the Company issued common stock with an aggregate fair value of $46.0 million. During 1999, the Company received net proceeds of $8.2 million in connection with the sale of Arcus Staffing as discussed in Note 9 of Notes to the Company's Consolidated Financial Statements.

In connection with its acquisition of Data Base, the Company issued 1,476,577 shares of its common stock with a fair value of $46.0 million. Subsequently, all 1,476,577 shares were repurchased for $39.5 million.

From January 1, 2000 to March 1, 2000, the Company acquired two additional businesses (excluding the acquisition of Pierce Leahy). The total cost of these two acquisitions was $11.7 million in cash.

The Company expects to record reserves for the acquisitions completed between January 1, 2000 and March 1, 2000 and is currently evaluating its restructuring plans. The Company will continue to re-evaluate its restructuring plans regarding these acquisitions, as well as those made by Iron Mountain and Pierce Leahy during 1999, during the year following their consummation.

On February 1, 2000, Iron Mountain completed the acquisition of Pierce Leahy in a stock-for-stock merger valued at approximately $1.1 billion. Because immediately after the merger former Iron Mountain stockholders owned approximately 65% of the Company's outstanding Common Stock, the acquisition will be accounted for as a reverse acquisition, with Iron Mountain treated as the acquirer. The total consideration for this transaction was comprised of: (i) 18.8 million shares of Common Stock with a fair value of approximately $444 million; (ii) options to acquire approximately 1.5 million shares of Common Stock with a fair value of approximately $25 million; (iii) assumed Pierce Leahy debt with a fair value of approximately $579 million; and (iv) approximately $4 million of capitalized transaction costs. The acquisition will be accounted for under the purchase method.

On February 18, 2000, the Company entered into an agreement with DSC and Suddath Van Lines, Inc. to acquire substantially all of the assets of DSC, as a result of which the Company will acquire the RIMS business of DSC, and will also lease or sublease from DSC, or assume DSC's leases with regard to, certain related real estate. At closing, the Company will pay aggregate consideration of approximately $54 million in cash in connection with the DSC acquisition, including payments to certain officers as consideration for non-competition covenants. The closing of the DSC acquisition is subject to customary conditions and is expected to occur in the second quarter of 2000, although no assurance can be given that it will be completed. The acquisition will be funded with borrowings under the Amended Credit Agreement.

During 1999, total capital expenditures were $98.7 million, of which $23.0 million related to the purchase and construction of real estate. A significant portion of the Company's capital expenditures are related to growth and consist primarily of racking systems, management information systems, new buildings and expansion of storage capacity in existing facilities. Less than 10% of the capital expenditures were expended in order to maintain the Company's then current revenue stream.

The Company currently estimates that its capital expenditures (other than capital expenditures related to future acquisitions, which cannot be presently estimated) for 2000 will be approximately $160 million. The Company expects to fund these expenditures with cash flows from operations and borrowings under the Amended Credit Agreement.

In addition, the Company incurred costs (net of revenues received for the initial transfer of records) related to the acquisition of large volume accounts. In 1999, the Company's additions to customer acquisition costs were $8.1 million.

The Company has begun to assess opportunities in the digital storage business driven by e-commerce and facilitated by the Internet. Services associated with this business would expand the Company's range of services into the use of the Internet to facilitate the backup and storage of customer data. The Company is in the early stages of exploring these new business opportunities, and anticipates investing approximately $10 million to $20 million over the next two years to further develop these opportunities. The Company intends to fund this effort with cash flows from operations and borrowings under the Amended Credit Agreement.

**Acquisitions.** The Company's liquidity and capital resources have been significantly impacted by acquisitions made by the Company and, given the Company's acquisition strategy, may be significantly impacted for the foreseeable future.

The Company has historically financed the cash portion of its acquisitions with borrowings under its credit agreements in conjunction with cash flows provided by operations and with the net proceeds of issuances of debt securities and common stock. The Company's future interest expense may increase significantly as a result of the additional indebtedness it may incur to finance possible future acquisitions. To the extent that future acquisitions are financed by additional borrowings under the Amended Credit Agreement or other credit facilities, or the future issuance of debt securities, the resulting increase in debt and interest expense could have a negative effect on such measures of liquidity as debt to equity, EBITDA to debt and EBITDA to interest expense.

In connection with its acquisition program, the Company has undertaken certain restructurings of the acquired businesses. Formalized restructuring plans for acquisitions are completed within one year of the date of acquisition. The restructuring activities include reductions in staffing levels, elimination of duplicate facilities and other costs associated with exiting certain activities of the acquired businesses. In connection with these restructuring activities, the Company established reserves of $4.2 million in 1999 as part of the purchase accounting for its acquisitions. During 1999, the Company expended $4.8 million for restructuring costs. In addition, the Company made $0.5 million of adjustments, which reduced goodwill, as a result of management's finalizing restructuring plans within one year of acquisition. These expenditures consisted primarily of severance costs and costs related to exiting facilities. At December 31, 1999, the Company had a total of $9.3 million accrued for restructuring costs for all of its then completed acquisitions. See Note 6 to Notes to Iron Mountain's Consolidated Financial Statements.

**Pierce Leahy/Iron Mountain Integration.** The Company is currently in the process of integrating the operations and headquarters functions of Iron Mountain and Pierce Leahy on a "best practices" basis. This process includes the planning, development and execution of an integration plan. During fiscal years 2000 and 2001, the Company expects to integrate overhead and support functions and to begin combining field operations, with the goal of full integration within three years after the merger. Management's current estimate is that the expenditures to integrate the two companies, the majority of which will be incurred over the next two years, will total approximately $15 million. These costs will consist primarily of severance and relocation of employees, transition bonuses, consultants' fees, reimaging expenses and system conversion costs. The accounting treatment will vary based on the nature of the expenses and will be finalized as the integration plans are completed. The Company expects to take a restructuring charge of not more than $5 million during fiscal year 2000 related to the merger. As a result of the integration effort, management expects that the Company will realize an estimated $15 million in annual operating cost savings within three years after the merger. These cost savings will primarily result from the elimination of redundant corporate expenses and more efficient operations and utilization of real estate. The Company intends to fund the integration effort with cash flows from operations and borrowings under the Amended Credit Agreement.

**Future Capital Needs.** The Company's primary financial objective continues to be to increase consolidated EBITDA, which is a source of funds for investment in continued internal growth and growth through acquisitions and to service indebtedness. The Company's ability to generate sufficient cash to fund its needs depends generally on the results of its operations and the availability of financing. Management believes that cash flows from operations in conjunction with borrowings from existing and possible future debt financings will be sufficient for the foreseeable future to meet debt service requirements and to make possible future acquisitions and capital expenditures. However, there can be no assurance in this regard or that the terms available for any future financing, if required, would be favorable to the Company.

**Seasonality.** Historically, the Company's businesses have not been subject to seasonality in any material respect.

**Inflation.** Certain of the Company's expenses, such as wages and benefits, occupancy costs and equipment repair and replacement, are subject to normal inflationary pressures. Although the Company to date has been able to offset inflationary cost increases through increased operating efficiencies and the negotiation of favorable long-term real estate leases, the Company cannot assure that it will be able to offset any future inflationary cost increases through similar efficiencies, leases or increased storage or service charges.

**Foreign Currency Exchange Rates.** The Company generally views its investment in foreign businesses with a functional currency other than the Company's reporting currency as long-term. These investments are sensitive to fluctuations in foreign currency exchange rates. The functional currencies of the Company's foreign subsidiaries are principally denominated in Canadian dollars, British pounds sterling, French francs, Spanish pesetas and Mexican pesos. The effect of a change in foreign exchange rates on the Company's net investment in foreign subsidiaries is reflected in the "Accumulated other comprehensive items" component of shareholders' equity. A 10%

depreciation in year-end 1999 functional currencies, relative to the U.S. dollar, would result in a $4.2 million reduction in stockholders' equity of Iron Mountain, and a $1.3 million reduction in shareholders' equity of Pierce Leahy.

**Year 2000 Impact.** As of the date of this report, the Company has completed its year 2000 initiatives which included: (i) testing and upgrading its operational systems and facilities; (ii) assessing the year 2000 readiness of its key suppliers, vendors and customers; and (iii) developing contingency plans.

As a result of completing these initiatives, the Company believes that all of its operational systems and critical non-information technology systems are year 2000 compliant. In addition, the Company is not aware of any significant supplier or vendor that has experienced material disruption due to year 2000 issues. The Company has also developed a contingency plan to allow its primary business operations to continue despite disruptions due to year 2000 problems, if any, that might yet arise in the future.

While to date the Company has not experienced any negative consequences arising from year 2000 issues, there can be no assurance that in the future the Company's business operations or financial condition may not be impacted by year 2000 problems.

**Quantitative and Qualitative Disclosure About Market Risk.** The Company does not hold any derivative financial instruments or derivative commodity instruments. The Company's investment in Iron Mountain Europe, which was financed with British pounds, as described in Note 2 to Iron Mountain's Notes to Consolidated Financial Statements, and other international investments may be subject to risks and uncertainties relating to fluctuations in currency valuation.

One of the Company's Canadian subsidiaries, Pierce Leahy Canada Company, has U.S. dollar denominated debt. Gains and losses due to exchange rate fluctuations related to this debt are recognized in Pierce Leahy's consolidated statements of operations.

The Company engages neither in speculative nor derivative trading activities. As of December 31, 1999, Iron Mountain had approximately $43 million of debt outstanding with a weighted average variable interest rate of 5.69% and approximately $570 million of fixed rate debt outstanding, while Pierce Leahy had approximately $166 million of debt outstanding with a weighted average variable interest rate of 7.99% and approximately $421 million of fixed rate debt outstanding. If the weighted average variable interest rate had increased by 1%, such increase would have had a negative impact on Iron Mountain's net income for the year ended December 31, 1999 of approximately $683,000 and on Pierce Leahy's net income for the year ended December 31, 1999 of approximately $1.5 million. See Note 4 to Notes to Iron Mountain's Consolidated Financial Statements for a discussion of Iron Mountain's long-term indebtedness, including the fair values of such indebtedness as of December 31, 1999. See also Note 3 to Notes to Pierce Leahy's Consolidated Financial Statements, which are set forth in the annual report on Form 10-K for the year ended December 31, 1999.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Iron Mountain Incorporated:

We have audited the accompanying consolidated balance sheets of Iron Mountain Incorporated (a Delaware corporation) and its subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive loss and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Iron Mountain Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Iron Mountain Europe Limited as of October 31, 1999, which statements reflect total assets and total revenues of 12 percent and 6 percent in 1999, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Iron Mountain Incorporated and its subsidiaries as of December 31, 1998 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
February 28, 2000

## CONSOLIDATED BALANCE SHEETS

*(In thousands)*

| December 31, | 1998 | 1999 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,715 | $ 3,830 |
| Accounts receivable (less allowances of $3,316 and $5,740 as of 1998 and 1999, respectively) | 75,565 | 104,074 |
| Foreign currency transaction receivable | 45,885 | – |
| Deferred income taxes | 10,474 | 12,475 |
| Prepaid expenses and other | 10,298 | 23,285 |
| Total Current Assets | 143,937 | 143,664 |
| Property, Plant and Equipment: | | |
| Property, plant and equipment | 354,101 | 497,369 |
| Less—Accumulated depreciation | (87,358) | (93,630) |
| Net Property, Plant and Equipment | 266,743 | 403,739 |
| Other Assets: | | |
| Goodwill, net | 527,235 | 729,213 |
| Customer acquisition costs, net | 9,574 | 16,742 |
| Deferred financing costs, net | 13,392 | 16,549 |
| Other | 6,504 | 7,305 |
| Total Other Assets | 556,705 | 769,809 |
| Total Assets | $ 967,385 | $ 1,317,212 |

| | | |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Current portion of long-term debt | $ 1,731 | $ 9,890 |
| Accounts payable | 20,620 | 25,770 |
| Accrued expenses | 48,539 | 68,519 |
| Foreign currency transaction payable | 46,200 | – |
| Deferred income | 26,043 | 32,981 |
| Other current liabilities | 339 | 13,188 |
| Total Current Liabilities | 143,472 | 150,348 |
| Long-term Debt, net of current portion | 454,447 | 603,057 |
| Other Long-Term Liabilities | 8,925 | 5,749 |
| Deferred Rent | 9,616 | 10,819 |
| Deferred Income Taxes | 12,043 | 16,207 |
| Commitments and Contingencies (see Note 13) | | |
| Minority Interest | – | 42,278 |
| Stockholders' Equity: | | |
| Common stock | 294 | 369 |
| Additional paid-in capital | 355,927 | 560,620 |
| Accumulated deficit | (17,339) | (31,558) |
| Accumulated other comprehensive items | – | (1,193) |
| Treasury stock | – | (39,484) |
| Total Stockholders' Equity | 338,882 | 488,754 |
| Total Liabilities and Stockholders' Equity | $ 967,385 | $ 1,317,212 |

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

*(In thousands, except per share data)*

| **Year Ended December 31,** | **1997** | **1998** | **1999** |
|---|---|---|---|
| Revenues: | | | |
| Storage | $ 125,968 | $ 230,702 | $ 317,387 |
| Service and storage material sales | 82,797 | 153,259 | 202,162 |
| Total Revenues | 208,765 | 383,961 | 519,549 |
| Operating Expenses: | | | |
| Cost of sales (excluding depreciation) | 106,879 | 192,113 | 260,930 |
| Selling, general and administrative | 51,668 | 95,867 | 128,948 |
| Depreciation and amortization | 27,107 | 48,301 | 65,422 |
| Total Operating Expenses | 185,654 | 336,281 | 455,300 |
| Operating Income | 23,111 | 47,680 | 64,249 |
| Interest Expense | 27,712 | 45,673 | 54,425 |
| Other Income, net | – | 1,384 | 17 |
| Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Minority Interest Expense | (4,601) | 3,391 | 9,841 |
| Provision (Benefit) for Income Taxes | (80) | 6,558 | 10,579 |
| Minority Interest Expense | – | – | 322 |
| Loss from Continuing Operations | (4,521) | (3,167) | (1,060) |
| Income from Discontinued Operations | – | 201 | 241 |
| Loss on Sale of Discontinued Operations | – | – | (13,400) |
| Net Loss Applicable to Common Stockholders | $ (4,521) | $ (2,966) | $ (14,219) |
| | | | |
| Net Loss per Common Share—Basic and Diluted: | | | |
| Loss from Continuing Operations | $ (0.26) | $ (0.12) | $ (0.03) |
| Income (Loss) from Discontinued Operations | – | 0.01 | (0.40) |
| Net Loss per Common Share | $ (0.26) | $ (0.11) | $ (0.43) |
| | | | |
| Weighted Average Common Shares Outstanding—Basic and Diluted | 17,172 | 27,470 | 33,345 |

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

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

*(In thousands, except share data)*

| | Common Stock–Voting | | Common Stock–Non-Voting | |
|---|---|---|---|---|
| **STOCKHOLDERS' EQUITY:** | **Shares** | **Amount** | **Shares** | **Amount** |
| Balance, December 31, 1996 | 14,486,486 | $ 145 | 715,942 | $ 7 |
| Exercise of stock options, including tax benefit | 123,657 | 1 | – | – |
| Issuance of shares for services | 2,751 | – | – | – |
| Shares and options issued in connection with acquisitions, net of issuance costs | 4,851,341 | 49 | – | – |
| Conversion of common stock–nonvoting to common stock–voting | 715,942 | 7 | (715,942) | (7) |
| Net loss | – | – | – | – |
| Balance, December 31, 1997 | 20,180,177 | 202 | – | – |
| Shares and options issued in connection with acquisitions, net of issuance costs | 2,645,913 | 26 | – | – |
| Issuance of shares in secondary public offering, net of issuance costs | 6,037,500 | 60 | – | – |
| Exercise of stock options, including tax benefit | 566,615 | 6 | – | – |
| Net loss | – | – | – | – |
| Balance, December 31, 1998 | 29,430,205 | 294 | – | – |
| Shares and options issued in connection with acquisitions, net of issuance costs | 1,476,577 | 15 | – | – |
| Issuance of shares in secondary public offering, net of issuance costs | 5,750,000 | 57 | – | – |
| Issuance of shares under employee stock purchase plan and option plans, including tax benefit | 286,830 | 3 | – | – |
| Acceleration of option vesting in connection with sale of business | – | – | – | – |
| Currency translation adjustment | – | – | – | – |
| Purchase of treasury shares | – | – | – | – |
| Net loss | – | – | – | – |
| Balance, December 31, 1999 | 36,943,612 | $ 369 | – | $ – |

| **COMPREHENSIVE LOSS:** | **1997** | **1998** | **1999** |
|---|---|---|---|
| Net loss | $ (4,521) | $ (2,966) | $ (14,219) |
| Foreign currency translation adjustment | – | – | (1,193) |
| Comprehensive loss | $ (4,521) | $ (2,966) | $ (15,412) |

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

| STOCKHOLDERS' EQUITY: | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Items | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance, December 31, 1996 | $ 62,084 | $ (9,852) | $ – | $ – | $ 52,384 |
| Exercise of stock options, including tax benefit | 1,532 | – | – | – | 1,533 |
| Issuance of shares for services | 52 | – | – | – | 52 |
| Shares and options issued in connection with acquisitions, net of issuance costs | 88,236 | – | – | – | 88,285 |
| Conversion of common stock–nonvoting to common stock–voting | – | – | – | – | – |
| Net loss | – | (4,521) | – | – | (4,521) |
| Balance, December 31, 1997 | 151,904 | (14,373) | – | – | 137,733 |
| Shares and options issued in connection with acquisitions, net of issuance costs | 66,888 | – | – | – | 66,914 |
| Issuance of shares in secondary public offering, net of issuance costs | 131,961 | – | – | – | 132,021 |
| Exercise of stock options, including tax benefit | 5,174 | – | – | – | 5,180 |
| Net loss | – | (2,966) | – | – | (2,966) |
| Balance, December 31, 1998 | 355,927 | (17,339) | – | – | 338,882 |
| Shares and options issued in connection with acquisitions, net of issuance costs | 45,745 | – | – | – | 45,760 |
| Issuance of shares in secondary public offering, net of issuance costs | 152,486 | – | – | – | 152,543 |
| Issuance of shares under employee stock purchase plan and option plans, including tax benefit | 6,179 | – | – | – | 6,182 |
| Acceleration of option vesting in connection with sale of business | 283 | – | – | – | 283 |
| Currency translation adjustment | – | – | (1,193) | – | (1,193) |
| Purchase of treasury shares | – | – | – | (39,484) | (39,484) |
| Net loss | – | (14,219) | – | – | (14,219) |
| Balance, December 31, 1999 | $560,620 | $ (31,558) | $ (1,193) | $ (39,484) | $ 488,754 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)*

| Year Ended December 31, | 1997 | 1998 | 1999 |
|---|---|---|---|
| Cash Flows from Operating Activities: | | | |
| Net loss | $ (4,521) | $ (2,966) | $ (14,219) |
| Adjustments to reconcile net loss to loss from continuing operations: | | | |
| Income from discontinued operations | – | (201) | (241) |
| Loss on sale of discontinued operations | – | – | 13,400 |
| Loss from Continuing Operations | (4,521) | (3,167) | (1,060) |
| Adjustments to reconcile loss from continuing operations to cash flows provided by operating activities: | | | |
| Minority interest expense | – | – | 322 |
| Depreciation and amortization | 27,107 | 48,301 | 65,422 |
| Amortization of financing costs | 1,095 | 1,801 | 1,981 |
| Provision for doubtful accounts | 874 | 1,730 | 2,733 |
| Other, net | 52 | 316 | 238 |
| Changes in Assets and Liabilities (exclusive of acquisitions): | | | |
| Accounts receivable | (4,433) | (12,924) | (22,996) |
| Prepaid expenses and other current assets | (2,949) | 4,410 | (9,691) |
| Deferred income taxes | 1,190 | 9,058 | 8,989 |
| Other assets | – | 13 | 663 |
| Accounts payable | 4,653 | 5,282 | 2,009 |
| Accrued expenses | (1,115) | (127) | 5,934 |
| Other current liabilities | 485 | – | 372 |
| Deferred rent | 551 | 1,414 | 1,203 |
| Deferred income | 671 | 7,369 | 3,331 |
| Other long-term liabilities | (1,240) | 3,587 | (3,176) |
| Cash Flows Provided by Continuing Operations | 22,420 | 67,063 | 56,274 |
| Cash Flows Provided by (Used in) Discontinued Operations | – | 67 | (836) |
| Cash Flows Provided by Operating Activities | 22,420 | 67,130 | 55,438 |
| Cash Flows from Investing Activities: | | | |
| Cash paid for acquisitions, net of cash acquired | (192,230) | (189,729) | (212,160) |
| Capital expenditures | (38,320) | (55,927) | (98,657) |
| Additions to customer acquisition costs | (1,635) | (3,024) | (8,122) |
| Other, net | (333) | – | – |
| Cash Flows Used in Continuing Operations | (232,518) | (248,680) | (318,939) |
| Cash Flows Provided by (Used in) Discontinued Operations | – | (527) | 7,814 |
| Cash Flows Used in Investing Activities | (232,518) | (249,207) | (311,125) |
| Cash Flows from Financing Activities: | | | |
| Repayment of debt | (178,181) | (171,080) | (249,654) |
| Proceeds from borrowings | 167,850 | 194,811 | 235,141 |
| Debt financing from minority shareholder | – | – | 11,636 |
| Net proceeds from sale of senior subordinated notes. | 242,640 | – | 149,460 |
| Proceeds from secondary equity offering, net of underwriting discount | – | 132,905 | 153,755 |
| Repurchase of common stock | – | – | (39,484) |
| Exercise of stock options | 786 | 4,482 | 3,589 |
| Financing costs | (1,291) | (764) | (5,138) |
| Stock issuance costs | (649) | (1,072) | (1,452) |
| Cash Flows Provided by Continuing Operations | 231,155 | 159,282 | 257,853 |
| Cash Flows Provided by Discontinued Operations | – | – | – |
| Cash Flows Provided by Financing Activities | 231,155 | 159,282 | 257,853 |
| Effect of exchange rates on cash and cash equivalents | – | – | (51) |
| Increase (Decrease) in Cash and Cash Equivalents | 21,057 | (22,795) | 2,115 |
| Cash and Cash Equivalents, Beginning of Year | 3,453 | 24,510 | 1,715 |
| Cash and Cash Equivalents, End of Year | $ 24,510 | $ 1,715 | $ 3,830 |
| Supplemental Information: | | | |
| Cash Paid for Interest | $ 22,440 | $ 42,407 | $ 46,555 |
| Cash Paid for Income Taxes | $ 1,306 | $ 1,700 | $ 1,916 |

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

*(In thousands, except share data)*

## 1. NATURE OF BUSINESS

The accompanying financial statements represent the consolidated accounts of Iron Mountain Incorporated, a Delaware corporation, and its subsidiaries (collectively the "Company"). The Company is an international full-service provider of records and information management and related services for all media in various locations throughout the United States, Europe and Mexico to Fortune 500 companies and numerous legal, banking, health care, accounting, insurance, entertainment and government organizations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Principles of Consolidation.** The accompanying financial statements reflect the financial position and results of operations of the Company on a consolidated basis. All significant intercompany account balances have been eliminated.

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

**c. Cash and Cash Equivalents.** The Company defines cash and cash equivalents to include cash on hand and cash invested in short-term securities which have original maturities of less than 90 days. Cash and cash equivalents are carried at cost, which approximates fair market value.

**d. Foreign Currency Transaction.** On December 31, 1998, the Company had a receivable denominated in British pounds from, and a payable in U.S. dollars to, a bank as a result of exercising a foreign exchange agreement on December 30, 1998. Included in other income, net, for the year ended December 31, 1998 is a $316 loss on the remeasurement of the receivable based on the applicable exchange rate on December 31, 1998. The British pounds were being acquired to finance the acquisition of Iron Mountain Europe Limited ("IM Europe") on January 4, 1999. As of December 31, 1999, the Company did not have any such foreign exchange agreement.

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected in the "Accumulated Other Comprehensive Items" component of stockholders' equity. Foreign currency transaction gains and losses in fiscal 1999 are included in the accompanying statements of operations and are not material.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities and is effective for all fiscal years beginning after June 15, 2000, as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities." Management has not yet completed its assessment of the effects of SFAS 133.

**e. Property, Plant and Equipment.** Property, plant and equipment are stated at cost and depreciated using the straight-line method with the following useful lives:

| | |
|---|---|
| Buildings | 40 to 50 years |
| Leasehold improvements | 8 to 10 years or the life of the lease, whichever is shorter |
| Racking | 5 to 20 years |
| Warehouse equipment/vehicles | 4 to 20 years |
| Furniture and fixtures | 3 to 10 years |
| Computer hardware and software | 3 to 5 years |

*(In thousands, except share data)*

Property, plant and equipment consist of the following:

| December 31, | 1998 | 1999 |
|---|---|---|
| Land and buildings | $ 99,678 | $158,648 |
| Leasehold improvements | 27,509 | 35,011 |
| Racking | 127,287 | 180,876 |
| Warehouse equipment/vehicles | 23,239 | 28,954 |
| Furniture and fixtures | 9,241 | 11,886 |
| Computer hardware and software | 47,400 | 60,998 |
| Construction in progress | 19,747 | 20,996 |
| | $354,101 | $497,369 |

Minor maintenance costs are expensed as incurred. Major improvements to the leased buildings are capitalized as leasehold improvements and depreciated.

The Company develops various software applications for internal use. Payroll and related costs for employees who are directly associated with and who devote time to the development of internal-use computer software projects (to the extent of the time spent directly on the project) are capitalized and amortized over the useful life of the software. Capitalization begins when the design stage of the application has been completed, it is probable that the project will be completed and the application will be used to perform the function intended. Amortization begins when the software is placed in service.

Effective January 1, 1999, the Company adopted the provisions of Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. SOP 98-1 also defines which types of costs should be capitalized and which should be expensed. The new accounting pronouncement resulted in certain costs being expensed starting in 1999 that would have been capitalized under the previous policy.

**f. Goodwill.** Goodwill reflects the cost in excess of fair value of the net assets of companies acquired in purchase transactions. Goodwill is amortized using the straight-line method from the date of acquisition over the expected period to be benefited, currently estimated at 25 to 30 years. The Company assesses the recoverability of goodwill, as well as other long-lived assets, based upon expectations of future undiscounted cash flows in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accumulated amortization of goodwill was $46,333 and $76,865 as of December 31, 1998 and 1999, respectively.

**g. Customer Acquisition Costs.** Costs related to the acquisition of large volume accounts, net of revenues received for the initial transfer of the records, are capitalized and amortized for an appropriate period not to exceed 12 years. If the customer terminates its relationship with the Company, the unamortized cost is charged to expense. However, in the event of such termination, the Company collects, and records as income, permanent removal fees that generally equal or exceed the amount of the unamortized costs. As of December 31, 1998 and 1999, those costs were $12,793 and $20,746, respectively, and accumulated amortization of those costs were $3,219 and $4,004, respectively.

**h. Deferred Financing Costs.** Deferred financing costs are amortized over the life of the related debt using the effective interest rate method. If debt is retired early, unamortized deferred financing costs are written off as an extraordinary charge in the period the debt is retired. As of December 31, 1998 and 1999, deferred financing costs were $16,928 and $22,066, respectively, and accumulated amortization of those costs was $3,536 and $5,517, respectively.

**i. Other Assets.** Effective January 1, 1999, the Company adopted the provisions of Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 requires the costs of start-up activities, including organization costs, to be expensed as incurred. The adoption of SOP 98-5 did not have a material impact on the Company's financial statements.

**j. Accrued Expenses.** Accrued expenses consist of the following:

| December 31, | 1998 | 1999 |
|---|---|---|
| Incentive compensation | $ 5,934 | $ 6,492 |
| Interest | 9,975 | 15,950 |
| Workers' compensation | 2,948 | 4,712 |
| Payroll and vacation | 7,451 | 10,149 |
| Restructuring costs | 10,482 | 9,340 |
| Other | 11,749 | 21,876 |
| | $48,539 | $68,519 |

**k. Revenues.** The Company's revenues consist of storage revenues as well as service and storage material sales revenues. Storage revenues consist of periodic charges related to the storage of materials (either on a per unit or per cubic foot of records basis). In certain circumstances, based upon customer requirements, storage revenues include periodic charges associated with normal, recurring service activities. Service and storage material sales revenues are comprised of charges for related service activities, the sale of storage materials and courier operations. In certain circumstances, storage material sales are recorded net of product costs when the Company functions as a sales representative of the product manufacturer and does not receive or take title to the products. Customers are generally billed on a monthly basis on contractually agreed-upon terms.

Storage and service revenues are recognized in the month the respective service is provided. Storage material sales are recognized when shipped to the customer. Amounts related to future storage for customers where storage fees are billed in advance are accounted for as deferred income and amortized over the applicable period.

**l. Deferred Rent.** The Company has entered into various leases for buildings used in the storage of records. Certain leases have fixed escalation clauses or other features which require normalization of the rental expense over the life of the lease resulting in deferred rent being reflected in the accompanying balance sheets. In addition, the Company has assumed various above market leases in connection with certain of its acquisitions. The discounted present value of these lease obligations in excess of market rate at the date of the acquisition was recorded as a deferred rent liability and is being amortized over the remaining lives of the respective leases.

**m. Stock-Based Compensation.** Effective January 1, 1996, the Company adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue to account for stock options at their intrinsic value with disclosure of the effects of fair value accounting on net income (loss) and earnings (loss) per share on a pro forma basis.

**n. Reclassifications.** Certain reclassifications have been made to the 1997 and 1998 financial statements to conform to the 1999 presentation.

## 3. COMMON STOCK SPLIT

On June 30, 1998, the Company's Board of Directors authorized and approved a three-for-two stock split effected in the form of a dividend on the Company's common stock. Such additional shares of common stock were issued on July 31, 1998 to all stockholders of record as of the close of business on July 17, 1998. All issued and outstanding share and per share amounts in the accompanying consolidated financial statements and Notes thereto have been restated to reflect the stock split.

## 4. DEBT

Long-term debt consists of the following:

| December 31, | 1998 | 1999 |
|---|---|---|
| Revolving Credit Facility | $ 35,300 | $ 5,000 |
| 10 1/8% Senior Subordinated Notes due 2006 (the "1996 Notes") | 165,000 | 165,000 |
| 8 3/4% Senior Subordinated Notes due 2009 (the "1997 Notes") | 249,566 | 249,606 |
| 8 1/4% Senior Subordinated Notes due 2011 (the "1999 Notes") | – | 149,490 |
| Real Estate Mortgage | 2,349 | 2,048 |
| Other | 3,963 | 41,803 |
| Long-term debt | 456,178 | 612,947 |
| Less current portion | (1,731) | (9,890) |
| Long-term debt, net of current portion | $454,447 | $603,057 |

**a. Revolving Credit Facility.** As of December 31, 1999, the Company had a $250 million revolving credit facility, as amended (the "Credit Agreement"), which was scheduled to mature on September 30, 2002.

The Credit Agreement specified certain minimum or maximum relationships between EBITDA (as defined therein) and interest, total debt and fixed charges. There were restrictions on dividends declared by the Company, sales or pledging of assets, investments and changes in business and ownership; cash dividends were effectively prohibited. The Company was in compliance with all debt covenants as of December 31, 1999. Loans under the Credit Agreement were secured by pledges of the capital stock of all of the Company's domestic subsidiaries.

The interest rate on loans under the Credit Agreement varied depending on the Company's choice of base rates, plus an applicable margin. The applicable margin varied depending on the base rate selected and certain debt ratios. The timing of interest payments also varied with the base rate selected. At December 31, 1999, the effective interest rate was 7.71%.

Effective February 1, 2000, the Company amended and restated its revolving credit facility (the "Amended Credit Agreement") to increase the aggregate principal amount available to $400 million and to include the ability to borrow in certain foreign currencies. The Amended Credit Agreement matures on January 31, 2005. The interest rate on borrowings under this Amended Credit Agreement varies depending on the Company's choice of base rates, plus an applicable margin. Restrictive covenants under this agreement are similar to those under the Credit Agreement.

**b. 1996 Notes.** On October 1, 1996, the Company issued $165 million of 10⅛% Senior Subordinated Notes due 2006. Interest on the 1996 Notes is payable semiannually on April 1 and October 1 and commenced on April 1, 1997. The net proceeds of $160.1 million after underwriting discounts and commissions were used to repay outstanding indebtedness under the Company's revolving credit facility, to fund the purchase price of acquisitions and for general corporate purposes.

The 1996 Notes contain covenants and restrictions similar to, or less restrictive than, the Amended Credit Agreement. After September 30, 2001, and subject to certain restrictions, the Company may, at its option, redeem any or all of the 1996 Notes at face value, plus a premium ranging from approximately 2% to 5% through September 30, 2004. Thereafter, the 1996 Notes may be redeemed at face value. Additionally, under certain circumstances, including a change of control or following certain asset sales, the holders of the 1996 Notes may require the Company to repurchase the 1996 Notes.

**c. 1997 Notes.** On October 24, 1997, the Company issued $250 million of 8¾% Senior Subordinated Notes due 2009. Interest on the 1997 Notes is payable semiannually on March 31 and September 30 and commenced on March 31, 1998. The net proceeds of $242.6 million after an original issue discount of $485 and underwriting discounts and commissions were used to repay outstanding indebtedness under the Company's revolving credit facility, to fund the purchase price of acquisitions and for general corporate purposes.

The 1997 Notes contain covenants and restrictions similar to, or less restrictive than, the Amended Credit Agreement. Prior to September 30, 2002, and subject to certain restrictions, the Company may, at its option, redeem any or all of the 1997 Notes at a make-whole price, as defined in the related indenture. On or after September 30, 2002, and subject to certain restrictions, the Company may, at its option, redeem any or all of the 1997 Notes at face value, plus a premium of up to approximately 4% through September 30, 2005. Thereafter, the 1997 Notes may be redeemed at face value. Also, any time through October 23, 2000, the Company may redeem a portion of the 1997 Notes, subject to restrictions, with the net proceeds of one or more Qualified Equity Offerings, as defined, at a redemption price of 108.75% of the principal amount of such 1997 Notes. Additionally, under certain circumstances, including a change of control or following certain asset sales, the holders of the 1997 Notes may require the Company to repurchase the 1997 Notes.

**d. 1999 Notes.** On April 26, 1999, the Company issued $150 million of 8¼% Senior Subordinated Notes due 2011. Interest on the 1999 Notes is payable semiannually on January 1 and July 1 and commenced on July 1, 1999. The net proceeds of $149.5 million after an original issue discount of $540 and underwriting discounts and commissions were used to repay outstanding indebtedness under the Credit Agreement.

The 1999 Notes contain covenants and restrictions similar to, or less restrictive than, the Amended Credit Agreement. Prior to July 1, 2004, and subject to certain restrictions, the Company may, at its option, redeem any or all of the 1999 Notes at a make-whole price, as defined in the related indenture. On or after July 1, 2004, and subject to certain restrictions, the Company may, at its option, redeem any or all of the 1999 Notes at a redemption price of 104.125%, 102.750% and 101.375% of the principal amount of such 1999 Notes through July 1, 2005, 2006 and 2007, respectively. Thereafter, the 1999 Notes may be redeemed at face value. Also, any time through July 1, 2002, the Company may redeem a portion of the 1999 Notes, subject to restrictions, with the net proceeds of one or more Qualified Equity Offerings, as defined in the related indenture, at a redemption price of 108.25% of the principal amount of such 1999 Notes. Additionally, under certain circumstances, including a change of control or following certain asset sales, the holders of the 1999 Notes may require the Company to repurchase the 1999 Notes.

**e. Real Estate Mortgage.** The real estate mortgage consists of a $3 million, 8% note that is payable in various installments commencing in 1997 and maturing in November 2006.

**f. Other.** Other long-term debt includes various notes and obligations assumed by the Company as a result of certain acquisitions completed by the Company during 1998 and 1999. At December 31, 1999, the Company's 50.1% owned subsidiary, IM Europe, had various agreements with its local banks that provide for $44.8 million of credit and carried an average effective interest rate of 5.41%.

Maturities of long-term debt are as follows:

| Year | Amount |
|---|---|
| 2000 | $ 9,890 |
| 2001 | 18,527 |
| 2002 | 8,284 |
| 2003 | 3,375 |
| 2004 | 3,263 |
| Thereafter | 569,608 |
| | $612,947 |

Based on the borrowing rates currently available to the Company for loans with similar terms and average maturities, the Company has estimated the following fair values for its long-term debt as of December 31:

| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
|---|---|---|---|---|
| | **1998** | | **1999** | |
| Revolving Credit Facility | $ 35,300 | $ 35,300 | $ 5,000 | $ 5,000 |
| 1996 Notes | 165,000 | 178,200 | 165,000 | 167,900 |
| 1997 Notes | 249,566 | 257,500 | 249,606 | 237,500 |
| 1999 Notes | – | – | 149,490 | 136,100 |
| Real estate mortgage | 2,349 | 2,349 | 2,048 | 2,048 |
| Other | 3,963 | 3,963 | 41,803 | 41,803 |

## 5. SELECTED CONSOLIDATED FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS

As of December 31, 1999, the 1996, 1997 and 1999 Notes were fully and unconditionally guaranteed, on a joint and several basis, and on a senior subordinated basis, by most, but not all, of the Company's direct and indirect domestic subsidiaries (the "Subsidiary Guarantors"). At December 31, 1999, IM Europe and its subsidiaries, Sistemas de Archivo Corporativo, S. de R.L. de C.V. and its subsidiaries, Iron Mountain Records Management (Puerto Rico), Inc. and certain parent holding companies (the "Non-Guarantors") are the only subsidiaries that do not guarantee the 1996 Notes, the 1997 Notes or the 1999 Notes.

Prior to the acquisition of a 50.1% interest in IM Europe in January 1999, substantially all of the Company's operations were conducted by its direct and indirect wholly owned subsidiaries, all of which, other than Arcus Data Security Limited ("ADS"), were guarantors of the 1996 Notes and 1997 Notes. ADS represented less than 1% of the Company's consolidated revenues and was not material to its results of operations. The Company's management does not believe that separate financial statements of, and other disclosures with respect to, the Guarantors for periods prior to 1999 are meaningful or material to investors. Accordingly, no such financial statements were provided for fiscal 1997 and 1998.

*(In thousands, except share data)*

The following financial data summarizes the consolidating Company on the equity method of accounting as of and for the year ended December 31, 1999:

| December 31, 1999 | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $ – | $ 2,260 | $ 1,570 | $ – | $ 3,830 |
| Accounts Receivable | – | 93,076 | 10,998 | – | 104,074 |
| Other Current Assets | – | 42,312 | 6,718 | (13,270) | 35,760 |
| Total Current Assets | – | 137,648 | 19,286 | (13,270) | 143,664 |
| Property, Plant and Equipment, net | – | 352,784 | 50,955 | – | 403,739 |
| Other Assets: | | | | | |
| Due From Affiliates | 224,826 | – | – | (224,826) | – |
| Long-term Notes Receivable from Affiliates | 557,123 | – | – | (557,123) | – |
| Investment in Subsidiaries | 276,291 | 52,971 | – | (329,262) | – |
| Goodwill, net | – | 623,285 | 105,928 | – | 729,213 |
| Other | 15,908 | 24,036 | 652 | – | 40,596 |
| Total Other Assets | 1,074,148 | 700,292 | 106,580 | (1,111,211) | 769,809 |
| Total Assets | $ 1,074,148 | $ 1,190,724 | $ 176,821 | $ (1,124,481) | $ 1,317,212 |
| **Liabilities and Stockholders' Equity** | | | | | |
| Total Current Liabilities | $ 15,398 | $ 100,630 | $ 47,590 | $ (13,270) | $ 150,348 |
| Long-Term Debt, Net of Current Portion | 569,996 | 2,942 | 30,119 | – | 603,057 |
| Due to Affiliates | – | 224,793 | 33 | (224,826) | – |
| Long-Term Notes Payable to Affiliates | – | 557,123 | – | (557,123) | – |
| Other Long-Term Liabilities | – | 31,497 | 1,278 | – | 32,775 |
| Minority Interest | – | – | 42,278 | – | 42,278 |
| Stockholders' Equity | 488,754 | 273,739 | 55,523 | (329,262) | 488,754 |
| Total Liabilities and Stockholders' Equity | $ 1,074,148 | $ 1,190,724 | $ 176,821 | $ (1,124,481) | $ 1,317,212 |

| December 31, 1999 | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Storage | $ – | $ 297,988 | $ 19,399 | $ – | $ 317,387 |
| Service and Storage Material Sales | – | 189,127 | 13,035 | – | 202,162 |
| Total Revenues | – | 487,115 | 32,434 | – | 519,549 |
| Operating Expenses: | | | | | |
| Cost of Sales (Excluding Depreciation) | – | 242,537 | 18,393 | – | 260,930 |
| Selling, General and Administrative | 258 | 122,276 | 6,414 | – | 128,948 |
| Depreciation and Amortization | – | 61,248 | 4,174 | – | 65,422 |
| Total Operating Expenses | 258 | 426,061 | 28,981 | – | 455,300 |
| Operating Income (Loss) | (258) | 61,054 | 3,453 | – | 64,249 |
| Interest Income | (51,420) | – | – | 51,420 | – |
| Interest Expense | 52,877 | 51,655 | 1,313 | (51,420) | 54,425 |
| Equity in the (Earnings) Losses of Subsidiaries | 12,504 | (43) | – | (12,461) | – |
| Other Expense (Income) | – | (50) | 33 | – | (17) |
| Income (Loss) from Continuing Operations Before Provision for Income Taxes and Minority Interest Expense | (14,219) | 9,492 | 2,107 | 12,461 | 9,841 |
| Provision for Income Taxes | – | 8,990 | 1,589 | – | 10,579 |
| Minority Interest in Net Income of Consolidated Subsidiaries | – | – | 322 | – | 322 |
| Income (Loss) from Continuing Operations | (14,219) | 502 | 196 | 12,461 | (1,060) |
| Income from Discontinued Operations | – | 241 | – | – | 241 |
| Loss on Sale of Discontinued Operations | – | (13,400) | – | – | (13,400) |
| Net Income (Loss) | $ (14,219) | $ (12,657) | $ 196 | $ 12,461 | $ (14,219) |

*(In thousands, except share data)*

| Year Ended December 31, 1999 | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash Flows From Operating Activities | | | | | |
| Cash Flows Provided by (Used in) | | | | | |
| Continuing Operations | $ (17,837) | $ 73,389 | $ 722 | – | $ 56,274 |
| Cash Flows Used in Discontinued Operations | – | (836) | – | – | (836) |
| Cash Flows Provided by (Used in) | | | | | |
| Operating Activities | (17,837) | 72,553 | 722 | – | 55,438 |
| Cash Flows from Investing Activities: | | | | | |
| Cash Paid for Acquisitions, | | | | | |
| net of cash acquired | (2,398) | (132,078) | (77,684) | – | (212,160) |
| Capital Expenditures | – | (85,079) | (13,578) | – | (98,657) |
| Intercompany Loans to Subsidiaries | (158,657) | – | – | 158,657 | – |
| Investment in Subsidiaries | (51,550) | (51,550) | – | 103,100 | – |
| Additions to Customer Acquisition Costs | – | (8,122) | – | – | (8,122) |
| Cash Flows Used in Continuing Operations | (212,605) | (276,829) | (91,262) | 261,757 | (318,939) |
| Cash Flows Provided by Discontinued | | | | | |
| Operations | – | 7,814 | – | – | 7,814 |
| Cash Flows Used in Investing Activities | (212,605) | (269,015) | (91,262) | 261,757 | (311,125) |
| Cash Flows from Financing Activities: | | | | | |
| Repayment of Debt | (246,400) | (916) | (2,338) | – | (249,654) |
| Proceeds from Borrowings | 216,100 | – | 19,041 | – | 235,141 |
| Debt Financing from Minority Shareholder | – | – | 11,636 | – | 11,636 |
| Net Proceeds from Sale of Senior | | | | | |
| Subordinated Notes | 149,460 | – | – | – | 149,460 |
| Net Proceeds from Equity Offering | 153,755 | – | – | – | 153,755 |
| Repurchase of Common Stock | (39,484) | – | – | – | (39,484) |
| Intercompany Loans from Parent | – | 146,385 | 12,272 | (158,657) | – |
| Equity Contribution from Parent | – | 51,550 | 51,550 | (103,100) | – |
| Proceeds from Exercise of Stock Options | 3,589 | – | – | – | 3,589 |
| Debt Financing and Stock Issuance Costs | (6,590) | – | – | – | (6,590) |
| Cash Flows Provided by Continuing | | | | | |
| Operations | 230,430 | 197,019 | 92,161 | (261,757) | 257,853 |
| Cash Flows Provided by Discontinued | | | | | |
| Operations | – | – | – | – | – |
| Cash Flows Provided by Financing | | | | | |
| Activities | 230,430 | 197,019 | 92,161 | (261,757) | 257,853 |
| Effect of Exchange Rates on Cash and | | | | | |
| Cash Equivalents | – | – | (51) | – | (51) |
| Increase (Decrease) in Cash and Cash | | | | | |
| Equivalents | (12) | 557 | 1,570 | – | 2,115 |
| Cash and Cash Equivalents, | | | | | |
| Beginning of Period | 12 | 1,703 | – | – | 1,715 |
| Cash and Cash Equivalents, End of Period | $ – | $ 2,260 | $ 1,570 | $ – | $ 3,830 |

6. ACQUISITIONS.

The Company purchased substantially all of the assets and assumed certain liabilities of 18, 15 and 17 records management businesses during 1997, 1998 and 1999, respectively. Each of these acquisitions was accounted for using the purchase method of accounting, and accordingly, the results of operations for each acquisition have been included in the consolidated results of the Company from their respective acquisition dates. The excess of the purchase price over the underlying fair value of the assets and liabilities of each acquisition has been assigned to goodwill and is being amortized over the estimated benefit period of 25 to 30 years. Consideration for the various acquisitions included: (i) cash, which was provided through the Company's credit facilities, the Company's 1998 and 1999 equity offerings and the issuance of the 1996, 1997 and 1999 Notes; (ii) issuances of the Company's common stock and options to purchase the Company's common stock; and (iii) certain net assets of businesses previously acquired.

A summary of the consideration paid and the allocation of the purchase price of the acquisitions is as follows:

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Cash Paid | $192,230 | $189,729 | $212,160 |
| Fair Value of Common Stock Issued | 85,863 | 51,448 | 46,000 |
| Fair Value of Options Issued | 3,071 | 15,655 | – |
| Fair Value of Certain Net Assets of Businesses Previously Acquired | – | 3,000 | 2,489 |
| Total Consideration | 281,164 | 259,832 | 260,649 |
| Fair Value of Assets Acquired | 68,774 | 89,053 | 110,206 |
| Liabilities Assumed | (26,932) | (38,165) | (92,044) |
| Fair Value of Net Assets Acquired | 41,842 | 50,888 | 18,162 |
| Recorded Goodwill | $239,322 | $208,944 | $242,487 |

Allocation of the purchase price for these acquisitions was based on estimates of the fair value of net assets acquired and, for acquisitions completed in 1999, is subject to adjustment upon finalization of the purchase price allocation. The Company is not aware of any information that would indicate that the final purchase price allocations will differ significantly from preliminary estimates.

The following unaudited pro forma combined information shows the results of the Company's operations for the years ended December 31, 1998 and 1999 as though each of the significant acquisitions completed during 1998 and 1999 had occurred on January 1, 1998:

| | 1998 | 1999 |
|---|---|---|
| Revenues | $488,587 | $547,209 |
| Net Loss from Continuing Operations | (10,353) | (1,980) |
| Loss from Continuing Operations per Common Share–Basic and Diluted | (0.36) | (0.06) |

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions taken place as of January 1, 1998 or the results that may occur in the future. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs which may occur as a result of the integration and consolidation of the acquired businesses. Certain acquisitions completed in 1998 and 1999 are not included in the pro forma results as their effect was immaterial.

In connection with the acquisitions completed in 1997, 1998 and 1999, the Company has undertaken certain restructurings of the acquired businesses. The restructuring activities include certain reductions in staffing levels, elimination of duplicate facilities and other costs associated with exiting certain activities of the acquired businesses. These restructuring activities were recorded as costs of the acquisitions and were provided in accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The Company finalizes its restructuring plans for each business no later than one year from the date of acquisition. Unresolved matters at December 31, 1999 primarily include completion of planned abandonments of facilities and severances for certain acquisitions completed during 1998 and 1999.

The following is a summary of reserves related to such restructuring activities:

*(In thousands, except share data)*

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Reserves, beginning of the year | $ 1,340 | $ 5,443 | $ 10,482 |
| Reserves established | 6,574 | 11,368 | 4,234 |
| Expenditures | (2,163) | (4,690) | (4,843) |
| Adjustments to goodwill | (308) | (1,639) | (533) |
| Reserves, end of the year | $ 5,443 | $10,482 | $ 9,340 |

At December 31, 1998 the restructuring reserves related to acquisitions consisted of lease losses on abandoned facilities ($4.4 million), severance costs for approximately 12 people ($1.8 million) and other exit costs ($4.3 million). These accruals are expected to be used within one year of the finalization of the restructuring plan except for lease losses of $4.0 million, which are based on contracts that extend through 2005 and long-term severance contracts of approximately $1.2 million that extend through 2013.

At December 31, 1999 the restructuring reserves related to acquisitions consisted of lease losses on abandoned facilities ($4.8 million), severance costs for approximately 12 people ($1.5 million) and other exit costs ($3.0 million). These accruals are expected to be used within one year of the finalization of the restructuring plan except for lease losses of $4.6 million, which are based on contracts that extend through 2005 and long-term severance contracts of approximately $1.1 million that extend through 2013.

## 7. CAPITAL STOCK AND STOCK OPTIONS

**a. Capital Stock.** On April 3, 1998, the Company issued and sold an aggregate of 6,037,500 shares (including 787,500 shares to cover over-allotments) of its common stock in an underwritten public offering. Net proceeds to the Company after deducting underwriters' discounts and commissions were $132.9 million.

On May 17, 1999, the Company issued and sold an aggregate of 5,750,000 shares (including 750,000 shares to cover over-allotments) of its common stock in an underwritten public offering. Net proceeds to the Company after deducting underwriters' discounts and commissions were $153.8 million and were used to repay outstanding bank debt, to repurchase all of the Company's common stock issued in connection with the acquisition of Data Base, Inc. completed in 1999 and for general corporate purposes.

The following table summarizes the number of shares authorized, issued and outstanding for each issue of the Company's capital stock as of December 31:

| | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|
| | | Authorized | | Issued | | Outstanding | |
| **Equity Type** | **Par Value** | **1998** | **1999** | **1998** | **1999** | **1998** | **1999** |
| Preferred stock | $ .01 | 2,000,000 | 2,000,000 | – | – | – | – |
| Common stock–voting | .01 | 100,000,000 | 100,000,000 | 29,430,205 | 36,943,612 | 29,430,205 | 35,467,035 |
| Common stock–nonvoting | .01 | 1,000,000 | 1,000,000 | – | – | – | – |

**b. Stock Options.** A total of 3,000,000 shares of common stock had been reserved for future grants of options and other rights under the Iron Mountain Incorporated 1995 Stock Incentive Plan (the "Stock Incentive Plan").

During 1997, the Company issued options to employees of two acquired companies to purchase 218,879 shares of the Company's common stock. The options replaced options held by the employees for the acquired companies' common stock. The options were accounted for as additional purchase price based on the fair value of the options when issued.

During 1998, the Company assumed two existing stock option plans from an acquired company and options under the existing plans were converted into options to purchase 885,944 shares of the Company's common stock under such plans. No new options may be issued under these plans. The options were accounted for as additional purchase price based on the fair value of the options when issued.

The following is a summary of stock option transactions, including those issued to employees of acquired companies, during the applicable periods:

| | Options | Weighted Average Excise Price |
|---|---|---|
| Options outstanding, | | |
| December 31, 1996 | 1,144,292 | $ 8.68 |
| Granted | 703,670 | 17.01 |
| Exercised | (125,711) | 6.59 |
| Canceled | (46,203) | 14.73 |
| Options outstanding, | | |
| December 31, 1997 | 1,676,048 | 12.17 |
| Granted | 1,173,018 | 12.02 |
| Exercised | (566,615) | 7.88 |
| Canceled | (116,132) | 12.36 |
| Options outstanding, | | |
| December 31, 1998 | 2,166,319 | 13.21 |
| Granted | 442,043 | 32.07 |
| Exercised | (263,281) | 10.86 |
| Canceled | (90,276) | 20.27 |
| Options outstanding, | | |
| December 31, 1999 | 2,254,805 | 16.91 |

Except for the options granted in connection with acquisitions, the stock options were granted with exercise prices equal to the market price of the stock at the date of grant. The majority of options become exercisable ratably over a period of five years unless the holder terminates employment. The number of shares available for grant at December 31, 1999 was 552,896.

Effective January 1, 1996, the Company adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue to account for stock options issued to employees at their intrinsic value with disclosure of fair value accounting on net income (loss) and earnings (loss) per share on a pro forma basis.

Had the Company elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net loss applicable to common stockholders and net loss per common share would have been increased to the pro forma amounts indicated in the table below:

| Year Ended December 31, | 1997 | 1998 | 1999 |
|---|---|---|---|
| Loss from continuing operations, as reported | $ (4,521) | $ (3,167) | $ (1,060) |
| Loss from continuing operations, pro forma | (5,411) | (4,071) | (2,486) |
| Net loss applicable to common stockholders, as reported | (4,521) | (2,966) | (14,219) |
| Net loss applicable to common stockholders, pro forma | (5,411) | (3,870) | (15,645) |
| Loss from continuing operations–basic and diluted, as reported | (0.26) | (0.12) | (0.03) |
| Loss from continuing operations–basic and diluted, pro forma | (0.31) | (0.15) | (0.07) |
| Net loss per common share–basic and diluted, as reported | (0.26) | (0.11) | (0.43) |
| Net loss per common share–basic and diluted, pro forma | (0.31) | (0.14) | (0.47) |

The weighted average fair value of options granted in 1997, 1998 and 1999 was $11.06, $8.92 and $12.31 per share, respectively. The values were estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average assumptions used for grants in the year ended December 31:

| Assumption | 1997 | 1998 | 1999 |
|---|---|---|---|
| Expected volatility | 29.2% | 28.4% | 31.5% |
| Risk-free interest rate | 5.91 | 5.11 | 5.69 |
| Expected dividend yield | None | None | None |
| Expected life of the option | 7.0 years | 5.0 years | 5.0 years |

The following table summarizes additional information regarding options outstanding and exercisable at December 31, 1999:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number | Weighted Average Remaining Contractual Life (in Years) | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| $0.75 to $0.87 | 24,230 | 7.0 | $ 0.87 | 24,230 | $ 0.87 |
| $4.32 to $5.77 | 395,144 | 2.9 | 4.68 | 394,354 | 4.68 |
| $6.63 to $9.10 | 140,979 | 4.9 | 8.25 | 111,492 | 8.23 |
| $10.25 to $10.94 | 600,547 | 5.4 | 10.42 | 382,987 | 10.47 |
| $17.17 to $25.03 | 564,559 | 7.6 | 21.67 | 205,086 | 21.45 |
| $26.79 to $33.63 | 529,346 | 9.4 | 31.37 | 27,005 | 27.77 |
| | 2,254,805 | 6.4 | $ 16.91 | 1,145,154 | $ 10.43 |

## 8. INCOME (LOSS) PER COMMON SHARE-BASIC AND DILUTED

In accordance with SFAS No. 128, basic income (loss) per common share is calculated by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding. The calculation of diluted income (loss) per share is consistent with that of basic income (loss) per share but gives effect to all dilutive potential common shares (that is, securities such as options, warrants or convertible securities) that were outstanding during the period, unless the effect is antidilutive.

Income (loss) per common share–basic and diluted has been calculated as follows:

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Loss from continuing operations | $ (4,521) | $ (3,167) | $ (1,060) |
| Income from discontinued operations | – | 201 | 241 |
| Loss on sale of discontinued operations | – | – | (13,400) |
| Net loss applicable to common stockholders | $ (4,521) | $ (2,966) | $ (14,219) |
| Income (loss) per common share–basic and diluted: | | | |
| Loss from continuing operations | $ (0.26) | $ (0.12) | $ (0.03) |
| Income (Loss) from discontinued operations | – | 0.01 | (0.40) |
| Net loss applicable to common stockholders | $ (0.26) | $ (0.11) | $ (0.43) |
| Weighted average common shares outstanding (in thousands)– basic and diluted | 17,172 | 27,470 | 33,345 |

Because their effect is antidilutive, 1,676,048, 2,166,319 and 2,254,805 shares of potential common stock underlying outstanding options have been excluded from the above calculation for the years ended December 31, 1997, 1998 and 1999, respectively.

## 9. DISCONTINUED OPERATIONS

In June 1999, in order to focus on its records and information management services ("RIMS") business, the Company decided to sell its information technology staffing business ("IT Staffing"), Arcus Staffing Resources, Inc. ("Arcus Staffing"), which was acquired in January 1998 as part of the acquisition of Arcus Group, Inc. ("Arcus Group"). Effective November 1, 1999, the Company completed the sale of substantially all of the assets of Arcus Staffing. The terms of the sale include contingent payments for a period of 18 months which may result in a revision of the recorded loss during 2000 or 2001. In accordance with the provisions of Accounting Principles Board Opinion No. 30, the sale of Arcus Staffing was accounted for as a discontinued operation. Accordingly, the Arcus Staffing operations were segregated from the Company's continuing operations and reported as a separate line item on the Company's consolidated statement of operations. The following table sets forth the revenue and net income from discontinued operations for the years ended December 31, 1998 and the ten months ended October 31, 1999:

| | 1998 | 1999 |
|---|---|---|
| Revenues | $39,551 | $35,455 |
| Income from Discontinued Operations, net of tax benefit | 201 | 241 |

The Company has recorded an estimated loss on the sale of Arcus Staffing of $13,400. The estimated loss is comprised of a write-off of nondeductible and deductible goodwill, a deferred tax benefit and estimated expenses directly related to the transaction partially offset by the estimated income from operations of Arcus Staffing through the date of disposition.

## 10. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax and financial reporting bases of assets and liabilities.

The components of income (loss) from continuing operations before provision (benefit) for income taxes and minority interest are:

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Domestic | $ (4,601) | $ 3,391 | $ 7,606 |
| Foreign | – | – | 2,235 |
| | $ (4,601) | $ 3,391 | $ 9,841 |

The Company has estimated federal net operating loss carryforwards of approximately $59,000 at December 31, 1999 to reduce future federal income taxes, if any, which begin to expire in 2005. The preceding net operating loss carryforwards do not include preacquisition net operating loss carryforwards of Arcus Group. Any tax benefit related to these loss carryforwards will be recorded as a reduction of goodwill, if and when realized. The Company also has estimated state net operating loss carryforwards of approximately $25,000 to reduce future state income taxes, if any. Additionally, the Company has alternative minimum tax credit carryforwards of $587, which have no expiration date and are available to reduce future income taxes, if any.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

| December 31, | 1998 | 1999 |
|---|---|---|
| Deferred Tax Assets: | | |
| Accrued liabilities | $ 8,033 | $ 8,812 |
| Deferred rent | 3,767 | 4,316 |
| Net operating loss carryforwards | 16,759 | 21,857 |
| AMT credit | 587 | 587 |
| Other | 6,151 | 6,606 |
| | 35,297 | 42,178 |
| Valuation Allowance | (4,369) | – |
| | 30,928 | 42,178 |
| Deferred Tax Liabilities: | | |
| Other assets, principally due to differences in amortization | (6,389) | (9,727) |
| Plant and equipment, principally due to differences in depreciation | (22,284) | (29,619) |
| Customer acquisition costs | (3,824) | (6,564) |
| | (32,497) | (45,910) |
| Net deferred tax liability | $ (1,569) | $ (3,732) |

*(In thousands, except share data)*

The Company receives a tax deduction upon exercise of non-qualified stock options by employees for the difference between the exercise price and the market price of the underlying common stock on the date of exercise, which is included in the net operating loss carryforwards above. A valuation allowance was recorded in 1998 for this tax asset because of the uncertainty of its realization. The valuation allowance was reversed in 1999 and the tax benefit credited to paid in capital or, for options granted in connection with acquisitions, to goodwill.

The Company and its U.S. subsidiaries file a consolidated federal income tax return. The provision (benefit) for income tax consists of the following components:

| Year Ended December 31, | 1997 | 1998 | 1999 |
|---|---|---|---|
| Federal–current | $ – | $ – | $ – |
| Federal–deferred | (459) | 4,509 | 6,304 |
| State–current | 399 | 505 | 645 |
| State–deferred | (20) | 1,544 | 2,041 |
| Foreign | – | – | 1,589 |
| | $ (80) | $ 6,558 | $10,579 |

A reconciliation of total income tax expense (benefit) and the amount computed by applying the federal income tax rate of 34% to income (loss) before income taxes is as follows:

| Year Ended December 31, | 1997 | 1998 | 1999 |
|---|---|---|---|
| Computed "expected" tax provision (benefit) | $ (1,564) | $ 1,153 | $ 3,346 |
| Increase in income taxes resulting from: | | | |
| State taxes (net of federal tax benefit) | 250 | 1,367 | 1,726 |
| Nondeductible goodwill amortization | 1,221 | 3,675 | 5,025 |
| Foreign tax rate and tax law differential | – | – | 104 |
| Other, net | 13 | 363 | 378 |
| | $ (80) | $ 6,558 | $10,579 |

## 11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| Quarter Ended | March 31 | June 30 | Sept. 30 | Dec. 31 |
|---|---|---|---|---|
| **1998** | | | | |
| Revenues | $ 89,056 | $ 93,464 | $ 98,544 | $ 102,897 |
| Gross profit | 44,139 | 46,708 | 49,038 | 51,963 |
| Loss from continuing operations | (548) | (395) | (1,019) | (1,205) |
| Net loss | (314) | (261) | (1,069) | (1,322) |
| Loss per common share from continuing operations–basic and diluted | (0.02) | (0.01) | (0.04) | (0.05) |
| Net loss per common share–basic and diluted | (0.01) | (0.01) | (0.04) | (0.05) |
| **1999** | | | | |
| Revenues | $109,371 | $ 131,765 | $ 136,907 | $ 141,506 |
| Gross profit | 54,936 | 65,598 | 67,681 | 70,404 |
| Income (Loss) from continuing operations | (248) | (1,395) | 999 | (416) |
| Net loss | (149) | (10,653) | (3,001) | (416) |
| Income (Loss) per common share from continuing operations –basic and diluted | (0.01) | (0.04) | 0.03 | (0.01) |
| Net loss per common share–basic and diluted | (0.01) | (0.32) | (0.08) | (0.01) |

## 12. SEGMENT INFORMATION

On December 31, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The new rules establish revised standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. The adoption of SFAS 131 did not have a material effect on the Company's financial statements.

During 1998, the Company classified its operations into two fundamental businesses: RIMS and IT Staffing. The reportable segments were managed separately since each business has different economic characteristics based on the differing customer requirements and the nature of the services provided. In June 1999, the Company decided to sell its IT Staffing business, Arcus Staffing, as discussed in Note 9 of Notes to Consolidated Financial Statements. The results of operations of Arcus Staffing have been classified and reported as discontinued operations in the Company's statements of operations. Consequently, the Company now operates in a single segment, the RIMS business.

Information as to the Company's operations in different geographical areas is as follows:

| | 1998 | 1999 |
|---|---|---|
| Revenues: | | |
| United States | $ 381,959 | $ 487,931 |
| International | 2,002 | 31,618 |
| Total Revenues | $ 383,961 | $ 519,549 |
| | | |
| Long-lived Assets: | | |
| United States | $ 822,963 | $1,018,943 |
| International | 485 | 154,605 |
| Total Long-lived Assets | $ 823,448 | $1,173,548 |

Information is not provided for 1997 because the Company had no international operations in that year.

## 13. COMMITMENTS AND CONTINGENCIES

**a. Leases.** The Company leases most of its facilities under various operating leases. A majority of these leases have renewal options of five to ten years and have either fixed or Consumer Price Index escalation clauses. The Company also leases equipment under operating leases, primarily computers which have an average lease life of three years. Trucks and office equipment are also leased and have remaining lease lives ranging from one to seven years. Rent expense was $29,332, $47,049 and $59,113 for the years ended December 31, 1997, 1998 and 1999, respectively.

Minimum future lease payments are as follows:

| Year | Operating |
|---|---|
| 2000 | $ 61,179 |
| 2001 | 57,407 |
| 2002 | 53,824 |
| 2003 | 47,796 |
| 2004 | 41,738 |
| Thereafter | 178,595 |
| Total minimum lease payments | $ 440,539 |

Included in the lease commitments disclosed in the preceding paragraph are certain five-year operating lease agreements signed in 1998 and 1999 for specified records storage warehouses. At the end of the lease term, the Company, at its option, may: (i) negotiate a renewal of the lease; (ii) purchase the properties at a price equal to the lessor's original cost (approximately $32.9 million); or (iii) allow the lease to expire and cause the properties to be sold. The Company's ability to cause the properties to be sold depends upon its compliance with certain terms of the lease. Under certain conditions, the Company would receive any excess of the net sales proceeds over the properties' original cost. In the event that the net sales proceeds are less than 85% of the properties' original cost, the Company would make certain contingent rental payments to the lessor equal to that difference, subject to a maximum amount.

**b. Facility Fire.** In March 1997, the Company experienced three fires, all of which authorities have determined were caused by arson. These fires resulted in damage to one and destruction of the Company's other RIMS facility in South Brunswick Township, New Jersey.

Some of the Company's customers or their insurance carriers have asserted claims as a consequence of the destruction of or damage to their records as a result of the fires, some of which allege negligence or other culpability on the part of the Company. The Company has received notices of claims and lawsuits filed by customers and abutters seeking damages against the Company and to rescind their written contracts with the Company. The Company denies any liability as a result of the destruction of or damage to customer records as a result of the fires, which were beyond its control, and intends to vigorously defend itself against these and any other lawsuits that may arise. The Company is also pursuing coverage of these claims and lawsuits with its various insurers. The claims process is lengthy and its outcome cannot be predicted with certainty.

Based on its present assessment of the situation, management, after consultation with legal counsel, does not believe that the fires will have a material adverse effect on the Company's financial condition or results of operations, although there can be no assurance in this regard.

In June 1998, the Company settled several insurance claims, including a significant claim under its business interruption policy, related to the fires. Other income, net, for the year ended December 31, 1998 includes a $1.7 million gain related to the settlement.

**c. Other Litigation.** The Company is presently involved as a defendant in various litigation which has occurred in the normal course of business. Management believes it has meritorious defenses in all such actions, and in any event, the amount of damages, if such matters were decided adversely, would not have a material adverse effect on the Company's financial condition or results of operations.

## 14. RELATED PARTY TRANSACTIONS

The Company leases space to an affiliated company, Schooner Capital LLC ("Schooner"), for its corporate headquarters located in Boston, Massachusetts. For the years ended December 31, 1997, 1998 and 1999, Schooner paid the Company rent totaling $85, $90 and $94, respectively. Prior to 1999, the Company leased one facility from a landlord who was a related party. Total rental payments for the years ended December 31, 1997 and 1998 for this facility totaled $99 each year. In the opinion of management, both of these leases were entered into at market prices and terms.

## 15. EMPLOYEE BENEFIT PLANS

**a. Profit Sharing Retirement Plan.** The Company has a defined contribution plan, which generally covers all non-union U.S. employees meeting certain service requirements. Eligible employees may elect to defer from 1% to 20% of compensation per pay period up to the amount allowed by the Internal Revenue Code. The Company makes matching contributions based on the amount of an employee's contribution, according to a schedule as described in the plan documents. The Company has expensed $642, $910 and $1,890 for the years ended December 31, 1997, 1998 and 1999, respectively.

**b. Employee Stock Purchase Plan.** On March 23, 1998, the Company introduced an employee stock purchase plan (the "Plan"), which is available for participation by substantially all employees who have met certain service requirements. The Plan was approved by the shareholders of the Company on May 28, 1998 and commenced operations on October 1, 1998. The Plan provides a way for eligible employees of the Company to become shareholders of the Company on favorable terms. The Plan provides for the purchase of up to 375,000 shares of the Company's common stock by eligible employees through successive offering periods. At the start of each offering period, participating employees are granted options to acquire the Company's common stock. During each offering period, participating employees accumulate after-tax payroll contributions, up to a maximum of 15% of their compensation, to pay the exercise price of their options. At the end of the offering period, outstanding options are exercised, and each employee's accumulated contributions are used to purchase common stock of the Company. The price for shares purchased under the Plan is 85% of their market price at either the beginning or the end of the offering period, whichever is lower.

The first offering period commenced on October 1, 1998 and expired on September 30, 1999. The second offering period of the Plan commenced on October 1, 1999 and will expire on March 31, 2000. With respect to the first offering period, participants are not permitted to sell or assign any common stock acquired under the Plan until October 2, 2000. Effective as of the second offering period, restrictions on the transfer of common stock acquired under the Plan have been eliminated. There were 0 and 50,907 shares purchased under the Plan for the years ended December 31, 1998 and 1999, respectively.

## 16. NONCASH TRANSACTIONS

The Company used the following as part of the consideration paid for certain acquisitions:

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Fair Value of Common Stock Issued | $ 85,863 | $ 51,448 | $ 46,000 |
| Fair Value of Options Issued | 3,071 | 15,655 | – |
| Fair Value of Certain Net Assets of Businesses Previously Acquired | – | 3,000 | 2,489 |

In December 1998, the Company entered into a foreign currency exchange agreement and has recorded an asset and a liability based upon the exchange rates as of December 31, 1998. A cash settlement of the agreement occurred in January 1999.

During 1997, $3,086 of property and equipment, destroyed in a fire, was transferred to a receivable from insurance company.

See Note 6 for liabilities assumed in acquisitions.

## 17. SUBSEQUENT EVENTS

**a. Completed Acquisitions.** On February 1, 2000, the Company completed the acquisition of Pierce Leahy Corp. ("Pierce Leahy") in a stock-for-stock merger valued at approximately $1.1 billion. The acquisition was structured as a reverse merger with Pierce Leahy being the surviving legal entity and immediately changing its name to Iron Mountain Incorporated (the "Company"). Based on the number of shares of Iron Mountain and Pierce Leahy common stock outstanding immediately prior to the completion of the merger, immediately after the merger former stockholders of Iron Mountain owned approximately 65% of the Company's Common Stock. Because of this share ownership, Iron Mountain is considered the acquiring entity for accounting purposes. The total consideration for this transaction was comprised of: (i) approximately 18.8 million shares of the Company's Common Stock with a fair value of approximately $444 million; (ii) options to acquire approximately 1.5 million shares of the Company's Common Stock with a fair value of approximately $25 million; (iii) assumption of Pierce Leahy debt with a fair value of approximately $579 million; and (iv) incurrence of approximately $4 million of capitalized transaction costs. The acquisition will be accounted for as a purchase.

In addition, in January and February 2000, Iron Mountain acquired two records management businesses for total consideration of approximately $11.7 million in cash. The acquisitions will be accounted for using the purchase method of accounting.

**b. Pending Acquisition (Unaudited).** In February 2000, the Company entered into an agreement to acquire all of the assets of a RIMS business for aggregate consideration of approximately $54 million in cash. The acquisition, which is subject to customary closing conditions, is expected to close in May 2000, though there can be no assurances in this regard, and will be accounted for as a purchase.

## CERTAIN IMPORTANT FACTORS

This report contains "forward-looking statements" as that term is defined in the federal securities laws. Such forward-looking statements concern the operations, economic performance and financial condition of Iron Mountain. The forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements.

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

- unanticipated costs as a result of Iron Mountain's acquisition of Pierce Leahy;
- difficulties related to the integration of acquisitions generally and, more specifically, the integration of the operations of Iron Mountain and Pierce Leahy;
- our significant indebtedness and the cost and availability of financing for contemplated growth;
- the cost and availability of appropriate storage facilities;
- changes in customer preferences and demand for our services;
- rapid and significant changes in technology;
- intense competition in the industry; and
- other general economic and business conditions.

These cautionary statements should not be construed by you to be exhaustive, and they are made only as of the date of this report. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. We assume no obligation to update or revise the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

# CORPORATE DIRECTORS AND OFFICERS

## DIRECTORS

C. Richard Reese [1]
Chairman of the Board of Directors
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Iron Mountain Incorporated
Boston, MA

Clarke H. Bailey [1, 3]
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Highgate Capital
White Plains, NY

Constantin R. Boden [2, 3]
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Keystone Capital, Inc.
Chicago, IL

Eugene B. Doggett
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Boston, MA

John F. Kenny, Jr.
Executive Vice President
Chief Financial Officer
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Arthur D. Little [2, 3]
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The Little Investment Company
Boston, MA

J. Peter Pierce [1]
President
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Boston, MA

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Partner
LLR Equity Partners, LP
Philadelphia, PA

Vincent J. Ryan [1, 3]
Chairman
Chief Executive Officer
Schooner Capital LLC
Boston, MA

*Chairman Emeritus*
Leo W. Pierce, Sr.
Founder, Pierce Leahy Corp.

## SENIOR OFFICERS

C. Richard Reese
Chairman and Chief
Executive Officer

J. Peter Pierce
President of Iron Mountain Records
Management, Inc.

Harold E. Ebbighausen
President of Arcus Data Security, Inc.

Kenneth F. Radtke, Jr.
President of Iron Mountain Europe

David S. Wendell
Senior Vice President,
Planning

John F. Kenny, Jr.
Executive Vice President
Chief Financial Officer

Kevin Roden
Executive Vice President
Chief Information Officer

Patricia A. Toumayan
Vice President, Human Resources

## EXECUTIVE VICE PRESIDENTS

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Ross M. Engelman

James Giess

J. Michael Gold

Robert G. Miller

Christopher Neefus

Joseph A. Nezi

Robert P. Swift

Christopher J. Williams

## CORPORATE VICE PRESIDENTS

Mark Bentley

Jean A. Bua

David Guay

John P. Lawrence

Donald P. Richards

Kenneth A. Rubin

T. Anthony Ryan

Garry B. Watzke

[1] Member of the Executive Committee (Mr. Ryan is Chairman)
[2] Member of the Audit Committee (Mr. Boden is Chairman)
[3] Member of the Compensation Committee (Mr. Little is Chairman)

## SHAREHOLDER INFORMATION

### Form 10-K
A shareholder may receive without charge a copy of the Form 10-K Annual Report filed with the Securities and Exchange Commission by written request to Investor Relations at the corporate headquarters address.

### Transfer Agent and Registrar
For address changes, account consolidation, registration, lost stock certificates and other services, contact:
BankBoston, N.A.
c/o EquiServe, LP
P.O. Box 8040
Boston, MA 02266-8040
781/575-3120
www.equiserve.com

### Investor Relations
John F. Kenny, Jr.
Executive Vice President and
Chief Financial Officer
Iron Mountain Incorporated
745 Atlantic Avenue
Boston, MA 02111
617/535-4766

### Common Stock Data
Traded: NYSE Exchange
Symbol: IRM
Beneficial Shareholders:
approximately 7100

| Stock Prices | High | Low |
|---|---|---|
| 1997 | | |
| First Quarter | $ 20.67 | $ 14.33 |
| Second Quarter | 20.00 | 15.50 |
| Third Quarter | 24.17 | 19.50 |
| Fourth Quarter | 26.50 | 21.29 |
| 1998 | | |
| First Quarter | $ 25.08 | $ 20.92 |
| Second Quarter | 30.67 | 24.58 |
| Third Quarter | 30.50 | 22.50 |
| Fourth Quarter | 36.25 | 23.00 |
| 1999 | | |
| First Quarter | $ 36.25 | $ 27.38 |
| Second Quarter | 33.13 | 25.38 |
| Third Quarter | 34.38 | 27.88 |
| Fourth Quarter | 39.50 | 25.13 |
| 2000 | | |
| First Quarter | $ 39.31 | $ 27.75 |

### Annual Meeting Date
Iron Mountain Incorporated will conduct its annual meeting of shareholders on Thursday, June 1, 2000, 10:00 A.M. at Sullivan & Worcester, LLP, One Post Office Square, Boston, MA 02109.

### Dividends
The Company has not paid cash dividends on its Common Stock during the last two years and does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

### Independent Public Accountants
Arthur Andersen LLP
225 Franklin Street
Boston, MA 02110

### Counsel
Sullivan & Worcester LLP
One Post Office Square
Boston, MA 02109

### Corporate Headquarters
Iron Mountain Incorporated
745 Atlantic Avenue
Boston, MA 02111
617/535-4766
www.ironmountain.com

## MARKETS SERVED

*(As of 4/1/00)*

### DOMESTIC

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San Diego, CA
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Spokane, WA
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