IRON MOUNTAIN INC
Form 424B3
July 12, 2006

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated July 11, 2006

Filed Pursuant to Rule 424(b)(3)
Registration Nos. 333-105494 and 333-126932

PROSPECTUS SUPPLEMENT
(To Prospectus dated August 5, 2005)

$200,000,000
IRON MOUNTAIN INCORPORATED
% Senior Subordinated Notes due 2018

Offering Price: %, plus accrued interest from , 2006

We are offering these notes for a total purchase price of $, or 100% of the principal amount of the notes. We will receive $, or % of the gross proceeds from the sale of the notes, after paying the underwriters' discounts and commissions of $, or % of the gross proceeds from the sale of the notes, and before paying expenses estimated at $250,000. Set forth below is a summary of the terms of the notes offered hereby. For more detail, see "Description of the Notes."

Interest

The notes have a fixed annual interest rate of %, which will be paid every six months on and commencing , 2007.

Maturity

, 2018.

Guarantees

If we cannot make payments on the notes when they are due, our subsidiary guarantors must make them instead. Not all of our subsidiaries will be guarantors.

Ranking

The notes and the guarantees are subordinated to some of our current and future debts that we are permitted to incur under the indenture governing the notes. The notes and the guarantees will rank equally with our and our subsidiary guarantors' other senior subordinated indebtedness.

If we or any guarantor goes into bankruptcy, payments on the notes and the guarantees will only be made after our senior debts or the senior debts of such guarantor have been paid in full.

Mandatory Offer to Repurchase

If we sell certain assets or experience specific kinds of changes in control, we must offer to repurchase the notes.

Optional Redemption

We may, at our option, redeem the notes at any time prior to , 2011 at the make-whole price set forth in this prospectus supplement. We may, at our option, redeem the notes at any time after , 2011 at the prices set forth under "Description of the Notes."

Prior to , 2009 we may redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as at least $130.0 million in aggregate principal amount of notes remains outstanding immediately afterwards.

This investment involves risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to purchasers on July , 2006.

Joint Book-Running Managers

Bear, Stearns & Co. Inc. JPMorgan Lehman Brothers Inc.

The date of this prospectus supplement is July , 2006.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement. This summary is not complete and does not contain all of the information that you should consider before investing in the notes.

Iron Mountain

We believe we are the global leader in information protection and storage services. We help organizations around the world reduce the costs and risks associated with information protection and storage. We offer comprehensive records management and data protection solutions, along with the expertise and experience to address complex information challenges such as rising storage costs, litigation, regulatory compliance and disaster recovery. We are a trusted partner to more than 90,000 corporate clients throughout North America, Europe, Latin America and the Pacific Rim. We have a diversified customer base comprised of numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations, including more than 90% of the Fortune 1000 and more than 75% of the FTSE 100.

Our vision is to protect and store information and to that end we have organized our business into a geographic model with separate management teams for each major geographic region: North America, Europe, Latin America and Asia Pacific. The one exception to this model is our Digital business, which, by its nature, is deployed in a virtual fashion, leveraging a common set of intellectual property and a global technology infrastructure. Our largest segment, the North American Physical Business, offers all of our various non-digital products and services that can broadly be categorized as records management services and physical data protection services. We expect that over time these products and services will be available on a global basis through all of our geographic segments.

Our core records management services include: records management program development and implementation based on best-practices to help customers comply with specific regulatory requirements; implementation of policy-based programs that feature secure, cost-effective storage for all major media, including paper, which is the dominant form of records storage, flexible retrieval access and retention management; secure shredding services that ensure privacy and a secure chain of record custody; and specialized services for vital records, film and sound and regulated industries such as healthcare, energy and financial services.

Our physical data protection services include: disaster preparedness planning support and secure, off-site vaulting of data backup media for fast and efficient data recovery in the event of a disaster, human error or virus.

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

Our digital services include: digital archiving services for secure, legally compliant and cost-effective long-term archiving of electronic records; electronic vaulting to provide managed, online data backup and recovery services for personal computers and server data; and intellectual property management services consisting of escrow services to protect and manage source code and other proprietary information with a trusted, neutral third party.

We were founded in 1951 in an underground facility near Hudson, New York. Now in our 55th year, we have experienced tremendous growth and organizational change, particularly since successfully completing the initial public offering of our common stock in February 1996. Since then, we have built ourselves from a regional business with limited product offerings and annual revenues of $104 million in 1995 into a global enterprise providing a full range of information protection and storage services to customers in markets around the world. For the year ended December 31, 2005, we had total revenues of $2.1 billion.

Our growth since 1995 has been accomplished primarily through the acquisition of U.S. and international information protection and storage services companies. The goal of our current acquisition program is to supplement internal growth by continuing to establish a footprint in targeted international markets and adding fold-in acquisitions both in the U.S. and internationally. Having substantially completed our North American geographic expansion by the end of 2000, we shifted our focus from growth through acquisitions to internal revenue growth. As a result of this shift, in 2001 internal revenue growth exceeded growth through acquisitions for the first time since we began our acquisition program in 1996. This was also the case in 2002, 2003 and 2005. In 2004, revenue growth from acquisitions exceeded internal revenue growth due primarily to the acquisition of the records management operations of Hays plc, or Hays IMS, in July 2003. In the absence of unusual acquisition activity, we expect to achieve most of our revenue growth internally in 2006 and beyond. We expect to achieve our internal growth through a sophisticated sales and account management coverage model designed to drive incremental revenues by acquiring new customer relationships and increasing business with new and existing customers by selling them our products and services in new geographies and selling new products and services such as secure shredding, electronic vaulting and digital archiving. These selling efforts will be augmented and supported by an expanded marketing program, which includes product management as a core discipline.

In December 2005, we completed three important acquisitions that build on our strategy to protect and store our customers' information regardless of format or geography. We made our first move into the Asia Pacific region with the acquisition of the Australian and New Zealand operations of Pickfords Records Management, or Pickfords, for approximately $86 million in cash. Pickfords is a leading records management company with a national footprint in both Australia and New Zealand. We also acquired LiveVault Corporation, or LiveVault, a leading provider of disk-based online server backup and recovery solutions, for approximately $36 million. We were already an equity investor in LiveVault at the time of the acquisition. Finally, we acquired Secure Destruction Limited, or Secure Destruction, the largest shredding business in the U.K. Based in London, Secure Destruction is our first acquisition of a shredding business outside of North America.

As of December 31, 2005, we provided services to over 90,000 corporate clients in 85 markets in the U.S. and 81 markets outside of the U.S., employed over 15,800 people and operated over 900 records management facilities in the U.S., Canada, Europe, Latin America and Asia Pacific.

Financial Characteristics of Our Business

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

1 We use OIBDA, an integral part of our internal planning and reporting systems, to evaluate the operating performance of our consolidated business. As such, we believe OIBDA provides our current and potential investors with relevant and useful information regarding our ability to grow our revenues faster than our operating expenses. Additionally, we use multiples of current and projected OIBDA in our discounted cash flow models to determine our overall enterprise valuation and to evaluate acquisition targets. OIBDA should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America, or GAAP, such as operating or net income or cash flows from operating activities (as determined in accordance with GAAP). For a more detailed explanation of OIBDA, see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Measures" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, which is incorporated by reference in this prospectus supplement.

Recurring Revenues. We derive a majority of our consolidated revenues from fixed periodic, usually monthly, fees charged to customers based on the volume of records stored. Our quarterly revenues from these fixed periodic storage fees have grown for 69 consecutive quarters. Once a customer places physical records in storage with us and until those records are destroyed or permanently removed, for which we typically receive a service fee, we receive recurring payments for storage fees without incurring additional labor or marketing expenses or significant capital costs. Similarly, contracts for the storage of electronic back-up media consist primarily of fixed monthly payments. In each of the last five years, storage revenues, which are stable and recurring, have accounted for over 56% of our total consolidated revenues. This stable and growing storage revenue base also provides the foundation for increases in service revenues and OIBDA.

Historically Non-Cyclical Storage Business. We have not experienced any significant reductions in our storage business as a result of past general economic downturns, although we can give no assurance that this would be the case in the future. We believe that companies that have outsourced records management services are less likely during economic downturns to incur the move-out costs and other expenses associated with switching vendors or moving their records management services programs in-house. However, during the most recent economic slowdown, the rate at which some customers added new cartons to their inventory was below historical levels. The net effect of these factors was the continued growth of our storage revenue base, albeit at a lower rate. For each of the three years 2003 through 2005, total net volume growth in North America has ranged between 6% and 7%.

Inherent Growth from Existing Physical Records Customers. Our physical records customers have on average generated additional cartons at a faster rate than stored cartons have been destroyed or permanently removed. We estimate that inherent growth from existing customers represents approximately half of total net volume growth in North America. We believe the consistent growth of our physical records storage revenues is the result of a number of factors, including: (1) the trend toward increased records retention; (2) customer satisfaction with our services; and (3) the costs and inconvenience of moving storage operations in-house or to another provider of information protection and storage services.

Diversified and Stable Customer Base. As of December 31, 2005, we had over 90,000 corporate clients in a variety of industries. We currently provide services to numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment and government organizations, including more than 90% of the Fortune 1000 and 75% of the FTSE 100. No customer accounted for more than 2% of our consolidated revenues for the years ended December 31, 2003, 2004 and 2005. For each of the three years 2003 through 2005, the average volume reduction due to customers terminating their relationship with us was less than 2%.

Capital Expenditures Related Primarily to Growth. Our information protection and storage business requires limited annual capital expenditures made in order to maintain our current revenue stream. For each of the three years 2003, 2004 and 2005, over 85% of our aggregate capital expenditures were growth-related investments, primarily in storage systems, which include racking, building and leasehold improvements, computer systems hardware and software, and buildings. These growth-related capital expenditures are primarily discretionary and create additional capacity for increases in revenues and OIBDA. In addition, since shifting our focus from growth through acquisitions to internal revenue growth, our capital expenditures, made primarily to support our internal revenue growth, have exceeded the aggregate acquisition consideration we conveyed in both 2001 and 2002. Although this was not the case in 2003 due to the acquisition of Hays IMS and in 2004 due to the acquisition of Connected Corporation and the 49.9% equity interest held by Mentmore plc, or Mentmore, in Iron Mountain Europe Limited, or IME, it was the case in 2005 and we expect this trend to continue in the future absent unusual acquisition activity.

Growth Strategy

Our objective is to maintain a leadership position in information protection and storage services around the world. In the U.S. and Canada, we seek to be one of the largest information protection and storage services providers in each of our geographic markets. Internationally, our objectives are to continue to capitalize on our expertise in the information protection and storage services industry and to make additional acquisitions and investments in selected international markets. Our primary avenues of growth are: (1) increased business with existing customers; (2) the addition of new customers; (3) the introduction of new products and services such as secure shredding, electronic vaulting and digital archiving; and (4) selective acquisitions in new and existing markets.

Growth from Existing Customers

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

Our sales coverage model is designed to identify and capitalize on incremental revenue opportunities by reallocating our sales resources based on a more sophisticated segmentation of our customer base and selling additional business records management and data protection services within our existing customer relationships. We also seek to leverage existing business relationships with our customers by selling complementary services and products. Services include records tracking, indexing, customized reporting, vital records management and consulting services.

Addition of New Customers

Our sales forces are dedicated to three primary objectives: (1) establishing new customer account relationships, (2) generating additional revenue from existing customers and (3) expanding new and existing customer relationships by effectively selling a wide array of complementary services and products. In order to accomplish these objectives, our sales forces draw on our U.S. and international marketing organizations and senior management. We have a sales force of over 700 professionals as of December 31, 2005.

Introduction of New Products and Services

We continue to expand our menu of products and services. We have established a national presence in the U.S. and Canadian secure shredding industry and offer new electronic vaulting and digital archiving services. These new products and services allow us to further penetrate our existing customer accounts and attract new customers in previously untapped markets.

Growth through Acquisitions

Our acquisition strategy includes expanding geographically, as necessary, and increasing our presence and scale within existing markets through "fold-in" acquisitions. We have a successful record of acquiring and integrating information protection and storage services companies. Between January 1, 1996 and December 31, 2000, the height of our acquisition activity, we completed 78 acquisitions in North America, Europe and Latin America for total consideration of approximately $2.1 billion, including approximately $1 billion associated with our merger with Pierce Leahy Corp., or Pierce Leahy, in February 2000. During that period, we substantially completed our geographic expansion in North America and began to expand in Europe and Latin America.

Between January 1, 2001 and December 31, 2005, we completed an additional 85 acquisitions for total consideration of approximately $1.1 billion, primarily in the information protection and storage services industry in North America, Europe, Latin America and Asia Pacific and the secure shredding industry in North America and U.K. The major transactions during this period are as follows:

Acquisition	Completion Year	Total Consideration (in millions)	Primary Location	Primary Business
Hays IMS	July 2003	$ 333.0	U.S. and U.K.	Business Records Management
IME (Minority Partner Buy-Out of Mentmore)	February 2004	$ 154.0	Europe	Business Records Management
Connected	November 2004	$ 109.3	U.S.	Electronic Vaulting
Pickfords	December 2005	$ 86.3	Australia and New Zealand	Business Records Management
LiveVault	December 2005	$ 35.8	U.S.	Electronic Vaulting

Acquisitions in the U.S. and Canada

We intend to continue our acquisition program in the U.S. and Canada focusing on the secure shredding industry, expanding geographically as necessary, and building scale in some of our smaller markets through "fold-in" acquisitions. However, given the small number of large acquisition prospects and our increased revenue base, future acquisitions are expected to be less significant to overall U.S. and Canadian revenue growth.

International Growth Strategy

We also intend to continue to make acquisitions and investments in information protection and storage services businesses outside the U.S. and Canada. We have acquired and invested in, and seek to acquire and invest in, information protection and storage services companies in countries, and, more specifically, markets within such countries, where we believe there is sufficient demand from existing multinational customers or the potential for significant growth. Since beginning our international expansion program in January 1999, we have, directly and through joint ventures, expanded our operations into 24 countries in Europe, Latin America and Asia Pacific. These transactions have taken, and may continue to take, the form of acquisitions of the entire business or of controlling or minority investments, with a long-term goal of full ownership. In addition to the criteria we use to evaluate U.S. and Canadian acquisition candidates, we also evaluate the presence in the potential market of our existing customers as well as the risks uniquely associated with an international investment, including those risks described below.

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

Our long-term goal is to acquire full ownership of each such business. To that end, in February 2004 we acquired the 49.9% equity interest held by Mentmore in IME and in January 2005 we acquired the 49.9% equity interest in IMSA held by Compass Capital Fund L.P. In addition, we have bought out partnership interests, in whole or in part, in Chile, Mexico, Eastern Europe and the Netherlands. As a result of these transactions, we own more than 98% of our international operations as a percentage of consolidated revenues.

Our international investments are subject to risks and uncertainties relating to the indigenous political, social, regulatory, tax and economic structures of other countries, as well as fluctuations in currency valuation, exchange controls, expropriation and governmental policies limiting returns to foreign investors.

The amount of our revenues derived from international operations and other relevant financial data for fiscal years 2003, 2004 and 2005 are set forth in Note 10 to our consolidated financial statements included in our Current Report on Form 8-K dated May 22, 2006. For the years ended December 31, 2003, 2004 and 2005, we derived approximately 19%, 27% and 28%, respectively, of our total revenues from outside of the U.S. As of December 31, 2003, 2004 and 2005, approximately 27%, 31% and 31%, respectively, of our long-lived assets are from outside of the U.S.

Address and Telephone Number

We were incorporated in 1990, but our operations date from 1951. We are a Delaware corporation. Our principal place of business is located at 745 Atlantic Avenue, Boston, Massachusetts 02111, and our telephone number is (617) 535-4766.

The Offering

Notes Offered	We are offering a total of $200,000,000 in principal amount of our % Senior Subordinated Notes due 2018.
Maturity Date	, 2018.
Issue Price	We are offering the notes at a price of 100% of par.
Interest	We will pay interest on the notes at a fixed annual interest rate of %. We will pay the interest due on the notes every six months on and . We will make our first interest payment on , 2007.
Subsidiary Guarantors	Each guarantor is one of our domestic wholly owned subsidiaries. However, not all of our subsidiaries are guarantors. If we cannot make payments on the notes when they are due, the subsidiary guarantors must make them instead.
Ranking	The notes and the subsidiary guarantees are unsecured senior subordinated debts. They rank behind all of our and our subsidiary guarantors' current and future indebtedness other than trade payables, except indebtedness that expressly provides that it is not senior to these notes and the guarantees. Assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," these notes and the subsidiary guarantees:
	would have been subordinated to $570.6 million of our and our subsidiary guarantors' senior debt and
	would have ranked equally with $1,584.7 million (includes $3.4 million of net premiums) of our and our subsidiary guarantors' other senior subordinated debt and trade payables.
Mandatory Offer to Repurchase	If we sell certain assets or experience specific kinds of changes of control, we must offer to repurchase the notes at the prices listed in this prospectus supplement in the section captioned "Description of the Notes" under the subheading "Repurchase at the Option of Holders."
Optional Redemption	We may, at our option, redeem some or all of the notes at any time prior to , 2011 at the make-whole price set forth in this prospectus supplement. At our option, we may also redeem some or all of the notes at any time after , 2011 at the redemption prices listed in this prospectus supplement in the section captioned "Description of the Notes" under the subheading "Optional Redemption."
	Before , 2009 we may, at our option, redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as at least $130.0 million in aggregate principal amount of notes (including any additional notes subsequently issued as part of the same class) remains outstanding immediately afterwards.

Certain Covenants	We will issue the notes under an indenture with The Bank of New York Trust Company, N.A., as trustee. The indenture will, among other things, restrict our ability and the ability of our restricted subsidiaries to:
	borrow money;
	pay dividends on stock or purchase stock;
	make investments;
	use assets as security in other transactions;
	enter into transactions with affiliates; and
	sell certain assets or merge with or into other companies.
	For more details, see the section captioned "Description of the Notes" under the subheading "Certain Covenants."
Use of Proceeds	We will use the net proceeds of the notes to fund our offer to purchase and consent solicitation relating to our outstanding 8$^{1}/_{4}$% Senior Subordinated Notes due 2011, the possible repayment, repurchase or retirement of other indebtedness, including outstanding indebtedness under our revolving credit facility, and for general corporate purposes, including possible future acquisitions and investments.

Risk Factors

You should carefully consider all of the information in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference. In particular, you should evaluate the specific risks set forth under the sections captioned "Risk Factors" beginning on page S-9 of this prospectus supplement and page 2 of the accompanying prospectus for a discussion of certain risks in making an investment in the notes.

RISK FACTORS

You should carefully consider the following factors, the risk factors included in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005 and other information in this prospectus supplement and the accompanying prospectus before deciding to invest in our notes.

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under the notes.

We have now, and after the offering will continue to have, a significant amount of indebtedness. The following table shows important credit statistics and assumes that this offering was completed on March 31, 2006 and the net proceeds of this offering were applied as described under "Use of Proceeds" and "Capitalization:"

	As Adjusted At March 31, 2006
	(Dollars in millions)
Total long-term debt	$2,570
Shareholders' equity	$1,400
Debt to equity ratio	1.8x

Our substantial indebtedness could have important consequences to you. Our indebtedness may increase as we continue to borrow under existing and future credit arrangements in order to finance future acquisitions and for general corporate purposes, which would increase the associated risks. These risks include:

- inability to satisfy our obligations with respect to the notes;
- inability to adjust to adverse economic conditions;
- inability to fund future working capital, capital expenditures, acquisitions and other general corporate requirements, including possible required repurchases of the notes;
- limits on our flexibility in planning for, or reacting to, changes in our business and the information protection and storage services industry;
- limits on future borrowings under our existing or future credit arrangements, which could affect our ability to pay our indebtedness, including the notes, or to fund our other liquidity needs;
- inability to generate sufficient funds to cover required interest payments, including on the notes; and
- restrictions on our ability to refinance our indebtedness on commercially reasonable terms.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt.

The terms of the indenture generally do not prohibit us or our subsidiaries from borrowing additional funds under our revolving credit facility and possible future credit arrangements. Our revolving credit facility would permit additional borrowings of up to $179.0 million as of March 31, 2006, subject to customary borrowing conditions, assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," and all of those borrowings would be senior to the notes and the subsidiary guarantees.

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Our ability to generate sufficient cash to service our indebtedness depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund capital expenditures and future acquisitions will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We believe our cash flow from operations and available borrowings under our existing and future credit arrangements will be adequate to meet our foreseeable future liquidity needs.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our existing and future credit arrangements in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our revolving credit facility and the notes, on commercially reasonable terms or at all.

The notes and the subsidiary guarantees are junior to all of our and the subsidiary guarantors' existing senior indebtedness and possibly to all of our and their future borrowings, and in some situations, this may reduce our ability to fulfill our full obligations under the notes.

The notes and the subsidiary guarantees rank behind all of our and the subsidiary guarantors' existing senior indebtedness and all of our and their future borrowings, other than trade payables, except any future indebtedness that expressly provides that it ranks equal with, or is subordinated in right of payment to, the notes and the guarantees. As a result, upon any distribution to our creditors or the creditors of the guarantors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or the guarantors or our or their property, the holders of our and the guarantors' senior debt will be entitled to be paid in full in cash before any payment may be made with respect to the notes or the guarantees.

In addition, all payments on the notes and the guarantees will be blocked in the event of a payment default on our senior debt and may be blocked for up to 179 of 360 consecutive days in the event of certain non-payment defaults on our senior debt.

If we or the guarantors are subject to a bankruptcy, liquidation or reorganization or similar proceeding, holders of the notes will participate with trade creditors and all other holders of our and the guarantors' subordinated indebtedness in the assets remaining after we and the guarantors have paid all of the senior debt. However, because the indenture requires that amounts otherwise payable to holders of the notes in a bankruptcy or similar proceeding be paid to holders of senior debt instead, holders of the notes may receive less, ratably, than holders of trade payables in any such proceeding. In any of these cases, we and the guarantors may not have sufficient funds to pay all of our creditors and holders of the notes may receive less, ratably, than the holders of senior debt.

Assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," these notes and the subsidiary guarantees would have been subordinated to $570.6 million of our and our subsidiary guarantors' senior debt and would have ranked equally with $1,584.7 million (includes $3.4 million of net premiums) of our and our subsidiary guarantors' other senior subordinated debt and trade payables. We will be permitted to incur substantial additional indebtedness, including senior debt, in the future under the terms of the indenture.

Your right to receive payments on these notes could be adversely affected if any of our non-guarantor subsidiaries declare bankruptcy, liquidate or reorganize.

Substantially all of our direct and indirect wholly owned domestic subsidiaries will guarantee the notes. Iron Mountain Canada Corporation, or Canada Company, IME their respective subsidiaries and our other existing international subsidiaries do not, and we anticipate that our future international subsidiaries will not, guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of the non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. Assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," these notes were effectively junior to $494.1 million of indebtedness and other liabilities (including trade payables) of our non-guarantor subsidiaries. Our non-guarantor subsidiaries generated 27.6% of our consolidated revenues in the year ended December 31, 2005 and 28.7% of our consolidated revenues in the three-month period ended March 31, 2006 and held 32.3% of our consolidated total assets as of March 31, 2006, in the latter case without reduction for the minority interests in certain of our international subsidiaries.

Our condensed consolidating financial information included in the notes to our consolidated financial statements, which we have incorporated by reference from our Current Report on Form 8-K dated May 22, 2006, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, includes information for Iron Mountain Incorporated, the subsidiary guarantors on a combined basis and our non-guarantor subsidiaries on a combined basis.

We may not have the ability to raise the funds necessary to finance the repurchase of outstanding senior subordinated indebtedness, including the notes, upon a change of control event as required by the indenture.

Upon the occurrence of a Change of Control, we will be required to offer to repurchase all outstanding notes and our other existing senior subordinated indebtedness. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of the notes or that restrictions in our revolving credit facility will not allow such repurchases. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture. See "Description of the Notes Repurchase at the Option of Holders Change of Control."

Federal and state statutes could allow courts, under specific circumstances, to void guarantees and require holders of the notes to return payments received from guarantors.

Under federal bankruptcy laws and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor, if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and

- was insolvent or rendered insolvent by reason of such incurrence; or

- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all of its assets;
- if the present fair saleable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that each guarantor, after giving effect to its guarantee of the notes, will not be insolvent, will not have unreasonably small capital for the business or any transaction in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. There can be no assurance, however, as to what standard a court would apply in making such determinations or that a court would agree with our conclusions in this regard.

A guarantor may be released from its guarantee at any time upon a sale, exchange or transfer, in compliance with the provisions of the indenture, by Iron Mountain of the capital stock of such guarantor or substantially all of the assets of such guarantor. In addition, in some other circumstances, a guarantor may be released from its subsidiary guarantee in connection with our designation of such guarantor as an unrestricted subsidiary or excluded restricted subsidiary. See "Description of the Notes Certain Covenants Additional Subsidiary Guarantees."

Since Iron Mountain is a holding company, our ability to make payments on the notes depends in part on the operations of our subsidiaries.

Iron Mountain is a holding company, and substantially all of our assets consist of the stock of our subsidiaries and substantially all of our operations are conducted by our direct and indirect wholly owned subsidiaries. As a result, our ability to make payments on the notes will be dependent upon the receipt of sufficient funds from our subsidiaries. However, the notes will be guaranteed, on a joint and several basis, by most, but not all, of our direct and indirect wholly owned domestic subsidiaries.

We cannot guarantee that there will be a trading market for the notes.

The notes are a new issue of securities for which no trading market currently exists. We do not intend to list the notes on any national or regional securities exchange or to seek approval for quotation through any automated quotation system. We cannot give any assurance that a trading market will exist in the future for the notes. Even if a market does develop, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for high yield securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally.

Governmental focus on data security could increase our costs of operations. In addition, our failure to protect our customers' confidential information against security breaches could damage our reputation, harm our business and adversely impact our results of operations.

In reaction to publicized incidents in which electronically stored information has been lost, illegally accessed or stolen, many states have adopted breach of data security statutes and regulations that require notification to consumers if the security of their personal information, such as social security numbers, is breached. In addition, Congress is considering several bills that are intended to address data security, including by requiring notification to affected persons of breaches of data security. We presently are cooperating with a federal agency in a non-public inquiry regarding our information security practices, and we may be subject to additional inquiries in the future. As previously reported, we have in the past experienced incidents in which customers' backup tapes or other records have been lost, and we have been informed by customers in some incidents that the lost media or records contained personal information. The increased focus on data security may lead to governmental action and/or changes in customer demand as a result of which we may modify our operations with the goal of further improving data security or accept increased liabilities or obligations if breaches of data security occur with respect to data in our custody. However, we may be unable to increase our rates sufficiently to counter our increased expenses due to such modifications in operations or such liabilities and obligations, and that would adversely impact our results of operations. In addition, any compromise of security, accidental loss or theft of customer data in our possession could damage our reputation and expose us to risk of loss in the United States or other countries, which could harm our business and adversely impact our results of operations.

USE OF PROCEEDS

The net proceeds to us from the offering of the notes are estimated to be $ million, after deducting discounts to the underwriters and estimated offering expenses. We expect to use the net proceeds of the notes to fund our offer to purchase and consent solicitation relating to our outstanding $8^{1}/_{4}$% Senior Subordinated Notes due 2011, which our subsidiary guarantors have guaranteed on a senior subordinated basis, the possible repayment, repurchase or retirement of other indebtedness, including outstanding indebtedness under our revolving credit facility, and for general corporate purposes, including possible future acquisitions and investments. Pending this utilization, we intend to temporarily repay amounts outstanding under our revolving credit facility and to invest the net proceeds from the sale of the notes in short-term, dividend-paying or interest-bearing investment grade securities. We used borrowings under our revolving credit facility during the most recent twelve months to finance acquisitions and for working capital. Our revolving credit facility has a maturity date of April 2, 2009. The weighted average interest rate as of June 26, 2006 on indebtedness outstanding under our revolving credit facility was 6.5%. Affiliates of certain of the underwriters are agents or lenders under our revolving credit facility. See "Underwriting."

CAPITALIZATION
(In thousands)

The following table sets forth at March 31, 2006 our: (a) actual cash and cash equivalents and capitalization and (b) cash and cash equivalents and capitalization as adjusted to give effect to this offering and the application of the net proceeds from this offering as described in "Use of Proceeds."

This table should be read in conjunction with the section captioned "Use of Proceeds" in this prospectus supplement and our consolidated financial statements in our Current Report on Form 8-K dated May 22, 2006, and the footnotes thereto incorporated herein by reference.

	As of March 31, 2006	
	Actual	**As Adjusted**
Cash and Cash Equivalents	$ 42,552	$ 42,552
Long-term Debt (Including Current Maturities):		
Iron Mountain Revolving Credit Facility	$ 241,693	$ 197,184
Iron Mountain Term Loan Facility	344,625	344,625
IME Revolving Credit Facility(1)	84,431	84,431
IME Term Loan Facility(1)	176,750	176,750
8 1/4% Senior Subordinated Notes due 2011	149,771	
8 5/8% Senior Subordinated Notes due 2013	481,027	481,027
7 3/4% Senior Subordinated Notes due 2015	439,278	439,278
7 1/4% GBP Senior Subordinated Notes due 2014	260,970	260,970
6 5/8% Senior Subordinated Notes due 2016	315,182	315,182
% Senior Subordinated Notes due 2018		200,000
Real Estate Mortgages and Other	13,273	13,273
Other	57,485	57,485
Total Long-term Debt (Including Current Maturities)	2,564,485	2,570,205
Total Shareholders' Equity	1,402,049	1,399,907
Total Capitalization	$ 3,966,534	$ 3,970,112

(1) Neither we nor our subsidiary guarantors are guarantors of the obligations of IME and its subsidiary guarantors under IME's revolving credit facility or term loan.

DESCRIPTION OF THE NOTES

The following description of the particular terms of the notes supplements and, to the extent inconsistent therewith, replaces the description of the general terms and provisions of debt securities set forth under "Description of Our Debt Securities" in the accompanying prospectus, to which reference is hereby made. You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." Other terms are defined in the accompanying prospectus. Certain defined terms used in this description but not defined below under the subheading "Certain Definitions" have the meanings assigned to them in the Indenture described below. In this description, the word "Company" refers only to Iron Mountain and not to any of its subsidiaries.

General

The Company will issue the notes under an indenture dated as of December 30, 2002, or the Base Indenture, as supplemented by a Third Supplemental Indenture dated as of the issue date of the notes, or the Supplemental Indenture, among the Company, the guarantors and The Bank of New York Trust Company, N.A., as trustee, or the Trustee. For convenience, the Base Indenture as supplemented by the Supplemental Indenture is referred to as the "Indenture." The terms of the notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act.

The following description is a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights as a holder of the notes. If you would like more information on these provisions, review the copy of the Indenture that we have filed with the Securities and Exchange Commission, or the Commission. See "Documents Incorporated By Reference" and "Where You Can Find More Information" in this prospectus supplement and in the accompanying prospectus for information about how to locate these documents. You may also review the Indenture at the Trustee's corporate trust office at 222 Berkeley Street, 2nd Floor, Boston, MA 02116.

The Indenture permits the issuance of additional notes from time to time having identical terms and conditions to the notes offered in this offering. Any offering of additional notes is subject to the covenant described below under the caption " Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock." The notes and any additional notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase.

The notes will be general unsecured obligations of the Company and will mature on , 2018. The notes will be issued in registered form, without coupons, and in denominations of $1,000 and integral multiples thereof. The notes will be evidenced by a global note in book-entry form, except under the limited circumstances described below under " Book Entry, Delivery and Form." The registered holder of a note, or Holder, will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

The notes:

- are general unsecured obligations of the Company;
- are subordinated in right of payment to all existing and future Senior Debt of the Company;
- are *pari passu* in right of payment with existing and any future senior subordinated Indebtedness of the Company; and
- are unconditionally guaranteed by the guarantors.

The notes are guaranteed by the guarantors. Each subsidiary guarantee of the notes:

- is a general unsecured obligation of the guarantor;
- is subordinated in right of payment to all existing and future Senior Debt of the guarantor; and
- is *pari passu* in right of payment with any existing and future senior subordinated Indebtedness of the guarantor.

Assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," these notes and the subsidiary guarantees would have been subordinated to $570.6 million of Iron Mountain's and the subsidiary guarantors' Senior Debt and would have ranked equally with $1,584.7 million (including $3.4 million of net premiums) of Iron Mountain's and the subsidiary guarantors' other senior subordinated debt and trade payables. As indicated above and as discussed in detail below under the caption " Subordination," payments on the notes and under the subsidiary guarantees will be subordinated to the payment of Senior Debt. The Indenture permits Iron Mountain and the guarantors to incur additional Senior Debt.

Not all of our subsidiaries will guarantee the notes. Substantially all of our direct and indirect wholly owned domestic subsidiaries will guarantee the notes. Canada Company, Iron Mountain Europe Limited, their respective subsidiaries and our other existing international subsidiaries will not be guarantors. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us. Our non-guarantor subsidiaries, including Canada Company, generated 27.6% of our consolidated revenues in the year ended December 31, 2005 and 28.7% of our consolidated revenues in the three-month period ended March 31, 2006 and held 32.3% of our consolidated total assets as of March 31, 2006, in the latter case without reduction for the minority interests in certain of our international subsidiaries. See our consolidated financial statements incorporated by reference in this prospectus supplement from our Current Report on Form 8-K dated May 22, 2006, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 for more detail about the division of Iron Mountain's consolidated revenues and assets between Iron Mountain's guarantor and non-guarantor subsidiaries.

Interest

Interest on the notes will accrue at the rate of   % per annum and will be payable semi-annually in arrears on   and   , commencing on   , 2007 to Holders of record on the immediately preceding   and   . Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

The notes will be payable both as to principal and interest at the office or agency of the Company maintained for such purpose within the City and State of New York or, at the option of the Company, payment of interest may be made by check mailed to the Holders of notes at their addresses set forth in the register of Holders of notes. Until otherwise designated by the Company, the Company's office or agency in New York will be the office of the Trustee maintained for such purpose.

Paying Agent and Registrar for the Notes

The Trustee will initially act as paying agent and registrar. The Company may change the paying agent or registrar without prior notice to the Holders, and the Company or any of its Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A Holder may transfer or exchange notes in accordance with the Indenture. The registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents. The Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company is not required to transfer or exchange any note selected for redemption. Also, the Company is not required to transfer or exchange any note for a period of 15 days before the mailing of a notice of redemption of notes to be redeemed.

Subsidiary Guarantees

The Company's payment obligations under the notes will be jointly and severally guaranteed pursuant to the subsidiary guarantees on an unsecured senior subordinated basis by all of the Company's Restricted Subsidiaries other than the Excluded Restricted Subsidiaries (as defined below). See " Certain Covenants Additional Subsidiary Guarantees." Each subsidiary guarantee will be subordinated to the prior payment in full of all Senior Debt of each such subsidiary guarantor, which, assuming we had completed this offering on March 31, 2006 and applied the net proceeds from this offering as described under "Capitalization," would have been $570.6 million. Notwithstanding the subordination provisions contained in the Indenture, the obligations of a guarantor under its subsidiary guarantee will be unconditional, but will contain language intended to prevent that subsidiary guarantee from constituting a fraudulent conveyance under applicable law. See "Risk Factors Federal and state statutes could allow courts, under specific circumstances, to void guarantees and require holders of the notes to return payments received from guarantors."

The subsidiary guarantee of a guarantor will be released under the circumstances described under " Certain Covenants Additional Subsidiary Guarantees."

Subordination

The payment of principal of, premium, if any, and interest on the notes will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full in cash of all Obligations with respect to Senior Debt, whether outstanding on the date of the Indenture or thereafter incurred.

The holders of Senior Debt will be entitled to receive payment in full in cash of all Obligations due in respect of such Senior Debt (including interest after the commencement of any such proceeding at the rate specified in the applicable Senior Debt, whether or not allowed as a claim in such proceeding) before the Holders of notes will be entitled to receive any payment or distribution with respect to the notes. Until all Obligations with respect to Senior Debt are paid in full in cash, any payment or distribution to which the Holders of notes would be entitled shall be made to the holders of Senior Debt, upon any payment or distribution to creditors of the Company or any guarantor:

(1) in a liquidation or dissolution of the Company or such guarantor; or

(2) in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or any guarantor or its property; or

(3) in an assignment for the benefit of creditors; or

(4) in any marshaling of the assets and liabilities of the Company or any guarantor.

Neither the Company nor any guarantor may make any payment or distribution upon or in respect of the notes, including, without limitation, by way of set-off or otherwise, or redeem (or make a deposit in redemption of), defease or acquire any of the notes for cash, properties or securities if:

(1) a default in the payment of any Obligation in respect of any Senior Debt occurs and is continuing; or

(2) any other default (or any event that, after notice or passage of time would become a default), or a Non-Monetary Default, occurs and is continuing with respect to Senior Debt and the Trustee receives a notice of such default, or a Payment Blockage Notice, from the holders (or the agent or representative of such holders) of any Designated Senior Debt.

Payments on the notes may and shall be resumed:

(1) in the case of a payment default, on the date on which such default is cured or waived; and

(2) in the case of a Non-Monetary Default, on the earlier of the date on which such Non-Monetary Default is cured or waived or 179 days after the date on which the applicable Payment Blockage Notice is received, unless the maturity of any Senior Debt has been accelerated.

Any number of Payment Blockage Notices may be given; *provided*, *however*, that:

(1) not more than one Payment Blockage Notice may be commenced during any period of 360 consecutive days; and

(2) any Non-Monetary Default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee (to the extent the holder of Designated Senior Debt, or such trustee or agent, giving such Payment Blockage Notice had knowledge of the same) shall not be the basis for a subsequent Payment Blockage Notice, unless such default has been cured or waived for a period of not less than 90 consecutive days.

The Company must promptly notify holders of Senior Debt if payment of the notes is accelerated because of an Event of Default (as described below).

As a result of the subordination provisions described above, in the event of a liquidation or insolvency, Holders of notes may recover less ratably than creditors of the Company who are holders of Senior Debt. After giving effect to the offering of the notes and the use of the net proceeds as described under "Capitalization," the principal amount of Senior Debt of the Company and the guarantors outstanding at March 31, 2006 would have been $570.6 million. The Indenture will not limit the amount of additional Indebtedness, including Senior Debt, that the Company and its Restricted Subsidiaries can incur if certain financial tests are met. See " Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock."

Optional Redemption

Prior to , 2011, the notes will be subject to redemption at any time at the option of the Company, in whole or in part, upon not less than 10 nor more than 60 days' notice, at the Make-Whole Price, plus accrued and unpaid interest to but excluding the applicable redemption date. On and after , 2011, the notes will be subject to redemption at any time at the option of the Company, in whole or in part, upon not less than 10 nor more than 60 days' notice, at the redemption price (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest to but excluding the applicable redemption date, if redeemed during the 12- month period beginning on of the years indicated below:

Year	**Percentage**
2011	%
2012	
2013	
2014 and thereafter	100.000%

Notwithstanding the foregoing, at any time prior to , 2009, the Company may on any one or more occasions redeem the notes at a redemption price of % of the principal amount thereof, plus accrued and unpaid interest, and Liquidated Damages if any, to the redemption date, with the net cash proceeds of one or more Qualified Equity Offerings; *provided* that:

(1) at least $130.0 million in the aggregate principal amount of the notes (including any additional notes subsequently issued as part of the same class) issued under the Indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by the Company and the Company's Subsidiaries); and

(2) the redemption occurs within six months of the date of the closing of any such Qualified Equity Offering.

Mandatory Redemption

The Company is not required to make mandatory redemption or sinking fund payments with respect to the notes.

Repurchase at the Option of Holders

Change of Control. Upon the occurrence of a Change of Control, each Holder of notes will have the right to require the Company to repurchase all or any part (equal to $1,000 or an integral multiple thereof) of such Holder's notes pursuant to the offer described below, or the Change of Control Offer, at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest to but excluding the date of repurchase, or the Change of Control Payment.

Within 30 calendar days following any Change of Control, the Company will mail a notice to each Holder stating:

(1) that the Change of Control Offer is being made pursuant to the covenant entitled "Change of Control" and that all notes tendered will be accepted for payment;

(2) the purchase price and the purchase date, which will be no earlier than 30 calendar days nor later than 60 calendar days from the date such notice is mailed, or the Change of Control Payment Date;

(3) that any note not tendered will continue to accrue interest;

(4) that, unless the Company defaults in the payment of the Change of Control Payment, all notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest on and after the Change of Control Payment Date;

(5) that Holders electing to have any notes purchased pursuant to a Change of Control Offer will be required to surrender the notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the notes completed, to the paying agent at the address specified in such notice prior to the close of business on the fifth Business Day preceding the Change of Control Payment Date;

(6) that Holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the second Business Day preceding the Change of Control Payment Date, facsimile transmission or letter setting forth the name of the Holder, the principal amount of notes delivered for purchase, and a statement that such Holder is withdrawing its election to have such notes purchased; and

(7) that Holders whose notes are being purchased only in part will be issued new notes equal in principal amount to the unpurchased portion of the notes surrendered, which unpurchased portion must be equal to $1,000 in principal amount or an integral multiple thereof.

The Company will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and any other securities laws and regulations thereunder, to the extent such laws and regulations are applicable to the repurchase of the notes in connection with a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such conflict.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment notes or portions thereof tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the notes or portions thereof tendered to the Company.

The paying agent will promptly mail to each Holder of notes so accepted the Change of Control Payment for such notes, and the Trustee will promptly authenticate and mail to each Holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each such new note will be in a principal amount of $1,000 or an integral multiple thereof.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the notes to require that the Company repurchase or redeem the notes in the event of a takeover, recapitalization or similar restructuring, nor does it contain any other "event risk" protections for Holders of the notes.

Although the Change of Control provision may not be waived by the Company, and may be waived by the Trustee only in accordance with the provisions of the Indenture, there can be no assurance that any particular transaction (including a highly leveraged transaction) cannot be structured or effected in a manner not constituting a Change of Control.

The Credit Agreement currently limits the right of the Company to purchase any notes prior to their scheduled maturity and also provides that a Change of Control with respect to the Company is a default thereunder. Any future credit agreements or other agreements relating to Senior Debt to which the Company becomes a party may contain similar restrictions and provisions. In the event a Change of Control occurs at a time when the Company is prohibited from purchasing notes, the Company could seek a waiver of the default under the Credit Agreement, the consent of its lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain such a waiver and consent or repay such borrowings, the Company would remain prohibited from purchasing notes and be in default under the Credit Agreement. In such case, the Company's failure to purchase tendered notes would, in turn, constitute an Event of Default under the Indenture. In such circumstances, the subordination provisions in the Indenture would likely restrict payments to the Holders of notes.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all notes properly tendered and not withdrawn under the Change of Control Offer.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of notes to require the Company to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company to another Person or group may be uncertain.

Asset Sales. The Company will not, and will not permit any of its Restricted Subsidiaries to:

(1) sell, lease, convey or otherwise dispose of any assets (including by way of a Sale and Leaseback Transaction, but excluding a Qualifying Sale and Leaseback Transaction) other than sales of inventory in the ordinary course of business (*provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company will be governed by the provisions of the Indenture described above under the caption "Change of Control" and/or the provisions described below under the caption "Certain Covenants Merger, Consolidation or Sale of Assets" and not by the provisions of this covenant); or

(2) issue or sell Equity Interests of any of its Restricted Subsidiaries

that, in the case of either clause (1) or (2) above, whether in a single transaction or a series of related transactions:

(i) have a fair market value in excess of $2.0 million; or

(ii) result in Net Proceeds in excess of $2.0 million, each of the foregoing, an Asset Sale, unless (x) the Company (or the Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Sale at least equal to the fair market value (evidenced by an Officers' Certificate delivered to the Trustee, and for Asset Sales having a fair market value or resulting in net proceeds in excess of $10.0 million, evidenced by a resolution of the Company's board of directors set forth in an Officers' Certificate delivered to the Trustee) of the assets sold or otherwise disposed of and (y) at least 75% of the consideration therefor received by the Company or such Restricted Subsidiary is in the form of cash or like-kind assets (in each case as determined in good faith by the Company, evidenced by a resolution of the Company's board of directors and certified by an Officers' Certificate delivered to the Trustee);

provided, *however*, that the amount of:

(A) any liabilities (as shown on the Company's or such Restricted Subsidiary's most recent balance sheet or in the notes thereto) of the Company or such Restricted Subsidiary (other than liabilities that are by their terms subordinated to the notes or any subsidiary guarantee) that are assumed by the transferee of any such assets; and

(B) any notes or other obligations received by the Company or such Restricted Subsidiary from such transferee that are immediately converted by the Company or such Restricted Subsidiary into cash (to the extent of the cash received) or Cash Equivalents

shall be deemed to be cash for purposes of this provision; and *provided*, *further*, that the 75% limitation referred to in the foregoing clause (ii)(y) shall not apply to any Asset Sale in which the cash portion of the consideration received therefrom is equal to or greater than what the after-tax proceeds would have been had such Asset Sale complied with the aforementioned 75% limitation.

A transfer of assets or issuance of Equity Interests by the Company to a Wholly Owned Restricted Subsidiary or by a Wholly Owned Restricted Subsidiary to the Company or to another Wholly Owned Restricted Subsidiary will not be deemed to be an Asset Sale.

Within 360 days of any Asset Sale, the Company may, at its option, apply an amount equal to the Net Proceeds from such Asset Sale either:

(1) to permanently reduce Senior Debt; or

(2) to an investment in a Restricted Subsidiary or in another business or capital expenditure or other long-term/tangible assets, in each case, in the same line of business as the Company or

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any of its Restricted Subsidiaries was engaged on the date of the Indenture or in businesses similar or reasonably related thereto.

Pending the final application of any such Net Proceeds, the Company may temporarily reduce Senior Bank Debt or otherwise invest such Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from such Asset Sale that are not applied or invested as provided in the first sentence of this paragraph will be deemed to constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds $10.0 million, the Company shall make an offer to all Holders of the notes, all holders of the $8^{1}/_{4}$% notes, the $8^{5}/_{8}$% notes, the $7^{1}/_{4}$% notes, the $7^{3}/_{4}$% notes, the $6^{5}/_{8}$% notes and the holders of any future Indebtedness ranking *pari passu* with the notes, which Indebtedness contains similar provisions requiring the Company to repurchase such Indebtedness, or an Asset Sale Offer, to purchase the maximum principal amount of notes and such other Indebtedness that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, in accordance with the procedures set forth in the Indenture. To the extent that the aggregate amount of notes and other *pari passu* Indebtedness (including the $8^{1}/_{4}$% notes, the $8^{5}/_{8}$% notes, the $7^{1}/_{4}$% notes, the $7^{3}/_{4}$% notes and the $6^{5}/_{8}$% notes) tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes. If the aggregate principal amount of notes and such other Indebtedness surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the notes and such other Indebtedness to be purchased on a pro rata basis. Upon completion of such offer to purchase, the amount of Excess Proceeds shall be reset at zero.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such conflict. Existing agreements governing the Company's outstanding Senior Debt generally restrict the Company from purchasing any notes prior to scheduled maturity, and also provide that certain asset sale events with respect to the Company would constitute a default under these agreements. Any future credit agreements or other agreements relating to Senior Debt to which the Company becomes a party may contain similar restrictions and provisions. In the event an Asset Sale occurs at a time when the Company is prohibited from purchasing notes, the Company could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain such a consent or repay such borrowings, the Company would remain prohibited from purchasing notes. In such case, the Company's failure to purchase tendered notes would constitute an Event of Default under the Indenture which would, in turn, constitute a default under such Senior Debt. In such circumstances, the subordination provisions in the Indenture would likely restrict payments to the Holders of notes.

Selection and Notice

If less than all of the notes are to be redeemed at any time, the Trustee will select notes for redemption as follows:

(1) if the notes are listed, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2) if the notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate.

No notes of $1,000 or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail at least 10 but not more than 60 days before the redemption date to each Holder of notes to be redeemed at its registered address.

If any note is to be redeemed in part only, the notice of redemption that relates to such note shall state the portion of the principal amount thereof to be redeemed. A new note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original note. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption.

Certain Covenants

Changes in Covenants When Notes Rated Investment Grade. If on any date following the date of the indenture:

(1) at least two of the following events occurs:

(i) the notes are rated Baa3 or better by Moody's Investors Service,

(ii) the notes are rated BBB- or better by Standard & Poor's Rating Group, a division of McGraw Hill, Inc., or

(iii) the notes are rated BBB- or better by Fitch Ratings Inc.,

(or, if any such entity ceases to rate the notes for reasons outside of the control of the Company, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Company as a replacement agency); and

(2) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that day and continuing at all times thereafter regardless of any subsequent changes in the rating of the notes, the covenants described under the following captions in this prospectus supplement will no longer be applicable to the notes:

(1) " Repurchase at the Option of Holders Asset Sales";

(2) " Restricted Payments";

(3) " Incurrence of Indebtedness and Issuance of Preferred Stock";

(4) " Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(5) " Transactions with Affiliates";

(6) clause (3) of the covenant described below under the caption " Additional Subsidiary Guarantees";

(7) " Unrestricted Subsidiaries";

(8) clause (4) of the covenant described below under the caption " Merger, Consolidation or Sale of Assets"; and

(9) clause (2) of the covenant described below under the caption " Limitation on Sale and Leaseback Transactions."

There can be no assurance that the notes will ever achieve an investment grade rating or that any such rating will be maintained.

Restricted Payments. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any distribution on account of the Company's or any of its Restricted Subsidiaries' Equity Interests (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company or such Restricted Subsidiary or dividends or distributions payable to the Company or any Restricted Subsidiary);

(2) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Company or any Restricted Subsidiary or other Affiliate of the Company (other than any such Equity Interests owned by the Company or any Restricted Subsidiary);

(3) purchase, redeem or otherwise acquire or retire prior to scheduled maturity for value any Indebtedness that is subordinated in right of payment to the notes; or

(4) make any Investment other than a Permitted Investment (all such payments and other actions set forth in clauses (1) through (4) above being collectively referred to as Restricted Payments);

unless, at the time of such Restricted Payment:

(i) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof; and

(ii) the Company would, at the time of such Restricted Payment and after giving pro forma effect thereto, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock"; and

(iii) such Restricted Payment, together with the aggregate of all other Restricted Payments made by the Company and its Restricted Subsidiaries after October 1, 1996 is less than (x) the cumulative EBITDA of the Company, minus 1.75 times the cumulative Consolidated Interest Expense of the Company, in each case for the period (taken as one accounting period) from June 30, 1996, to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment, plus (y) the aggregate net Equity Proceeds received by the Company from the issuance or sale since the date of the 1996 Indenture of Equity Interests of the Company or of debt securities of the Company that have been converted into such Equity Interests (other than Equity Interests or convertible debt securities sold to a Restricted Subsidiary of the Company and other than Disqualified Stock or debt securities that have been converted into Disqualified Stock), plus (z) $2.0 million.

As of March 31, 2006, the amount that would have been available to the Company for Restricted Payments pursuant to this clause (iii) would have been approximately $1.5 billion. The Company has similar (and more restrictive) covenants in its Credit Agreement. The amount of Restricted Payments that the Company could make without violating these covenants is substantially less than the amount that would be permitted under the Indenture.

The foregoing provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture;

(2) the redemption, repurchase, retirement or other acquisition or retirement for value of any Equity Interests of the Company in exchange for, or with the net cash proceeds of, the substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of other Equity Interests of the Company (other than any Disqualified Stock);

(3) the defeasance, redemption, repurchase, retirement or other acquisition or retirement for value of Indebtedness that is subordinated in right of payment to the notes in exchange for, or with the net cash proceeds of, a substantially concurrent issuance and sale (other than to a Restricted Subsidiary of the Company) of Equity Interests of the Company (other than Disqualified Stock);

(4) the defeasance, redemption, repurchase, retirement or other acquisition or retirement for value of Indebtedness that is subordinated in right of payment to the notes in exchange for, or with the net cash proceeds of, a substantially concurrent issue and sale (other than to the Company or any of its Restricted Subsidiaries) of Refinancing Indebtedness;

(5) the repurchase of any Indebtedness subordinated in right of payment to the notes at a purchase price not greater than 101% of the principal amount of such Indebtedness in the event of a Change of Control in accordance with provisions similar to the "Change of Control" covenant, *provided* that prior to or contemporaneously with such repurchase the Company has made the Change of Control Offer as provided in such covenant with respect to the notes and has repurchased all notes validly tendered for payment in connection with such Change of Control Offer; and

(6) additional payments to current or former employees or directors of the Company for repurchases of stock, stock options or other equity interests, *provided* that the aggregate amount of all such payments under this clause (6) does not exceed $0.5 million in any year and $2.0 million in the aggregate.

The Restricted Payments described in clauses (2), (3), (5) and (6) of the immediately preceding paragraph will be Restricted Payments that will be permitted to be taken in accordance with such paragraph but will reduce the amount that would otherwise be available for Restricted Payments under clause (iii) of the first paragraph of this section, and the Restricted Payments described in clauses (1) and (4) of the immediately preceding paragraph will be Restricted Payments that will be permitted to be taken in accordance with such paragraph and will not reduce the amount that would otherwise be available for Restricted Payments under clause (iii) of the first paragraph of this section.

If an Investment results in the making of a Restricted Payment, the aggregate amount of all Restricted Payments deemed to have been made as calculated under the foregoing provision will be reduced by the amount of any net reduction in such Investment (resulting from the payment of interest or dividends, loan repayment, transfer of assets or otherwise) to the extent such net reduction is not included in the Company's EBITDA; *provided*, *however*, that the total amount by which the aggregate amount of all Restricted Payments may be reduced may not exceed the lesser of (a) the cash proceeds received by the Company and its Restricted Subsidiaries in connection with such net reduction and (b) the initial amount of such Investment. In addition, for the avoidance of doubt and to avoid double counting, if an Investment results in the making of a Restricted Payment, then the subsequent assignment, contribution, distribution or other transfer of such Investment by the Company or any Restricted Subsidiary of the Company to any Excluded Restricted Subsidiary or Unrestricted Subsidiary shall not be considered a new Investment or Restricted Payment and shall not further reduce the amount that would otherwise be available for Restricted Payments under clause (iii) of the first paragraph of this section.

If the aggregate amount of all Restricted Payments calculated under the foregoing provision includes an Investment in an Unrestricted Subsidiary or other Person that thereafter becomes a

Restricted Subsidiary, such Investment will no longer be counted as a Restricted Payment for purposes of calculating the aggregate amount of Restricted Payments.

For the purpose of making any Restricted Payment calculations under the Indenture:

(1) Investments will include the fair market value of the net assets of any Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary and will exclude the fair market value of the net assets of any Unrestricted Subsidiary that is designated as a Restricted Subsidiary, in each case with fair market value determined by the Company's board of directors in good faith and, for the avoidance of doubt, such inclusions and exclusions will not be limited by the amount of any Investment or aggregate Investments;

(2) any asset or property transferred to or from an Unrestricted Subsidiary will be valued at fair market value at the time of such transfer, *provided* that, in each case the fair market value of an asset or property is as determined by the Company's board of directors in good faith and, for the avoidance of doubt, the fair market value (as so determined) of such asset or property shall be subtracted from (in the case of a transfer to an Unrestricted Subsidiary) or added to (in the case of a transfer from an Unrestricted Subsidiary) the calculation under clause (iii) of the first paragraph of this section; and

(3) subject to the foregoing, the amount of any Restricted Payment, if other than cash, will be determined by the Company's board of directors, whose good faith determination will be conclusive.

The Company's board of directors may designate a Restricted Subsidiary to be an Unrestricted Subsidiary in compliance with the covenant entitled "Unrestricted Subsidiaries." Upon such designation, all outstanding Investments by the Company and its Restricted Subsidiaries (except to the extent repaid in cash) in the Subsidiary so designated will be deemed to be Restricted Payments made at the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of this covenant. Such designation will only be permitted if such Restricted Payment would be permitted at such time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Incurrence of Indebtedness and Issuance of Preferred Stock. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guaranty or otherwise become directly or indirectly liable with respect to, or, collectively, incur, any Indebtedness (including Acquired Debt) and the Company will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Company may incur Indebtedness and may permit a Restricted Subsidiary to incur Indebtedness if, at the time of such incurrence and after giving effect thereto, the Leverage Ratio would be less than 6.5 to 1.0.

The foregoing limitations will not apply to:

(1) the incurrence by the Company or any Restricted Subsidiary of Senior Bank Debt in an aggregate amount not to exceed $100.0 million at any one time outstanding;

(2) the issuance by the Restricted Subsidiaries of subsidiary guarantees;

(3) the incurrence by the Company and its Restricted Subsidiaries of the Existing Indebtedness;

(4) the issuance by the Company of the notes;

(5) the incurrence by the Company and its Restricted Subsidiaries of Capital Lease Obligations and/or additional Indebtedness constituting purchase money obligations up to an aggregate of $5.0 million at any one time outstanding, *provided* that the Liens securing such Indebtedness constitute Permitted Liens;

(6) the incurrence of Indebtedness between (i) the Company and its Restricted Subsidiaries and (ii) the Restricted Subsidiaries;

(7) Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the Indenture to be outstanding;

(8) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness arising out of letters of credit, performance bonds, surety bonds and bankers' acceptances incurred in the ordinary course of business up to an aggregate of $5.0 million at any one time outstanding;

(9) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness consisting of guarantees, indemnities or obligations in respect of purchase price adjustments in connection with the acquisition or disposition of assets, including, without limitation, shares of Capital Stock; and

(10) the incurrence by the Company and its Restricted Subsidiaries of Refinancing Indebtedness issued in exchange for, or the proceeds of which are used to repay, redeem, defease, extend, refinance, renew, replace or refund, Indebtedness referred to in clauses (2) through (5) above, and this clause (10) or that was otherwise permitted to be incurred pursuant to the test set forth in the first paragraph of this covenant.

There are additional limitations on the ability of some Excluded Restricted Subsidiaries to incur Indebtedness as provided in the covenant described under the caption "Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries."

Liens. Neither the Company nor any of its Restricted Subsidiaries may directly or indirectly create, incur, assume or suffer to exist any Lien (other than a Permitted Lien) upon any property or assets now owned or hereafter acquired, or any income, profits or proceeds therefrom, or assign or otherwise convey any right to receive income therefrom, unless (a) in the case of any Lien securing any Indebtedness that is subordinate to the notes, the notes are secured by a Lien on such property, assets or proceeds that is senior in priority to such Lien and (b) in the case of any other Lien, the notes are equally and ratably secured with the obligation or liability secured by such Lien.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) (i) pay dividends or make any other distributions to the Company or any of its Restricted Subsidiaries (A) on its Capital Stock or (B) with respect to any other interest or participation in, or measured by, its profits, or (ii) pay any Indebtedness owed to the Company or any of its Restricted Subsidiaries;

(2) make loans or advances to the Company or any of its Restricted Subsidiaries; or

(3) transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) Existing Indebtedness;

(2) the Credit Agreement as in effect as of the date of the Indenture, and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancing thereof, *provided* that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are no more restrictive in the

aggregate with respect to such dividend and other payment restrictions than those contained in the Credit Agreement as in effect on the date of the Indenture;

(3) the Indenture and the notes;

(4) applicable law;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, *provided* that the EBITDA of such Person is not taken into account in determining whether such acquisition was permitted by the terms of the Indenture;

(6) customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices;

(7) restrictions on the transfer of property subject to purchase money obligations or Capital Lease Obligations otherwise permitted by clause (5) of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock";

(8) permitted Refinancing Indebtedness, *provided* that the restrictions contained in the agreements governing such Refinancing Indebtedness are no more restrictive in the aggregate than those contained in the agreements governing the Indebtedness being refinanced; or

(9) any agreement or instrument governing Indebtedness of an Excluded Restricted Subsidiary, *provided* that (i) at the time such agreement or instrument is entered into, such Excluded Restricted Subsidiary and its Restricted Subsidiaries have a Leverage Ratio of less than 6.5 to 1.0 and (ii) neither such Excluded Restricted Subsidiary nor any of its Restricted Subsidiaries shall, directly or indirectly, incur any Indebtedness (including Acquired Debt) unless at the time of such incurrence and after giving effect thereto, the Leverage Ratio for such Excluded Restricted Subsidiary and its Restricted Subsidiaries would be less than 6.5 to 1.0. For purposes of determining the Leverage Ratio under this clause (9) only, all references to the "Company" and its "Restricted Subsidiaries" or similar references in the definition of "Leverage Ratio" and other defined terms necessary to determine the Leverage Ratio shall be deemed to refer to such Excluded Restricted Subsidiary and its Restricted Subsidiaries, respectively.

Merger, Consolidation or Sale of Assets. The Company may not consolidate or merge with or into (whether or not the Company is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person unless:

(1) the Company is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Company under the notes and the Indenture (pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee);

(3) immediately after such transaction no Default or Event of Default exists; and

(4) the Company or any Person formed by or surviving any such consolidation or merger, or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made, will, at the time of such transaction and after giving pro forma effect thereto, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock."

Transactions with Affiliates. The Company will not, and will not permit any of its Restricted Subsidiaries to, sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate, each of the foregoing, an Affiliate Transaction, unless:

(a) such Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with a non-Affiliated Person; and

(b) the Company delivers to the Trustee:

(i) with respect to any Affiliate Transaction involving aggregate payments in excess of $5.0 million, a resolution of the Company's board of directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with clause (a) above and such Affiliate Transaction is approved by a majority of the disinterested members of the Company's board of directors; and

(ii) with respect to any Affiliate Transaction involving aggregate payments in excess of $10.0 million, an opinion as to the fairness to the Company or such Restricted Subsidiary from a financial point of view issued by an investment banking firm of national standing.

The following items shall not be deemed Affiliate Transactions and therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of the Company or such Restricted Subsidiary;

(2) transactions between or among the Company and/or its Restricted Subsidiaries;

(3) transactions permitted by the provisions of the Indenture described above under the covenant entitled "Restricted Payments"; and

(4) the grant of stock, stock options or other equity interests to employees and directors of the Company and any Restricted Subsidiary in accordance with duly adopted Company stock grant, stock option and similar plans.

The provisions set forth in clause (b) above shall not apply to sales of inventory by the Company or any Restricted Subsidiary to any Affiliate in the ordinary course of business. The provisions of clause (b) (ii) above shall not apply to loans or advances to the Company or any Restricted Subsidiary from, or equity investments in the Company or any Restricted Subsidiary by, any Affiliate to the extent permitted by the provisions of the Indenture described above under the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock."

Certain Senior Subordinated Debt. The Company will not incur any Indebtedness that is subordinated or junior in right of payment to any Senior Debt of the Company and senior in any respect in right of payment to the notes. The Company will not permit any Restricted Subsidiary to incur any Indebtedness that is subordinated or junior in right of payment to its Senior Debt and senior in any respect in right of payment to its subsidiary guarantee.

Additional Subsidiary Guarantees. If any entity (other than an Excluded Restricted Subsidiary) shall become a Restricted Subsidiary after the date of the Indenture, then such Restricted Subsidiary shall execute a subsidiary guarantee and deliver an opinion of counsel with respect thereto, in accordance with the terms of the Indenture.

No Restricted Subsidiary (including any Excluded Restricted Subsidiary) may consolidate with or merge with or into (whether or not such Restricted Subsidiary is the surviving Person), another Person (other than the Company) whether or not affiliated with such Restricted Subsidiary unless:

(1) subject to the provisions of the following paragraph, the Person formed by or surviving any such consolidation or merger (if other than such Restricted Subsidiary) assumes all the obligations of such Restricted Subsidiary under its subsidiary guarantee (except in the case of an Excluded Restricted Subsidiary) pursuant to a supplemental indenture in form and substance reasonably satisfactory to the Trustee;

(2) immediately after giving effect to such transaction, no Default or Event of Default exists; and

(3) such Restricted Subsidiary, or any Person formed by or surviving any such consolidation or merger, would be permitted to incur, immediately after giving effect to such transaction, at least $1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock."

In the event of:

(1) a sale or other disposition of all of the assets of any Restricted Subsidiary, by way of merger, consolidation or otherwise;

(2) a sale or other disposition of all of the capital stock of any Restricted Subsidiary; or

(3) the designation of a Restricted Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the covenant entitled "Unrestricted Subsidiaries,"

then such Restricted Subsidiary (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all of the capital stock of such Restricted Subsidiary or in the event of the designation of such Restricted Subsidiary as an Unrestricted Subsidiary) or the Person acquiring the property (in the event of a sale or other disposition of all of the assets of such Restricted Subsidiary) will be released and relieved of any obligations under its subsidiary guarantee; *provided* that the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture. See " Repurchase at the Option of Holders Asset Sales."

Unrestricted Subsidiaries. The Company's board of directors may designate any Subsidiary (including any Restricted Subsidiary or any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary so long as:

(1) neither the Company nor any Restricted Subsidiary is directly or indirectly liable for any Indebtedness of such Subsidiary;

(2) no default with respect to any Indebtedness of such Subsidiary would permit (upon notice, lapse of time or otherwise) any holder of any other Indebtedness of the Company or any Restricted Subsidiary to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity;

(3) any Investment in such Subsidiary deemed to be made as a result of designating such Subsidiary an Unrestricted Subsidiary will not violate the provisions of the covenant entitled "Restricted Payments";

(4) neither the Company nor any Restricted Subsidiary has a contract, agreement, arrangement, understanding or obligation of any kind, whether written or oral, with such Subsidiary other than (A) those that might be obtained at the time from Persons

who are not Affiliates of the

Company or (B) administrative, tax sharing and other ordinary course contracts, agreements, arrangements and understandings or obligations entered into in the ordinary course of business; and

(5) neither the Company nor any Restricted Subsidiary has any obligation to subscribe for additional shares of Capital Stock or other Equity Interests in such Subsidiary, or to maintain or preserve such Subsidiary's financial condition or to cause such Subsidiary to achieve certain levels of operating results other than as permitted under the covenant entitled "Restricted Payments."

Notwithstanding the foregoing, the Company may not designate as an Unrestricted Subsidiary any Subsidiary which, on the date of the indenture for the $8^1/_4$% notes, was a Significant Subsidiary, and may not sell, transfer or otherwise dispose of any properties or assets of any such Significant Subsidiary to an Unrestricted Subsidiary, other than in the ordinary course of business, in each case other than Iron Mountain Global, Inc. and its Subsidiaries (including without limitation Iron Mountain Europe Limited and its Subsidiaries).

The Company's board of directors may designate any Unrestricted Subsidiary as a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if:

(1) such Indebtedness is permitted under the "Incurrence of Indebtedness and Issuance of Preferred Stock" covenant; and

(2) no Default or Event of Default would occur as a result of such designation.

Limitation on Sale and Leaseback Transactions. The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction unless:

(1) the consideration received in such Sale and Leaseback Transaction is at least equal to the fair market value of the property sold, as determined by a resolution of the board of directors of the Company; and

(2) the Company or such Restricted Subsidiary could incur the Attributable Indebtedness in respect of such Sale and Leaseback Transaction in compliance with the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock."

Reports. Whether or not required by the rules and regulations of the Commission, so long as any notes are outstanding, the Company will furnish to the Holders of notes:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the Company's certified independent accountants; and

(2) all financial information that would be required to be included in a Form 8-K filed with the Commission if the Company were required to file such reports.

In addition, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability (unless the Commission will not accept such a filing) and make such information available to investors who request it in writing.

Notwithstanding the foregoing, if at any time the notes are guaranteed by any direct or indirect parent company of the Company, the indenture will permit the Company to satisfy its obligations under this covenant with respect to financial information relating to the Company by furnishing financial information relating to such direct or indirect parent company; *provided*, *however*, that the same is accompanied by consolidating information that explains in reasonable detail the differences between the information relating to such direct or indirect parent company and any of its Subsidiaries other than the Company and its Subsidiaries, on the one hand, and the information relating to the Company, the Guarantors and the other Subsidiaries of the Company on a standalone basis, on the other hand.

Events of Default and Remedies

Each of the following constitutes an "Event of Default:"

(1) default for 30 days in the payment when due of interest on the notes (whether or not prohibited by the subordination provisions of the Indenture);

(2) default in payment when due of the principal of or premium, if any, on the notes (whether or not prohibited by the subordination provisions of the Indenture);

(3) failure by the Company to comply with the provisions described under " Repurchase at the Option of Holders Change of Control";

(4) failure by the Company or any guarantor for 60 days after written notice from the Trustee or Holders of not less than 25% of the aggregate principal amount of the notes outstanding to comply with any of its other agreements in the Indenture, notes or the subsidiary guarantees;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee exists on the date of the Indenture or is created thereafter, if:

(i) such default results in the acceleration of such Indebtedness prior to its express maturity or shall constitute a default in the payment of such Indebtedness at final maturity of such Indebtedness; and

(ii) the principal amount of any such Indebtedness that has been accelerated or not paid at maturity, when added to the aggregate principal amount of all other such Indebtedness that has been accelerated or not paid at maturity, exceeds $50.0 million;

(6) failure by the Company or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of $50.0 million, which judgments remain unpaid, undischarged or unstayed for a period of 60 days;

(7) certain events of bankruptcy or insolvency with respect to the Company or any of its Restricted Subsidiaries that are Significant Subsidiaries; and

(8) except as permitted by the Indenture or the subsidiary guarantees, any subsidiary guarantee issued by a Restricted Subsidiary shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any Restricted Subsidiary or any Person acting on behalf of any Restricted Subsidiary shall deny or disaffirm in writing its obligations under its subsidiary guarantee.

If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding notes may declare all the notes to be due and payable immediately; *provided*, *however*, that if any Obligation with respect to Senior Bank Debt is outstanding pursuant to the Credit Agreement upon a declaration of acceleration of the notes, the principal, premium, if any, and interest on the notes will not be payable until the earlier of:

(1) the day which is five business days after written notice of acceleration is received by the Company and the Credit Agent; or

(2) the date of acceleration of the Indebtedness under the Credit Agreement. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Company or any Restricted Subsidiary that is a Significant Subsidiary, the principal of, and premium, if any, and any accrued and unpaid interest on all outstanding notes will become due and payable without further action or notice.

Holders of the notes may not enforce the Indenture or the notes except as provided in the Indenture. In the event of a declaration of acceleration of the notes because an Event of Default has occurred and is continuing as a result of the acceleration of any Indebtedness described in clause (5) above, the declaration of acceleration of the notes shall be automatically annulled if the holders of any Indebtedness described in clause (5) have rescinded the declaration of acceleration in respect of such Indebtedness within 30 days from the date of such declaration and if:

(1) the annulment of the acceleration of the notes would not conflict with any judgment or decree of a competent jurisdiction; and

(2) all existing Events of Default, except non-payment of principal or interest on the notes that became due solely because of the acceleration of the notes, have been cured or waived.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the Make Whole Price or premium, as applicable, that the Company would have had to pay if the Company then had elected to redeem the notes pursuant to the optional redemption provisions of the Indenture, the applicable Make Whole Price, or an equivalent premium, as the case may be, shall become and be immediately due and payable to the extent permitted by law upon the acceleration of the notes.

The Holders of a majority in aggregate principal amount of the notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the notes. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Company is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Company or any Restricted Subsidiary, as such, shall have any liability for any obligations of the Company or any Restricted Subsidiary under the notes, the subsidiary guarantees or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of notes by accepting a note and the subsidiary guarantees waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes and the subsidiary guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the Commission that such a waiver is against public policy.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes, or Legal Defeasance, except for:

(1) the rights of Holders of outstanding notes to receive payments in respect of the principal of, premium, if any, and interest on such notes when such payments are due;

(2) the Company's obligations with respect to the notes concerning issuing temporary notes; registration of notes; mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants, including the one described above under the caption "Reports," that are described in the Indenture, or Covenant Defeasance, and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership and insolvency events) described under "Events of Default and Remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the notes, cash in Dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding notes on the stated maturity or on the applicable redemption date, as the case may be, of such principal or installment of principal of, premium, if any, or interest on the outstanding notes;

(2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of the deposit described in clause (1) above, or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company shall have delivered to the Trustee an opinion of counsel to the effect that after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally;

(7) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders of notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and

(8) the Company shall have delivered to the Trustee an Officers' Certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Book-Entry, Delivery and Form

The notes initially will be issued in book-entry form and represented by one or more global notes. The global notes will be deposited with, or on behalf of, The Depository Trust Company, or DTC, New York, New York, as depositary, and registered in the name of Cede & Co., the nominee of DTC. Unless and until it is exchanged for individual certificates evidencing notes under the limited circumstances described below, a global note may not be transferred except as a whole by the depositary to its nominee or by the nominee to the depositary, or by the depositary or its nominee to a successor depositary or to a nominee of the successor depositary.

DTC has advised us that it is:

- a limited purpose trust company organized under the New York Banking Law;
- a "banking organization" within the meaning of the New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among its participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, which eliminates the need for physical movement of securities certificates. "Direct participants" in DTC include securities brokers and dealers, including underwriters, banks, trust companies, clearing corporations and other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, which we sometimes refer to as "indirect participants," that clear transactions through or maintain a custodial relationship with a direct participant either directly or indirectly. The rules applicable to DTC and its participants are on file with the Commission.

Purchases of notes within the DTC system must be made by or through direct participants, which will receive a credit for those notes on DTC's records. The ownership interest of the actual purchaser of the notes, which we sometimes refer to as a "beneficial owner," is in turn recorded on the direct and indirect participants' records. Beneficial owners of notes will not receive written confirmation from DTC of their purchases. However, beneficial owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the direct or indirect participants through which they purchased notes. Transfer of ownership interests in global notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes except under the limited circumstances described below.

To facilitate subsequent transfers, all global notes deposited with DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of notes with DTC and their registration in the name of Cede & Co. will not change the beneficial ownership of the notes. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any legal requirements in effect from time to time.

Redemption notices will be sent to DTC or its nominee. If less than all of the notes are being redeemed, DTC will determine the amount of the interest of each direct participant in the notes to be redeemed in accordance with DTC's procedures.

In any case where a vote may be required with respect to the notes neither DTC or Cede & Co. will give consent for or vote the global notes. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns the consenting or voting rights of Cede & Co. to those direct participants to whose accounts the notes are credited on the record date identified in a listing attached to the omnibus proxy.

Principal, premium, if any, and interest payments on the notes will be made to Cede & Co., as nominee of DTC.

DTC's practice is to credit direct participants' accounts on the relevant payment date unless DTC has reason to believe that it will not receive payment on the payment date. Payments by direct or indirect participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name." Those payments will be the responsibility of participants and not of DTC or us, subject to any legal requirements in effect from time to time. Payment of principal and interest to Cede & Co. is our responsibility, disbursement of payments to direct participants is the responsibility of DTC, and disbursement of payments to the beneficial owners is the responsibility of direct and indirect participants.

Except under limited circumstances described below, purchasers of notes will not be entitled to have notes registered in their names and will not receive physical delivery of notes. Accordingly, each beneficial owner must rely on the procedures of DTC and its participants to exercise any rights under the notes and Indenture.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definite form. Those laws may impair the ability to transfer or pledge beneficial interests in notes.

DTC is under no obligation to provide its services as depositary for the notes and may discontinue providing its services at any time. Neither we nor the Trustee will have any responsibility for the performance by DTC or its direct participants or indirect participants under the rules and procedures governing DTC.

As noted above, beneficial owners of notes generally will not receive certificates representing their ownership interests in the notes. However, if:

- DTC notifies us that it is unwilling or unable to continue as a depositary for the global notes or if DTC ceases to be a clearing agency registered under the Exchange Act at a time when it is required to be registered and a successor depositary is not appointed within 90 days of the notification to us or of our becoming aware of DTC's ceasing to be so registered, as the case may be;

- we determine, in our sole discretion, not to have the notes represented by one or more global notes; or

- an Event of Default under the Indenture has occurred and is continuing with respect to the notes;

we will prepare and deliver certificates for the notes in exchange for beneficial interests in the global notes. Any beneficial interests in a global note that is exchangeable under the circumstances described in the preceding sentence will be exchangeable for notes in definitive certificated form registered in the names that the depositary directs. It is expected that these directions will be based upon directions received by the depositary from its participants with respect to ownership of beneficial interests in the global notes.

We obtained the information in this section and elsewhere in this prospectus supplement concerning DTC and DTC's book-entry system from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

Same-Day Settlement and Payment

The Underwriters will make settlement for the notes in immediately available funds. We will make all payments of principal and interest in respect of the notes in immediately available funds.

The notes will trade in DTC's Same-Day Funds Settlement System until maturity or until the notes are issued in certificated form, and secondary market trading activity in the notes will therefore be required by DTC to settle in immediately available funds. We expect that secondary trading in the certificated securities, if any, will also be settled in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the notes.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the Indenture or the notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for notes), and any existing default or compliance with any provision of the Indenture or the notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding notes (including consents obtained in connection with a tender offer or exchange offer for notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting Holder of notes):

(1) reduce the principal amount of notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the notes in a manner adverse to the Holders of the notes;

(3) reduce the rate of or change the time for payment of interest on any note;

(4) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the notes (except a rescission of acceleration of the notes by the Holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of notes to receive payments of principal of or premium, if any, or interest on the notes;

(7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption " Repurchase at the Option of Holders");

(8) except pursuant to the Indenture, release any Restricted Subsidiary from its obligations under its subsidiary guarantee, or change any subsidiary guarantee in any manner that would materially adversely affect the Holders; or

(9) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any Holder of notes, the Company and the Trustee may amend or supplement the Indenture or the notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated notes in addition to or in place of certificated notes, to provide for the assumption of the Company's obligations to Holders of the notes in the case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the notes or that does not adversely affect the legal rights under the Indenture of any such Holder, or to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

Concerning the Trustee

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions. However, if it acquires any conflicting interest it must eliminate such conflict within 90 days, resign or apply to the Commission for permission to continue.

The Holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur (which shall not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

Additional Information

Anyone who receives this prospectus supplement may obtain a copy of the Indenture without charge by writing to Iron Mountain Incorporated, 745 Atlantic Avenue, Boston, MA 02111, Attention: Investor Relations.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"**Acquired Debt**" means, with respect to any specified Person:

(1) Indebtedness of any other Person, existing at the time such other Person merged with or into or became a Subsidiary of such specified Person, including Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person; and

(2) Indebtedness encumbering any asset acquired by such specified Person.

"**Acquisition EBITDA**" means, as of any date of determination, with respect to an Acquisition EBITDA Entity, the sum of:

(1) EBITDA of such Acquisition EBITDA Entity for the most recently ended four full fiscal quarters for which internal financial statements are available at such date of determination (adjusted to give pro forma effect to any acquisition or disposition of a business or Person by such Acquisition EBITDA Entity consummated during the period covered by, or after the date of, such four full fiscal quarters (or if statements are not available for such four full fiscal quarters, EBITDA for the most recently ended fiscal quarter for which internal financial statements are available, annualized, plus

(2) projected quantifiable improvements in operating results (on an annualized basis) due to cost reductions calculated in good faith by the Company or one of its Restricted Subsidiaries, as certified by an Officers' Certificate filed with the Trustee, without giving effect to any operating losses of the acquired Person.

"**Acquisition EBITDA Entity**" means, as of any date of determination, a business or Person:

(1) which has been acquired by the Company or one of its Restricted Subsidiaries and with respect to which internal financial statements on a consolidated basis with the Company are not available for four full fiscal quarters; or

(2) which is to be acquired in whole or in part with Indebtedness, the incurrence of which will require the calculation on such date of the Acquisition EBITDA of such Acquisition EBITDA Entity for purposes of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock."

"**Adjusted EBITDA**" means, as of any date of determination and without duplication, the sum of:

(1) EBITDA of the Company and its Restricted Subsidiaries for the Company's most recently ended four full fiscal quarters for which internal financial statements are available at such date of determination; and

(2) Acquisition EBITDA of each business or Person that is an Acquisition EBITDA Entity as of such date of determination, multiplied by a fraction, (i) the numerator of which is 12 minus the number of months (and/or any portion thereof) in such most recent four full fiscal quarters for which the financial results of such Acquisition EBITDA Entity are included in the EBITDA of the Company and its Restricted Subsidiaries under clause (1) above, and (ii) the denominator of which is 12. The effects of unusual items, including merger related expenses permitted to be shown as a separate line item on a statement of operations in accordance with GAAP, or non-recurring items in respect of the Company, a Restricted Subsidiary or an Acquisition EBITDA Entity occurring in any period shall be excluded in the calculation of Adjusted EBITDA.

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided*, *however*, that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"**Attributable Indebtedness**" in respect of a Sale and Leaseback Transaction means, as of the time of determination, the greater of:

(1) the fair market value of the property subject to such arrangement (as determined by the board of directors of the Company); and

(2) the present value (discounted at the rate of interest implicit in such transaction) of the total obligations of the lessee for rental payments during the remaining terms of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"**Capital Lease Obligation**" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be so required to be capitalized on the balance sheet in accordance with GAAP.

"**Capital Stock**" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, including, without limitation, with respect to partnerships, partnership interests (whether general or limited) and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership.

"**Cash Equivalents**" means:

(1) securities with maturities of one year or less from the date of acquisition, issued, fully guaranteed or insured by the United States Government or any agency thereof;

(2) certificates of deposit, time deposits, overnight bank deposits, bankers acceptances and repurchase agreements issued by a Qualified Issuer having maturities of 270 days or less from the date of acquisition;

(3) commercial paper of an issuer rated at least A-2 by Standard & Poor's Rating Group, a division of McGraw Hill, Inc., or P-2 by Moody's Investors Service, or carrying an equivalent rating by a nationally recognized rating agency if both of the two named rating agencies cease publishing ratings of investments, and having maturities of 270 days or less from the date of acquisition;

(4) money market accounts or funds with or issued by Qualified Issuers; and

(5) Investments in money market funds substantially all of the assets of which are comprised of securities and other obligations of the types described in clauses (1) through (3) above.

"**Change of Control**" means the occurrence of any of the following events:

(1) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Principal Stockholders (or any of them), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than a majority of the voting power of all classes of Voting Stock of the Company;

(2) the Company consolidates with, or merges with or into, another Person (as defined below) or conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any Person, or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which the outstanding Voting Stock of the Company is converted into or exchanged for cash, securities or other property, other than any such transaction where (i) the outstanding Voting Stock of the Company is not converted or exchanged at all (except to the extent necessary to reflect a change in the jurisdiction of incorporation) or is converted into or exchanged for (A) Voting Stock (other than Disqualified Stock) of the

surviving or transferee Person or (B) cash, securities and other property (other than Capital Stock described in the foregoing clause (A)) of the surviving or transferee Person in an amount that could be paid as a Restricted Payment as described under the "Restricted Payments" covenant and (ii) immediately after such transaction, no "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Principal Stockholders (or any of them), is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than a majority of the total outstanding Voting Stock of the surviving or transferee Person;

(3) during any consecutive two-year period, individuals who at the beginning of such period constituted the Company's board of directors (together with any new directors whose election to such board of directors, or whose nomination for election by the stockholders of the Company, was approved by a vote of $66^2/_3$% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors then in office; or

(4) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a transaction which complies with the provisions described under "Merger, Consolidation or Sale of Assets."

"**Consolidated Adjusted Net Income**" means, for any period, the net income (or net loss) of the Company and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP, adjusted to the extent included in calculating such net income or loss by excluding:

(1) any net after-tax extraordinary gains or losses (less all fees and expenses relating thereto);

(2) any net after-tax gains or losses (less all fees and expenses relating thereto) attributable to Asset Sales;

(3) the portion of net income (or loss) of any Person (other than the Company or a Restricted Subsidiary), including Unrestricted Subsidiaries, in which the Company or any Restricted Subsidiary has an ownership interest, except to the extent of the amount of dividends or other distributions actually paid to the Company or any Restricted Subsidiary in cash dividends or distributions by such Person during such period; and

(4) the net income (or loss) of any Person combined with the Company or any Restricted Subsidiary on a "pooling of interests" basis attributable to any period prior to the date of combination.

"**Consolidated Income Tax Expense**" means, for any period, the provision for federal, state, local and foreign income taxes of the Company and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP.

"**Consolidated Interest Expense**" means, for any period, without duplication, the sum of:

(1) the amount which, in conformity with GAAP, would be set forth opposite the caption "interest expense" (or any like caption) on a consolidated statement of operations of the Company and its Restricted Subsidiaries for such period, including, without limitation:

(i) amortization of debt discount;

(ii) the net cost of interest rate contracts (including amortization of discounts);

(iii) the interest portion of any deferred payment obligation;

(iv) amortization of debt issuance costs; and

(v) the interest component of Capital Lease Obligations of the Company and its Restricted Subsidiaries; plus

(2) all interest on any Indebtedness of any other Person guaranteed and paid by the Company or any of its Restricted Subsidiaries;

provided, *however*, that Consolidated Interest Expense will not include any gain or loss from extinguishment of debt, including write-off of debt issuance costs.

"**Consolidated Non-Cash Charges**" means, for any period, the aggregate depreciation, amortization and other non-cash expenses of the Company and its Restricted Subsidiaries (including without limitation any minority interest) reducing Consolidated Adjusted Net Income for such period, determined on a consolidated basis in accordance with GAAP (excluding any such non-cash charge to the extent that it requires an accrual of or reserve for cash charges for any future period).

"**Credit Agent**" means JPMorgan Chase Bank, in its capacity as administrative agent for the lenders party to the Credit Agreement, or any successor or successors party thereto.

"**Credit Agreement**" means that certain Amended and Restated Credit Agreement, dated as of July 8, 2004, as amended, among the Company, the lenders party thereto and the Credit Agent, as amended, restated, supplemented, modified, renewed, refunded, increased, extended, replaced or refinanced from time to time.

"**Default**" means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

"**Designated Senior Debt**" means:

(1) Senior Bank Debt; and

(2) other Senior Debt the principal amount of which is $50.0 million or more at the date of designation by the Company in a written instrument delivered to the Trustee.

Senior Debt designated as Designated Senior Debt pursuant to clause (2) shall cease to be Designated Senior Debt at any time that the aggregate principal amount thereof outstanding is $10.0 million or less.

"**Disqualified Stock**" means any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, for cash or other property (other than Capital Stock that is not Disqualified Stock) pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the Holder thereof, in whole or in part, in each case on or prior to the stated maturity of the notes.

"**Dollars**" and "**$**" mean lawful money of the United States of America.

"**EBITDA**" means for any period Consolidated Adjusted Net Income for such period increased by:

(1) Consolidated Interest Expense for such period; plus

(2) Consolidated Income Tax Expense for such period; plus

(3) Consolidated Non-Cash Charges for such period.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Equity Proceeds**" means:

(1) with respect to Equity Interests (or debt securities converted into Equity Interests) issued or sold for cash Dollars, the aggregate amount of such cash Dollars; and

(2) with respect to Equity Interests (or debt securities converted into Equity Interests) issued or sold for any consideration other than cash Dollars, the aggregate Market Price thereof computed on the date of the issuance or sale thereof.

"**Excluded Restricted Subsidiary**" means any Restricted Subsidiary organized under the laws of a jurisdiction other than the United States (as defined in Regulation S under the Securities Act) and that has not delivered a subsidiary guarantee.

"**Existing Indebtedness**" means Indebtedness of the Company and its Subsidiaries (other than under the Credit Agreement) in existence on the date of the Indenture, until such amounts are repaid.

"**Government Securities**" means direct obligations of, or obligations guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States of America is pledged.

"**Guarantee**" means, as applied to any obligation:

(1) a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation; and

(2) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, the obligation to reimburse amounts drawn down under letters of credit securing such obligations.

"**Hedging Obligations**" means, with respect to any Person, the obligations of such Person under:

(1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements; and

(2) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

"**Indebtedness**" means (without duplication), with respect to any Person, whether recourse is to all or a portion of the assets of such Person, and whether or not contingent:

(1) every obligation of such Person for money borrowed;

(2) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person;

(4) every obligation of such Person issued or assumed as the deferred purchase price of property or services;

(5) every Capital Lease Obligation and every obligation of such Person in respect of Sale and Leaseback Transactions that would be required to be capitalized on the balance sheet in accordance with GAAP;

(6) all Disqualified Stock of such Person valued at the greater of its voluntary or involuntary maximum fixed repurchase price, plus accrued and unpaid dividends (unless included in such maximum repurchase price);

(7) all obligations of such Person under or with respect to Hedging Obligations which would be required to be reflected on the balance sheet as a liability of such Person in accordance with GAAP; and

(8) every obligation of the type referred to in clauses (1) through (7) of another Person and dividends of another Person the payment of which, in either case, such Person has guaranteed.

For purposes of this definition, the "maximum fixed repurchase price" of any Disqualified Stock that does not have a fixed repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were repurchased on any date on which Indebtedness is required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Stock, such fair market value will be determined in good faith by the board of directors of the issuer of such Disqualified Stock. Notwithstanding the foregoing, trade accounts payable and accrued liabilities arising in the ordinary course of business and any liability for federal, state or local taxes or other taxes owed by such Person shall not be considered Indebtedness for purposes of this definition. The amount outstanding at any time of any Indebtedness issued with original issue discount is the aggregate principal amount at maturity of such Indebtedness, less the remaining unamortized portion of the original issue discount of such Indebtedness at such time, as determined in accordance with GAAP.

"**Investments**" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"**Leverage Ratio**" means, at any date, the ratio of:

(1) the aggregate principal amount of Indebtedness of the Company and its Restricted Subsidiaries outstanding as of the most recent available quarterly or annual balance sheet, to

(2) Adjusted EBITDA, after giving pro forma effect, without duplication, to

(i) the incurrence, repayment or retirement of any Indebtedness by the Company or its Restricted Subsidiaries since the last day of the most recent full fiscal quarter of the Company;

(ii) if the Leverage Ratio is being determined in connection with the incurrence of Indebtedness by the Company or a Restricted Subsidiary, such Indebtedness; and

(iii) the Indebtedness to be incurred in connection with the acquisition of any Acquisition EBITDA Entity.

"**Lien**" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code, or equivalent statutes, of any jurisdiction).

"**Make-Whole Amount**" means, with respect to any note, an amount equal to the excess, if any, of:

(1) the present value of the remaining principal, premium and interest payments that would be payable with respect to such note if such note were redeemed on   , 2011, computed using a discount rate equal to the Treasury Rate plus 75 basis points, over

(2) the outstanding principal amount of such note.

"**Make-Whole Average Life**" means, with respect to any date of redemption of notes, the number of years (calculated to the nearest one-twelfth) from such redemption date to , 2011.

"**Make-Whole Price**" means, with respect to any note, the greater of:

(1) the sum of the principal amount of and Make-Whole Amount with respect to such note; and

(2) the redemption price of such note on , 2011.

"**Market Price**" means:

(1) with respect to the calculation of Equity Proceeds from the issuance or sale of debt securities which have been converted into Equity Interests, the value received upon the original issuance or sale of such converted debt securities, as determined reasonably and in good faith by the Company's board of directors; and

(2) with respect to the calculation of Equity Proceeds from the issuance or sale of Equity Interests, the average of the daily closing prices for such Equity Interests for the 20 consecutive trading days preceding the date of such computation.

The closing price for each day shall be:

(1) if such Equity Interests are then listed or admitted to trading on the New York Stock Exchange, the closing price on the NYSE Consolidated Tape (or any successor consolidated tape reporting transactions on the New York Stock Exchange) or, if such composite tape shall not be in use or shall not report transactions in such Equity Interests, or if such Equity Interests shall be listed on a stock exchange other than the New York Stock Exchange (including for this purpose the Nasdaq National Market), the last reported sale price regular way for such day, or in case no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case on the principal national securities exchange on which such Equity Interests are listed or admitted to trading (which shall be the national securities exchange on which the greatest number of such Equity Interests have been traded during such 20 consecutive trading days); or

(2) if such Equity Interests are not listed or admitted to trading on any such exchange, the average of the closing bid and asked prices thereof in the over-the-counter market as reported by the National Association of Securities Dealers Automated Quotation System or any successor system, or if not included therein, the average of the closing bid and asked prices thereof furnished by two members of the National Association of Securities Dealers selected reasonably and in good faith by the Company's board of directors for that purpose. In the absence of one or more such quotations, the Market Price for such Equity Interests shall be determined reasonably and in good faith by the Company's board of directors.

"**Net Proceeds**" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale, which amount is equal to the excess, if any, of:

(1) the cash received by the Company or such Restricted Subsidiary (including any cash payments received by way of deferred payment pursuant to, or monetization of, a note or installment receivable or otherwise, but only as and when received) in connection with such disposition, over

(2) the sum of:

(i) the amount of any Indebtedness which is secured by such asset and which is required to be repaid in connection with the disposition thereof; plus

(ii) the reasonable out-of-pocket expenses incurred by the Company or such Restricted Subsidiary, as the case may be, in connection with such disposition or in connection with the transfer of such amount from such Restricted Subsidiary to the Company; plus

(iii) provisions for taxes, including income taxes, attributable to the disposition of such asset or attributable to required prepayments or repayments of Indebtedness with the proceeds thereof; plus

(iv) if the Company does not first receive a transfer of such amount from the relevant Restricted Subsidiary with respect to the disposition of an asset by such Restricted Subsidiary and such Restricted Subsidiary intends to make such transfer as soon as practicable, the out-of-pocket expenses and taxes that the Company reasonably estimates will be incurred by the Company or such Restricted Subsidiary in connection with such transfer at the time such transfer is expected to be received by the Company (including, without limitation, withholding taxes on the remittance of such amount).

"**Obligations**" means any principal, interest (including post-petition interest, whether or not allowed as a claim in any proceeding), penalties, fees, costs, expenses, indemnifications, reimbursements, damages and other liabilities payable under or in connection with any Indebtedness.

"**Officers' Certificate**" means a certificate signed, unless otherwise specified, by any two of the Chairman of the Board, a Vice Chairman of the Board, the President, the Chief Financial Officer, the Controller, or an Executive Vice President of the Company, and delivered to the Trustee.

"**Permitted Investments**" means:

(1) any Investments in the Company or in a Restricted Subsidiary (other than an Excluded Restricted Subsidiary) of the Company, including without limitation the Guarantee of Indebtedness permitted under the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock";

(2) any Investments in Cash Equivalents;

(3) Investments by the Company or any Restricted Subsidiary of the Company in a Person, if as a result of such Investment;

(i) such Person becomes a Restricted Subsidiary (other than an Excluded Restricted Subsidiary) of the Company; or

(ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or a Restricted Subsidiary (other than an Excluded Restricted Subsidiary) of the Company;

(4) Investments in assets (including accounts and notes receivable) owned or used in the ordinary course of business;

(5) Investments for any purpose related to the Company's records and information management business (including, without limitation, the Company's confidential destruction and fulfillment businesses) in an aggregate outstanding amount not to exceed $10.0 million; and

(6) Investments by the Company or a Restricted Subsidiary (other than an Excluded Restricted Subsidiary) in one or more Excluded Restricted Subsidiaries, the aggregate outstanding amount of which does not exceed 30% of the consolidated assets of the Company and its Restricted Subsidiaries.

"**Permitted Liens**" means:

(1) Liens existing as of the date of issuance of the notes;

(2) Liens on property or assets of the Company or any Restricted Subsidiary securing Senior Debt;

(3) Liens on any property or assets of a Restricted Subsidiary granted in favor of the Company or any Wholly Owned Restricted Subsidiary;

(4) Liens securing the notes or the Guarantees;

(5) any interest or title of a lessor under any Capital Lease Obligation or Sale and Leaseback Transaction so long as the Indebtedness, if any, secured by such Lien does not exceed the principal amount of Indebtedness permitted under the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock";

(6) Liens securing Acquired Debt created prior to (and not in connection with or in contemplation of) the incurrence of such Indebtedness by the Company or any Restricted Subsidiary; *provided* that such Lien does not extend to any property or assets of the Company or any Restricted Subsidiary other than the assets acquired in connection with the incurrence of such Acquired Debt;

(7) Liens securing Hedging Obligations permitted to be incurred pursuant to clause (7) of the covenant entitled "Incurrence of Indebtedness and Issuance of Preferred Stock";

(8) Liens arising from purchase money mortgages and purchase money security interests, or in respect of the construction of property or assets, incurred in the ordinary course of the business of the Company or a Restricted Subsidiary; *provided* that (i) the related Indebtedness is not secured by any property or assets of the Company or any Restricted Subsidiary other than the property and assets so acquired or constructed and (ii) the Lien securing such Indebtedness is created within 60 days of such acquisition or construction;

(9) statutory Liens or landlords' and carriers', warehousemen's, mechanics', suppliers', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate proceedings, if a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor;

(10) Liens for taxes, assessments, government charges or claims with respect to amounts not yet delinquent or that are being contested in good faith by appropriate proceedings diligently conducted, if a reserve or other appropriate provision, if any, as is required in conformity with GAAP has been made therefor;

(11) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, government contracts, performance bonds and other obligations of a like nature incurred in the ordinary course of business (other than contracts for the payment of money);

(12) easements, rights-of-way, restrictions and other similar charges or encumbrances not interfering in any material respect with the business of the Company or any Restricted Subsidiary incurred in the ordinary course of business;

(13) Liens arising by reason of any judgment, decree or order of any court so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(14) Liens arising under options or agreements to sell assets;

(15) other Liens securing obligations incurred in the ordinary course of business, which obligations do not exceed $10.0 million in the aggregate at any one time outstanding; and

(16) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (15); *provided* that any such extension, renewal or replacement shall not extend to any additional property or assets.

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**Principal Stockholders**" means each of Vincent J. Ryan, Schooner Capital LLC, C. Richard Reese, Kent P. Dauten, B. Thomas Golisano and their respective Affiliates.

"**Qualified Equity Offering**" means an offering of Capital Stock, other than Disqualified Stock, of the Company for Dollars, whether registered or exempt from registration under the Securities Act of 1933, as amended.

"**Qualified Issuer**" means:

(1) any lender party to the Credit Agreement; or

(2) any commercial bank:

(i) which has capital and surplus in excess of $500.0 million; and

(ii) the outstanding short-term debt securities of which are rated at least A-2 by Standard & Poor's Rating Group, a division of McGraw-Hill, Inc. or at least P-2 by Moody's Investors Service, or carry an equivalent rating by a nationally recognized rating agency if both of the two named rating agencies cease publishing ratings of investments.

"**Qualifying Sale and Leaseback Transaction**" means any Sale and Leaseback Transaction between the Company or any of its Restricted Subsidiaries and any bank, insurance company or other lender or investor providing for the leasing to the Company or such Restricted Subsidiary of any property (real or personal) which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor and where the property in question has been constructed or acquired after the date of the Indenture.

"**Refinancing Indebtedness**" means new Indebtedness incurred or given in exchange for, or the proceeds of which are used to repay, redeem, defease, extend, refinance, renew, replace or refund, other Indebtedness; *provided*, *however*, that:

(1) the principal amount of such new Indebtedness shall not exceed the principal amount of Indebtedness so repaid, redeemed, defeased, extended, refinanced, renewed, replaced or refunded (plus the amount of fees, premiums, consent fees, prepayment penalties and expenses incurred in connection therewith);

(2) such Refinancing Indebtedness shall have a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of the Indebtedness so repaid, redeemed, defeased, extended, refinanced, renewed, replaced or refunded or shall mature after the maturity date of the notes;

(3) to the extent such Refinancing Indebtedness refinances Indebtedness that has a final maturity date occurring after the initial scheduled maturity date of the notes, such new Indebtedness shall have a final scheduled maturity not earlier than the final scheduled maturity of the Indebtedness so repaid, redeemed, defeased, extended, refinanced, renewed, replaced or refunded and shall not permit redemption at the option of the holder earlier than the earliest

date of redemption at the option of the holder of the Indebtedness so repaid, redeemed, defeased, extended, refinanced, renewed, replaced or refunded;

(4) to the extent such Refinancing Indebtedness refinances Indebtedness subordinate to the notes, such Refinancing Indebtedness shall be subordinated in right of payment to the notes and to the extent such Refinancing Indebtedness refinances notes or Indebtedness *pari passu* with the notes, such Refinancing Indebtedness shall be *pari passu* with or subordinated in right of payment to the notes, in each case on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness so repaid, redeemed, defeased, extended, refinanced, renewed, replaced or refunded; and

(5) with respect to Refinancing Indebtedness incurred by a Restricted Subsidiary, such Refinancing Indebtedness shall rank no more senior, and shall be at least as subordinated, in right of payment to the subsidiary guarantee of such Restricted Subsidiary as the Indebtedness being extended, refinanced, renewed, replaced or refunded.

"**Restricted Subsidiary**" means:

(1) each direct or indirect Subsidiary of the Company existing on the date of the Indenture (other than Subsidiaries of Iron Mountain Global, Inc. (including IME, Iron Mountain Cayman Ltd., Iron Mountain Mexico, S.A. de R.L. de C.V. and their respective Subsidiaries), Iron Mountain Assurance Corporation, Mountain West Palm Real Estate, Inc. and Upper Providence Venture I, L.P.); and

(2) any other direct or indirect Subsidiary of the Company formed, acquired or existing after the date of the Indenture (including an Excluded Restricted Subsidiary),

which, in the case of (1) or (2), is not designated by the Company's board of directors as an "Unrestricted Subsidiary."

"**Sale and Leaseback Transaction**" means any transaction or series of related transactions pursuant to which a Person sells or transfers any property or asset in connection with the leasing, or the resale against installment payments, of such property or asset to the seller or transferor.

"**Senior Bank Debt**" means all Obligations outstanding under or in connection with the Credit Agreement (including Guarantees of such Obligations by Subsidiaries of the Company).

"**Senior Debt**" means:

(1) the Senior Bank Debt; and

(2) any other Indebtedness permitted to be incurred by the Company or any Restricted Subsidiary, as the case may be, under the terms of the Indenture, unless the instrument under which such Indebtedness is incurred expressly provides that it is:

(i) on a parity with or subordinated in right of payment to the notes; or

(ii) subordinated to Senior Debt on terms substantially similar to those of the notes.

Notwithstanding anything to the contrary in the foregoing, Senior Debt shall not include:

(1) any liability for federal, state, local or other taxes owed or owing by the Company;

(2)

any Indebtedness of the Company to any of its Subsidiaries or other Affiliates;

(3)

any trade payables; or

(4)

any Indebtedness that is incurred in violation of the Indenture, *provided* that such Indebtedness shall be deemed not to have been incurred in violation of the Indenture for purposes of this clause (4) if, in the case of any obligations under the Credit Agreement, the holders of such obligations or their agent or representative shall have received a representation from the Company to the effect that the incurrence of such Indebtedness does not violate the provisions of the Indenture.

"**Significant Subsidiary**" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Exchange Act, as such Regulation is in effect on the date hereof.

"**Subsidiary**" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof.

"**Treasury Rate**" means, at any time of computation, the yield to maturity at such time (as compiled by and published in the most recent Federal Reserve Statistical Release H.15(519), which has become publicly available at least two business days prior to the date of the redemption notice or, if such Statistical Release is no longer published, any publicly available source of similar market data) of United States Treasury securities with a constant maturity most nearly equal to the Make-Whole Average Life; *provided*, *however*, that if the Make-Whole Average Life is not equal to the constant maturity of the United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the Make-Whole Average Life is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"**Unrestricted Subsidiary**" means:

(1) any Subsidiary that is designated by the Company's board of directors as an Unrestricted Subsidiary in accordance with the "Unrestricted Subsidiaries" covenant; and

(2) any Subsidiary of an Unrestricted Subsidiary.

"**Voting Stock**" means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the Company's board of directors, managers or trustees of any Person (irrespective of whether or not, at the time, stock of any other class or classes has, or might have, voting power by reason of the happening of any contingency).

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (x) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (y) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by

(2) the then outstanding principal amount of such Indebtedness.

"**Wholly Owned Restricted Subsidiary**" means any Restricted Subsidiary of the Company all of the outstanding Capital Stock or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned by the Company or by one or more Wholly Owned Restricted Subsidiaries of the Company.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary of federal income tax considerations is based upon the Internal Revenue Code of 1986, as amended, Treasury regulations, and rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect, or possible differing interpretations. We have not sought a ruling from the Internal Revenue Service, or the IRS, with respect to any matter described in this summary, and we cannot provide any assurance that the IRS or a court will agree with the statements made in this summary. The summary applies to you only if you hold our notes as a capital asset, which generally is an asset held for investment rather than as inventory or as property used in a trade or business. The summary does not discuss the particular tax consequences that might be relevant to you if you are subject to special rules under the federal income tax law, for example, if you are:

- a bank, life insurance company, regulated investment company or other financial institution,
- a broker or dealer in securities or foreign currency,
- a person that has a functional currency other than the U.S. dollar,
- a person who acquires our notes in connection with employment or other performance of services,
- a person subject to alternative minimum tax,
- a person who owns our notes as part of a straddle, hedging transaction, conversion transaction or constructive sale transaction,
- a tax-exempt entity, or
- an expatriate.

In addition, the following summary does not address all possible tax considerations relating to the acquisition, ownership and disposition of our notes, and in particular does not discuss any estate, gift, generation-skipping transfer, state, local or foreign tax considerations. For all these reasons, we encourage you to consult with your tax advisor about the federal income tax and other tax consequences of your acquisition, ownership and disposition of our notes.

For purposes of this summary, you are a "U.S. holder" if you are a beneficial owner of our notes and for federal income tax purposes are:

- a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under the federal income tax laws,
- a corporation, partnership or other entity treated as a corporation or partnership for federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, unless otherwise provided by Treasury regulations,
- an estate the income of which is subject to federal income taxation regardless of its source, or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or an electing trust in existence on August 20, 1996 to the extent provided in Treasury regulations,

and if your status as a U.S. holder is not overridden pursuant to the provisions of an applicable tax treaty. Conversely, you are a "non-U.S. holder" if you are a beneficial owner of our notes and are not a U.S. holder.

Tax Consequences for U.S. Holders

If you are a U.S. holder:

Payments of Interest. You must generally include interest on a note in your gross income as ordinary interest income:

- when you receive it, if you use the cash method of accounting for federal income tax purposes, or

- when it accrues, if you use the accrual method of accounting for federal income tax purposes.

Purchase price for a note that is allocable to prior accrued interest may be treated as offsetting a portion of the interest income from the next scheduled interest payment on the note. Any interest income so offset is not taxable.

Market Discount. If you acquire a note and your adjusted tax basis in it upon acquisition is less than its principal amount, you will be treated as having acquired the note at a "market discount" unless the amount of this market discount is less than the *de minimis* amount (generally 0.25% of the principal amount of the note multiplied by the number of remaining whole years to maturity of the note). Under the market discount rules, you will be required to treat any gain on the sale, exchange, redemption, retirement, or other taxable disposition of a note, or any appreciation in a note in the case of a nontaxable disposition such as a gift, as ordinary income to the extent of the market discount which has not previously been included in your income and which is treated as having accrued on the note at the time of the disposition. In addition, you may be required to defer, until the maturity of the note or earlier taxable disposition, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the note. Any market discount will be considered to accrue ratably during the period from the date of your acquisition to the maturity date of the note, unless you elect to accrue the market discount on a constant yield method. In addition, you may elect to include market discount in income currently as it accrues, on either a ratable or constant yield method, in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired by you during or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. We encourage you to consult with your tax advisor regarding these elections.

Amortizable Bond Premium. If you acquire a note and your adjusted tax basis in it upon acquisition is greater than its principal amount, you will be treated as having acquired the note with "bond premium." You generally may elect to amortize this bond premium over the remaining term of the note on a constant yield method, and the amount amortized in any year will be treated as a reduction of your interest income from the note for that year. If the amount of your bond premium amortization would be lower if calculated based on an earlier optional redemption date and the redemption price on that date than the amount of amortization calculated through that date based on the note's maturity date and its stated principal amount, then you must calculate the amount and timing of your bond premium amortization deductions assuming that the note will be redeemed on the optional redemption date at the optional redemption price. You may generally recalculate your bond premium amortization amount and schedule of deductions to the extent your note is not actually redeemed at that earlier optional redemption date. If you do not make an election to amortize bond premium, your bond premium on a note will decrease the gain or increase the loss that you otherwise recognize on a disposition of that note. Any election to amortize bond premium applies to all taxable debt obligations that you hold at the beginning of the first taxable year to which the election applies and that you thereafter acquire. You may not revoke an election to amortize bond premium without the consent of the IRS. We encourage you to consult with your tax advisor regarding this election.

Disposition of a Note. Upon the sale, exchange, redemption, retirement or other disposition of a note, you generally will recognize taxable gain or loss in an amount equal to the difference, if any, between (1) the amount you receive in cash or in property, valued at its fair market value, upon this sale, exchange, redemption, retirement or other disposition, other than amounts representing accrued and unpaid interest which will be taxable as interest income, and (2) your adjusted tax basis in the note. Your adjusted tax basis in the note will, in general, equal your acquisition cost for the note, exclusive of any amount paid allocable to prior accrued interest, as increased by any market discount you have included in income in respect of the note, and as decreased by any amortized bond premium on the note. Except to the extent of any accrued market discount not previously included in income, as discussed above, your gain or loss will be capital gain or loss, and will be long-term capital gain or loss if you have held the note for more than one year at the time of disposition. For noncorporate U.S. holders, preferential rates of tax may apply to long-term capital gains. The deductibility of capital losses is subject to limitation.

Tax Consequences for Non-U.S. Holders

If you are a non-U.S. holder:

Generally. You will not be subject to federal income taxes on payments of principal, premium, if any, or interest on a note, or upon the sale, exchange, redemption, retirement or other disposition of a note, if:

- you do not own directly or indirectly 10% or more of the total voting power of all classes of our voting stock,
- your income and gain in respect of the note is not effectively connected with the conduct of a United States trade or business,
- you are not a controlled foreign corporation that is related to or under common control with us,
- we or the applicable paying agent, or the Withholding Agent, have received from you a properly executed, applicable IRS Form W-8 or substantially similar form in the year in which a payment of interest, principal or premium occurs, or in a previous calendar year to the extent provided for in the instructions to the applicable IRS Form W-8, and
- in the case of gain upon the sale, exchange, redemption, retirement or other disposition of a note recognized by an individual non-U.S. holder, you were present in the United States for less than 183 days during the taxable year in which the gain was recognized.

The IRS Form W-8 or a substantially similar form must be signed by you under penalties of perjury certifying that you are a non-U.S. holder and providing your name and address, and you must inform the Withholding Agent of any change in the information on the statement within 30 days of the change. If you hold a note through a securities clearing organization or other qualified financial institution, the organization or institution may provide a signed statement to the Withholding Agent. However, in that case, the signed statement must generally be accompanied by a statement containing the relevant information from the executed IRS Form W-8 or substantially similar form that you provided to the organization or institution. If you are a partner in a partnership holding our notes, both you and the partnership must comply with applicable certification requirements.

Except in the case of income or gain in respect of a note that is effectively connected with the conduct of a United States trade or business, discussed below, interest received or gain recognized by you which does not qualify for the above or other exemptions from taxation will be subject to federal income tax and withholding at a rate of 30% unless reduced or eliminated by an applicable tax treaty. You must generally use an applicable IRS Form W-8, or a substantially similar form, to claim tax treaty benefits. If you are a non-U.S. holder claiming benefits under an income tax treaty, you should be aware that you may be required to obtain a taxpayer identification number and to certify your eligibility under the applicable treaty's limitations on benefits article in order to comply with the applicable certification requirements of the Treasury regulations.

Effectively Connected Income and Gain. If you are a non-U.S. holder whose income and gain in respect of a note is effectively connected with the conduct of a United States trade or business, you will be subject to regular federal income tax on this income and gain in generally the same manner as U.S. holders, and general federal income tax return filing requirements will apply. In addition, if you are a corporation, you may be subject to a branch profits tax equal to 30% of your effectively connected adjusted earnings and profits for the taxable year, unless you qualify for a lower rate under an applicable tax treaty. To obtain an exemption from withholding on interest on the notes, you must generally supply to the Withholding Agent an applicable IRS Form W-8, or a substantially similar form.

Information Reporting and Backup Withholding

Information reporting and backup withholding may apply to interest and other payments to you under the circumstances discussed below. Amounts withheld under backup withholding are generally not an additional tax and may be refunded or credited against your federal income tax liability, provided that you furnish the required information to the IRS. The backup withholding rate is currently 28%.

If you are a U.S. Holder. You may be subject to backup withholding when you receive interest payments on a note or proceeds upon the sale, exchange, redemption, retirement or other disposition of a note. In general, you can avoid this backup withholding if you properly execute under penalties of perjury an IRS Form W-9 or a substantially similar form on which you:

- provide your correct taxpayer identification number, and

- certify that you are exempt from backup withholding because (a) you are a corporation or come within another enumerated exempt category, (b) you have not been notified by the IRS that you are subject to backup withholding, or (c) you have been notified by the IRS that you are no longer subject to backup withholding.

If you do not provide your correct taxpayer identification number on the IRS Form W-9 or a substantially similar form, you may be subject to penalties imposed by the IRS.

Unless you have established on a properly executed IRS Form W-9 or a substantially similar form that you are a corporation or come within another enumerated exempt category, interest and other payments on the notes paid to you during the calendar year, and the amount of tax withheld, if any, will be reported to you and to the IRS.

If you are a Non-U.S. Holder. The amount of interest paid to you on a note during each calendar year, and the amount of tax withheld, if any, will generally be reported to you and to the IRS. This information reporting requirement applies regardless of whether you were subject to withholding or whether withholding was reduced or eliminated by an applicable tax treaty. Also, interest paid to you on a note may be subject to backup withholding unless you properly certify your non-U.S. holder status on an IRS Form W-8 or a substantially similar form in the manner described above, under "Tax Consequences for Non-U.S. Holders." Similarly, information reporting and backup withholding will not apply to proceeds you receive upon the sale, exchange, redemption, retirement or other disposition of a note, if you properly certify that you are a non-U.S. holder on an IRS Form W-8 or a substantially similar form. Even without having executed an IRS Form W-8 or a substantially similar form, however, in some cases information reporting and backup withholding may not apply to proceeds you receive upon the sale, exchange, redemption, retirement or other disposition of a note, if you receive those proceeds through a broker's foreign office.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement dated July , 2006 among the several underwriters, the subsidiary guarantors and us, or the Underwriting Agreement, each of the underwriters named below, or the Underwriters, has severally agreed to purchase from us the aggregate principal amount of notes set forth opposite its name below.

Underwriters	Principal Amount of Notes
Bear, Stearns & Co. Inc.	$
J.P. Morgan Securities Inc.	$
Lehman Brothers Inc.	$
Total	$ 200,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters thereunder are subject to approval of certain legal matters by counsel and to various other conditions. The Underwriters are obligated to purchase and accept delivery of all of notes if they purchase any of the notes.

The following table shows the per note and total underwriters' discounts and commissions to be paid to the Underwriters by the Company.

	Price to Investors	Underwriters' Discount	Proceeds to the Company
Per note	%	%	%
Total	$	$	$

The Underwriters propose to offer the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and through selected dealers at such price less a concession not in excess of % per note. The Underwriters may allow, and such dealers may re-allow, concessions not in excess of % per note on sales to other dealers. After the offering of notes, the public offering price, concessions and other selling terms may be changed by the Underwriters. The notes are offered subject to receipt and acceptance by the Underwriters and to certain other conditions, including the right to reject orders in whole or in part.

The Company and the subsidiary guarantors have agreed to indemnify the Underwriters against certain liabilities under the Securities Act of 1933, as amended, or to contribute to payments that the Underwriters may be required to make in respect thereof.

In order to facilitate the offering, certain persons participating in the offering may engage in transactions that stabilize, maintain or otherwise affect the price of the notes during and after the offering. Specifically, the Underwriters may over-allot or otherwise create a short position in the notes for their own account by selling more notes than have been sold to them by us. The Underwriters may elect to cover any such short position by purchasing notes in the open market. In addition, the Underwriters may stabilize or maintain the price of the notes by bidding for or purchasing notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the notes to the extent that it discourages resales thereof.

Affiliates of J.P. Morgan Securities Inc. are agents or lenders under our revolving credit facility, and each such affiliate will receive a share of the amounts that are repaid under our revolving credit facility to the extent the net proceeds of the offering will be used to repay indebtedness thereunder.

See "Use of Proceeds" in this prospectus supplement. As a result, these affiliates may receive more than 10% of the net proceeds of this offering. Therefore, this offering will be made pursuant to the requirements of Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc. This rule requires that the yield of a debt security be no lower than the yield recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. Bear, Stearns & Co. Inc. has agreed to act as qualified independent underwriter with respect to this offering. The yield on the notes will be no lower than that recommended by Bear, Stearns & Co. Inc. None of Bear, Stearns & Co. Inc., Lehman Brothers Inc. or their respective affiliates are agents or lenders under our revolving credit facility, which we intend to repay with a portion of the net proceeds of the offering.

From time to time, some of the Underwriters or their affiliates have provided, and may continue to provide in the future, investment banking, general financing and commercial banking and financial advisory services to us and our affiliates, for which they have received, and expect to receive, customary compensation. Bear, Stearns & Co. Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc. acted as underwriters in April 2003 with respect to the offering of our $7\frac{3}{4}$% Senior Subordinated Notes due 2015, and Bear, Stearns & Co. Inc. acted as dealer-manager of our offer to purchase and consent solicitation regarding our $8\frac{3}{4}$% Senior Subordinated Notes due 2009, for which it received customary compensation. Bear, Stearns & Co. Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc. acted as underwriters in June 2003 and December 2003 with respect to our offering of our $6\frac{5}{8}$% Senior Subordinated Notes due 2016. Lehman Brothers Inc. acted as a financial advisor to Iron Mountain Europe in connection with its acquisition of Hays IMS. Bear, Stearns & Co. Inc. acted as dealer-manager of our offer to purchase and consent solicitation regarding Canada Company's $8\frac{1}{8}$% senior notes and is acting as dealer-manager of our offer to purchase and consent solicitation regarding our $8\frac{1}{4}$% Senior Subordinated Notes due 2011. Affiliates of Bear, Stearns & Co. Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc. acted as initial purchasers in January 2004 with respect to the offering of our $7\frac{1}{4}$% GBP Senior Subordinated Notes due 2014. The Underwriters and certain of their affiliates are customers of Iron Mountain in the ordinary course of business.

NOTICE TO UNITED KINGDOM RESIDENTS

Each of the underwriters has represented and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended), or the FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of the FSMA does not apply to us; and

(b) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

NOTICE TO EUROPEAN ECONOMIC AREA RESIDENTS

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive, each a Relevant Member State, each underwriter has represented and agreed that, with effect from, and including the date on which, the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made, and will not make, an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the notes to the public in that Relevant Member State at any time:

(a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Underwriters to fewer than 100 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive) subject to obtaining the prior consent of Bear Stearns & Co. Inc. for any such offer; or

(d) in any other circumstances that do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of the notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of notes are made. Any resale of the notes in Canada must be made under applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the notes.

Representations of Purchasers

By purchasing notes in Canada and accepting a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws;

- where required by law, that the purchaser is purchasing as principal and not as agent; and

- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action Ontario Purchasers

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws. Following a decision of the U.S. Supreme Court, it is possible that Ontario purchasers will not be able to rely upon the remedies set out in Section 12(a)(2) of the Securities Act where securities are being offered under a U.S. private placement memorandum such as this document.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or these persons. All or a substantial portion of the assets of the Company and these persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company or these persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or these persons outside of Canada.

Notice to British Columbia Residents

A purchaser of notes to whom the *Securities Act* (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any notes acquired by the purchaser in this offering. The report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed for notes acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of notes should consult their own legal and tax advisers with respect to the tax consequences of an investment in the notes in their particular circumstances and about the eligibility of the notes for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Certain legal matters with respect to the validity of the notes and the guarantees will be passed upon for Iron Mountain by Sullivan & Worcester LLP, Boston, Massachusetts. Certain legal matters relating to this offering will be passed upon for the underwriters by Latham & Watkins LLP, New York, New York.

EXPERTS

The following amends and supersedes in its entirety the information under the caption "Experts" in the accompanying prospectus.

The financial statements as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 incorporated in this prospectus supplement from Iron Mountain's Current Report on Form 8-K, filed May 22, 2006, and Management's Report on the Effectiveness of Internal Control Over Financial Reporting incorporated in this prospectus supplement from Iron Mountain's Annual Report on Form 10-K for the year ended December 31, 2005 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference and have been so incorporated in reliance upon the report of such firm given their authority as experts in accounting and auditing.

The consolidated financial statements of Iron Mountain Europe Limited for the year ended October 31, 2003, which are consolidated with those of Iron Mountain Incorporated and not presented separately therein, have been audited by RSM Robson Rhodes LLP as stated in their report. The report dated March 8, 2004 of RSM Robson Rhodes LLP, independent auditors, on the consolidated financial statements of Iron Mountain Europe Limited for the year ended October 31, 2003, is incorporated into this prospectus supplement from Iron Mountain Incorporated's Current Report on Form 8-K filed May 22, 2006 and is incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing.

DOCUMENTS INCORPORATED BY REFERENCE

The Commission allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement. Later information filed with the Commission will update and supersede information we have included or incorporated by reference in this prospectus supplement. We incorporate by reference the documents listed below and any filings made after the date of this prospectus supplement with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, until our offering is completed or terminated.

The following documents were filed by us under File No. 1-13045 and are incorporated by reference:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (except for Items 1, 2, 7 and 15, which are incorporated by reference from our Current Report on Form 8-K filed May 22, 2006);

- Quarterly Report on Form 10-Q for the quarter ended March 31, 2006;

- Definitive Proxy on Schedule 14A filed April 26, 2006; and

- Current Reports on Form 8-K filed March 9, 2006, April 4, 2006, May 22, 2006, May 31, 2006, June 1, 2006, June 9, 2006, June 23, 2006 and July 11, 2006.

We will provide you with a copy of the information we have incorporated by reference, excluding exhibits other than those to which we specifically refer. You may obtain this information at no cost by writing or telephoning us at: 745 Atlantic Avenue, Boston, Massachusetts 02111, (617) 535-4766, Attention: Investor Relations.

PROSPECTUS

$500,000,000

Iron Mountain Incorporated

Debt Securities, Preferred Stock, Depositary Shares, Common Stock and Warrants

We may from time to time offer:

- debt securities;
- shares of our preferred stock;
- fractional shares of our preferred stock in the form of depositary shares;
- shares of our common stock;
- warrants to purchase any of these securities; or
- stock purchase contracts.

The securities we offer will have an aggregate public offering price of up to $500,000,000. These securities may be offered and sold separately or together in units with other securities described in this prospectus.

In connection with the debt securities, substantially all of our present and future wholly owned domestic subsidiaries may, on a joint and several basis, offer full and unconditional guarantees of our obligations under the debt securities.

IM Capital Trust I may, from time to time, offer trust preferred securities which will be fully and unconditionally guaranteed by us. Our guarantees may be senior or subordinated. The trust preferred securities may be offered and sold separately or together in units with other securities described in this prospectus.

We and IM Capital Trust I will indicate the particular securities we offer and their specific terms in a supplement to this prospectus. In each case we would describe the type and amount of securities we are offering, the initial public offering price and the other terms of the offering.

Our common stock is listed on the New York Stock Exchange under the symbol "IRM." We will make applications to list any shares of common stock sold pursuant to a supplement to this prospectus on the NYSE. We have not determined whether we will list any of the other securities we may offer on any exchange or over-the-counter market. If we decide to seek listing of any securities, the supplement will disclose the exchange or market.

Investing in our securities involves risks. See "Risk Factors" beginning on page 2.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Our and IM Capital Trust I's principal executive office is 745 Atlantic Avenue, Boston, Massachusetts 02111 and our and IM Capital Trust I's telephone number is (617) 535-4766.

The date of this prospectus is August 5, 2005.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of proceeds of $500,000,000 or the equivalent denominated in foreign currency. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement containing specific information about the terms of that offering. The prospectus supplement may also add, update, or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement, together with additional information described under the heading "Where You Can Find More Information" and "Documents Incorporated By Reference."

We have not included, or incorporated by reference, separate financial statements of IM Capital Trust I in this prospectus. Neither we nor IM Capital Trust I consider these financial statements material to holders of the trust preferred securities because:

- IM Capital Trust is a special purpose entity;
- IM Capital Trust does not have any operating history or independent operations; and
- IM Capital Trust is not engaged in, nor will it engage in, any activity other than issuing trust preferred and trust common securities, investing in and holding our debt securities and engaging in related activities.

Furthermore, the combination of our obligations under our debt securities, the associated indentures, IM Capital Trust's declaration of trust and our related guarantees provide a full and unconditional guarantee of payments of distributions and other amounts due on the trust preferred securities. In addition, we do not expect that IM Capital Trust will file reports with the SEC under the Securities Exchange Act of 1934, as amended.

You should rely only on the information incorporated by reference or provided in this document and any prospectus supplement. Neither we nor IM Capital Trust have authorized anyone else to provide you with different information. Neither we nor IM Capital Trust are making an offer of these securities in any jurisdiction where it is unlawful. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

References in this prospectus to the terms "we," "our" or "us" or other similar terms mean Iron Mountain Incorporated and its consolidated subsidiaries, unless we state otherwise or the context indicates otherwise. References in this prospectus to "IM Capital Trust" mean IM Capital Trust I.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made and incorporated by reference statements in this prospectus that constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements concern our operations, economic performance, financial condition, goals, beliefs, strategies, objectives, plans and current expectations. 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, those set forth below. Please read carefully the information under "Risk Factors" beginning on page 2.

- changes in customer preferences and demand for our services;
- changes in the price for our services relative to the cost of providing such services;
- in the various digital businesses on which we are engaged, capital and technical requirements will be beyond our means, markets for our services will be less robust than anticipated, or competition will be more intense than anticipated;
- our ability or inability to complete acquisitions on satisfactory terms and to integrate acquired companies efficiently;
- the cost and availability of financing for contemplated growth;
- business partners upon whom we depend for technical assistance or management and acquisition expertise outside the U.S. will not perform as anticipated;
- changes in the political and economic environments in the countries in which our international subsidiaries operate; and
- other trends in competitive or economic conditions affecting our financial condition or results of operations not presently contemplated.

These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this prospectus. You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations, which may or may not occur. You should read these cautionary statements as being applicable to all forward-looking statements wherever they appear. We undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Readers are also urged to carefully review and consider the various disclosures we have made in this document, as well as our other periodic reports filed with the Securities and Exchange Commission (the "Commission" or "SEC").

OUR COMPANY

We are the leader in information storage and protection services. We are an international, full-service provider of information storage and protection and related services, enabling customers to outsource these functions. We have a diversified customer base comprised of numerous commercial, legal, banking, healthcare, accounting, insurance, entertainment, and government organizations, including more than 95% of the Fortune 1000 and more than two-thirds of the FTSE 100. Our comprehensive solutions help customers save money and manage risks associated with legal and regulatory compliance, protection of vital assets, and business continuity challenges.

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

Our data protection services include: disaster preparedness planning support; secure, off-site vaulting of data backup media for fast and efficient data recovery in the event of a disaster, human error or virus; electronic vaulting to provide managed, online data backup and recovery services for personal computers and server data; intellectual property management services consisting of escrow services to protect and manage source code and other proprietary information with a trusted, neutral third party and domain name management services.

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

As of March 31, 2005, we provided services to over 235,000 customer accounts in 85 markets in the U.S. and 63 markets outside of the U.S., employed over 14,500 people and operated approximately 830 records management facilities in the U.S., Canada, Europe and Latin America.

IM CAPITAL TRUST

IM Capital Trust is a subsidiary of ours. IM Capital Trust was created under the Delaware Statutory Trust Act and is governed by a declaration of trust, as it may be amended and restated from time to time, among the trustees of IM Capital Trust and us.

When IM Capital Trust issues its trust preferred securities, the holders of the trust preferred securities will own all of the issued and outstanding trust preferred securities of IM Capital Trust. We will acquire all of the issued and outstanding trust common securities of IM Capital Trust, representing an undivided beneficial interest in the assets of IM Capital Trust of at least 3%.

IM Capital Trust will exist primarily for the purposes of:

- issuing its trust preferred and trust common securities;
- investing the proceeds from the sale of its trust preferred and trust common securities in our debt securities; and
- engaging in other activities only as are necessary or incidental to issuing its securities and purchasing and holding our debt securities.

The debt securities IM Capital Trust purchases from us may be subordinated debt securities or senior debt securities, and may be fully and unconditionally guaranteed by substantially all of our present and future wholly owned domestic subsidiaries. We will specify the type of debt security in a prospectus supplement.

IM Capital Trust has three trustees. One of the trustees, referred to as the regular trustee, is an individual who is an officer and employee of Iron Mountain. Additional regular trustees may be appointed in the future. The second trustee is The Bank of New York, which serves as the property trustee under the declaration of trust for purposes of the Trust Indenture Act of 1939, as amended. The third trustee is The Bank of New York (Delaware), which has its principal place of business in the State of Delaware, and serves as the Delaware trustee of IM Capital Trust.

The Bank of New York, acting in its capacity as guarantee trustee, will hold for the benefit of the holders of trust preferred securities a trust preferred securities guarantee, which will be separately qualified under the Trust Indenture Act of 1939.

Unless otherwise provided in the applicable prospectus supplement, because we will own all of the trust common securities of IM Capital Trust, we will have the exclusive right to appoint, remove or replace trustees and to increase or decrease the number of trustees. In most cases, there will be at least three trustees. The term of IM Capital Trust will be described in the applicable prospectus supplement, but it may dissolve earlier, as provided in IM Capital Trust's declaration of trust, as it may be amended and restated from time to time.

The rights of the holders of the trust preferred securities of IM Capital Trust, including economic rights, rights to information and voting rights and the duties and obligations of the trustees of IM Capital Trust, will be contained in and governed by the declaration of trust of IM Capital Trust, as it may be amended and restated from time to time, the Delaware Statutory Trust Act and the Trust Indenture Act of 1939.

RISK FACTORS

An investment in our securities involves a high degree of risk. Before making an investment decision, in addition to the other information included in, or incorporated by reference into, this prospectus, you should carefully consider the risk factors included in any applicable prospectus supplement or incorporated by reference into this prospectus when determining whether or not to purchase the securities offered under this prospectus and the prospectus supplement.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods indicated (dollars in thousands):

	Year Ended December 31,					Three Months Ended March 31,
	2000	2001	2002	2003	2004	2005
Earnings:						
Income (Loss) from Continuing Operations before Provision for Income Taxes and Minority Interest	$ (23,291)	$ (28,111)	$ 114,519	$ 156,989	$ 166,735	$ 40,641
Add: Fixed Charges	154,975	177,032	178,587	195,258	240,270	60,791
	$ 131,684	$ 148,921	$ 293,106	$ 352,247	$ 407,005	$ 101,432
Fixed Charges:						
Interest Expense, Net	$ 117,975	$ 134,742	$ 136,632	$ 150,468	$ 185,749	$ 45,806
Interest Portion of Rent Expense	37,000	42,290	41,955	44,790	54,521	14,985
	$ 154,975	$ 177,032	$ 178,587	$ 195,258	$ 240,270	$ 60,791
Ratio of Earnings to Fixed Charges	0.8x (1)	0.8x (1)	1.6x	1.8x	1.7x	1.7x

(1) We reported a loss from continuing operations before provision for income taxes and minority interest for the years ended December 31, 2000 and December 31, 2001 and we would have needed to generate additional income from operations before provision for income taxes and minority interest of $23,291 and $28,111, respectively to cover our fixed charges of $154,975 and $177,032, respectively.

The ratios of earnings to fixed charges presented above were computed by dividing our earnings by fixed charges. For this purpose, earnings have been calculated by adding fixed charges to income (loss) from continuing operations before provision for income taxes and minority interest. Fixed charges consist of interest costs, the interest component of rental expense and amortization of debt discounts and deferred financing costs and premiums.

USE OF PROCEEDS

Unless otherwise described in a prospectus supplement, we intend to use the net proceeds from the sale of the offered securities for general corporate purposes, which may include acquisitions, investments and the repayment of indebtedness outstanding at a particular time. Pending this utilization, the proceeds from the sale of the offered securities will be invested in short-term, dividend-paying or interest-bearing investment grade securities.

IM Capital Trust will use all net proceeds from the sale of its trust preferred securities and its trust common securities to purchase our debt securities.

DESCRIPTION OF OUR DEBT SECURITIES

The debt securities will be direct obligations of ours, which may be secured or unsecured, and which may be senior or subordinated indebtedness. The debt securities may be fully and unconditionally guaranteed on a secured or unsecured, senior or subordinated basis, jointly and severally by substantially all of our direct and indirect wholly owned domestic subsidiaries. The debt securities will be issued under one or more indentures between us and a trustee. Any indenture will be subject to, and governed by, the Trust Indenture Act of 1939. The statements made in this prospectus relating to any indentures and the debt securities to be issued under the indentures are summaries of certain anticipated provisions of the indentures and are not complete.

We have filed copies of the forms of indentures as exhibits to the registration statement of which this prospectus is part and will file any final indentures and supplemental indentures if we issue debt securities. You should refer to those indentures for the complete terms of the debt securities. See "Where You Can Find More Information." In addition, you should consult the applicable prospectus supplement for particular terms of our debt securities.

General

We may issue debt securities that rank "senior," "senior subordinated" or "subordinated." The debt securities that we refer to as "senior securities" will be direct obligations of ours and will rank equally and ratably in right of payment with other indebtedness of ours that is not subordinated. We may issue debt securities that will be subordinated in right of payment to the prior payment in full of senior indebtedness, as defined in the applicable prospectus supplement, and may rank equally and ratably with our outstanding senior subordinated indebtedness and any other senior subordinated indebtedness. We refer to these as "senior subordinated securities." We may also issue debt securities that may be subordinated in right of payment to the senior subordinated securities. These would be "subordinated securities." We have filed with the registration statement of which this prospectus is part three separate forms of indenture, one each for the senior securities, the senior subordinated securities and the subordinated securities.

We may issue the debt securities without limit as to aggregate principal amount, in one or more series, in each case as we establish in one or more supplemental indentures. We need not issue all debt securities of one series at the same time. Unless we otherwise provide, we may reopen a series, without the consent of the holders of such series, for issuances of additional securities of that series.

We anticipate that any indenture will provide that we may, but need not, designate more than one trustee under an indenture, each with respect to one or more series of debt securities. Any trustee under any indenture may resign or be removed with respect to one or more series of debt securities and we may appoint a successor trustee to act with respect to that series.

The applicable prospectus supplement will describe the specific terms relating to the series of debt securities we will offer, including, where applicable, the following:

- the title and series designation and whether they are senior securities, senior subordinated securities or subordinated securities;
- the aggregate principal amount of the securities;
- the percentage of the principal amount at which we will issue the debt securities and, if other than the principal amount of the debt securities, the portion of the principal amount of the debt securities payable upon maturity of the debt securities;
- if convertible, the initial conversion price, the conversion period and any other terms governing such conversion;
- the stated maturity date;
- any fixed or variable interest rate or rates per annum;
- the place where principal, premium, if any, and interest will be payable and where the debt securities can be surrendered for transfer, exchange or conversion;
- the date from which interest may accrue and any interest payment dates;
- any sinking fund requirements;
- any provisions for redemption, including the redemption price and any remarketing arrangements;
- whether the securities are denominated or payable in U.S. dollars or a foreign currency or units of two or more foreign currencies;
- the events of default and covenants of such securities, to the extent different from or in addition to those described in this prospectus;
- whether we will issue the debt securities in certificated or book-entry form;
- whether the debt securities will be in registered or bearer form and, if in registered form, the denominations if other than in even multiples of $1,000 and, if in bearer form, the denominations and terms and conditions relating thereto;
- whether we will issue any of the debt securities in permanent global form and, if so, the terms and conditions, if any, upon which interests in the global security may be exchanged, in whole or in part, for the individual debt securities represented by the global security;
- the applicability, if any, of the defeasance and covenant defeasance provisions described in this prospectus or any prospectus supplement;

whether we will pay additional amounts on the securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities instead of making this payment;

the subordination provisions, if any, relating to the debt securities;

if the debt securities are to be issued upon the exercise of debt warrants, the time, manner and place for them to be authenticated and delivered;

whether any of our subsidiaries will be bound by the terms of the indenture, in particular any restrictive covenants;

the provisions relating to any security provided for the debt securities; and

- the provisions relating to any guarantee of the debt securities.

We may issue debt securities at less than the principal amount payable upon maturity. We refer to these securities as "original issue discount securities." We may also issue debt securities over par from time to time. If material or applicable, we will describe in the applicable prospectus supplement special U.S. federal income tax, accounting and other considerations applicable to original issue discount securities or debt securities issued over par.

Except as may be set forth in any prospectus supplement, an indenture will not contain any other provisions that would limit our ability to incur indebtedness or that would afford holders of the debt securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control. You should review carefully the applicable prospectus supplement for information with respect to events of default and covenants applicable to the securities being offered.

Denominations, Interest, Registration and Transfer

Unless otherwise described in the applicable prospectus supplement, we will issue the debt securities of any series that are registered securities in denominations that are even multiples of $1,000, other than global securities, which may be of any denomination.

Unless otherwise specified in the applicable prospectus supplement, we will pay the interest, principal and any premium at the corporate trust office of the trustee. At our option, however, we may make payment of interest by check mailed to the address of the person entitled to the payment as it appears in the applicable register or by wire transfer of funds to that person at an account maintained within the United States.

If we do not punctually pay or duly provide for interest on any interest payment date, the defaulted interest will be paid either:

- to the person in whose name the debt security is registered at the close of business on a special record date we will fix; or
- in any other lawful manner as the applicable indenture describes.

You may have your debt securities divided into more debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. We call this an "exchange."

You may exchange or transfer debt securities at the office of the applicable trustee. The trustee acts as our agent for registering debt securities in the names of holders and transferring debt securities. We may change this appointment to another entity or perform it ourselves. The entity performing the role of maintaining the list of registered holders is called the "registrar." It will also perform transfers.

You will not be required to pay a service charge to transfer or exchange debt securities, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The registrar will make the transfer or exchange only if it is satisfied with your proof of ownership.

Merger, Consolidation or Sale of Assets

Under any indenture, we are generally permitted to consolidate or merge with another company. We are also permitted to sell substantially all of our assets to another company. However, we may not take any of these actions unless all of the following conditions are met:

- If we merge out of existence or sell our assets, the other company must be a corporation, partnership or other entity organized under the laws of a State or the District of Columbia or under federal law. The other company must agree to be legally responsible for the debt securities.

Immediately after the consolidation or merger or sale of assets we are not in default on the debt securities. A default for this purpose would include any event that would be an event of default without regard to notice obligations or the length of time of the default.

Certain Covenants

Provision of Financial Information. We will deliver to the trustee a copy of our annual report to stockholders, our reports on Forms 10-K, 10-Q and 8-K and any other reports that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Additional Covenants. Any additional or different covenants, or modifications to these covenants, with respect to any series of debt securities will be set forth in the applicable prospectus supplement.

Events of Default and Related Matters

Events of Default. The term "event of default" means any of the following:

we do not pay the principal or any premium on a debt security on its due date;

we do not pay interest on a debt security within 30 days of its due date;

we do not deposit any sinking fund payment on its due date;

we fail to comply with any "change of control" covenant included in the applicable indenture;

we remain in breach of any other term of the applicable indenture for 60 days after we receive a notice of default stating we are in breach. Either the trustee or the holders of 25% in principal amount of debt securities of the affected series may send the notice;

we default in the payment of any of our other indebtedness over a specified amount that results in the acceleration of the maturity of the indebtedness or constitutes a default in the payment of the indebtedness at final maturity, but only if the indebtedness is not discharged or the acceleration is not rescinded or annulled;

we or one of our "significant subsidiaries" files for bankruptcy or certain other events in bankruptcy, insolvency or reorganization occur; 'Times New Roman', Times; color: #000000; background: #FFFFFF"> In the past, following periods of large price declines in the public market price of a company s securities, securities class action litigation has often been initiated against that company. Litigation of this type could result in substantial costs and diversion of management s attention and resources, which would hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

Our Chief Executive Officer and principal stockholder can individually control our direction and policies, and his interests may be adverse to the interests of our other stockholders. After his death, his stock will be left to his funding foundations for distribution to various charities, and we cannot assure you of the manner in which those entities will manage their holdings.

At March 10, 2008, Mr. Mann beneficially owned approximately 48.1% of our outstanding shares of capital stock. We believe members of Mr. Mann s family beneficially owned at least an additional 1% of our outstanding shares of common stock, although Mr. Mann does not have voting or investment power with respect to these shares. By virtue of his holdings, Mr. Mann can and will continue to be able to effectively control the election of the members of our board of directors, our management and our affairs and prevent corporate transactions such as mergers, consolidations or the sale of all or substantially all of our assets that may be favorable from our standpoint or that of our other stockholders or cause a transaction that we or our other stockholders may view as unfavorable.

Subject to compliance with United States federal and state securities laws, Mr. Mann is free to sell the shares of our stock he holds at any time. Upon his death, we have been advised by Mr. Mann that his shares of our capital stock will be left to the Alfred E. Mann Medical Research Organization, or AEMMRO, and AEM Foundation for Biomedical Engineering, or AEMFBE, not-for-profit medical research foundations that serve as funding organizations for Mr. Mann s various charities, including the Alfred Mann Foundation, or AMF, and the Alfred Mann Institute at the University of Southern California, the Technion-Israel Institute of Technology, and at Purdue University, and that may serve as funding organizations for any other charities that he may establish. The AEMMRO is a membership foundation consisting of six members, including Mr. Mann, his wife, three of his children and Dr. Joseph Schulman, the chief scientist of the AEMFBE. The AEMFBE is a membership foundation consisting of five members, including Mr. Mann, his wife, and the same three of his children. Although we understand that the members of AEMMRO and AEMFBE have been advised of Mr. Mann s objectives for these foundations, once Mr. Mann s shares of our capital stock become the property of the foundations, we cannot assure you as to how those shares will be distributed or how they will be voted.

The future sale of our common stock or the conversion of our senior convertible notes into common stock could negatively affect our stock price.

Substantially all of the outstanding shares of our common stock are available for public sale, subject in some cases to volume and other limitations or delivery of a prospectus. If our common stockholders sell substantial amounts of common stock in the public market, or the market perceives that such sales may occur, the market price of our common stock may decline. Likewise the issuance of additional shares of our common stock upon the conversion of some or all of our senior convertible notes could adversely affect the trading price of our common stock. In addition, the existence of these notes may encourage short selling of our common stock by market participants. Furthermore, if we were to include in a company-initiated registration statement shares held by our stockholders pursuant to the exercise of their registrations rights, the sale of those shares could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

In addition, we will need to raise substantial additional capital in the future to fund our operations. If we raise additional funds by issuing equity securities or additional convertible debt, the market price of our common stock may decline and our existing stockholders may experience significant dilution.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

We are incorporated in Delaware. Certain anti-takeover provisions under Delaware law and in our certificate of incorporation and amended and restated bylaws, as currently in effect, may make a change of control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our anti-takeover provisions include provisions such as a prohibition on stockholder actions by written consent, the authority of our board of directors to issue preferred stock without stockholder approval, and supermajority voting requirements for specified actions. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning 15% or more of our outstanding voting stock from merging or combining with us in certain circumstances. These provisions may delay or prevent an acquisition of us, even if the acquisition may be considered beneficial by some of our stockholders. In addition, they may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Because we do not expect to pay dividends in the foreseeable future, you must rely on stock appreciation for any return on your investment.

We have paid no cash dividends on any of our capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future, and payment of cash dividends, if any, will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. Accordingly, the success of your investment in our common stock will likely depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value after the offering or even maintain the price at which you purchased your shares, and you may not realize a return on your investment in our common stock.

Item 1B. ***Unresolved Staff Comments.***

Not applicable.

Item 2. ***Properties***

In 2001, we acquired a facility in Danbury, Connecticut that included two buildings comprising approximately 190,000 square feet encompassing 17.5 acres. In 2007, we commenced construction of approximately 140,000 square feet of new manufacturing space. When the expansion is completed in 2008, our facility will have two buildings with a total of approximately 328,000 square feet, housing our research and development, administrative and manufacturing functions, primarily for Technosphere Insulin formulation, filling and packaging., We believe the Danbury facility will have sufficient space to satisfy potential commercial demand for the launch of our Technosphere Insulin System and, with the expansion completed, the first few years thereafter for our Technosphere Insulin System and other Technosphere-related products.

We own and occupy approximately 147,000 square feet of laboratory, office and manufacturing space in Valencia, California. The facility contains our principal executive offices and houses our research and development laboratories for our cancer and other programs. We also use this facility to provide support for the development of our Technosphere programs.

We lease approximately 59,000 square feet of office space in Paramus, New Jersey pursuant to a lease that ends in May 2010, with an option to extend the lease through May 2012.

Item 3. ***Legal Proceedings***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our security holders during the quarter ended December 31, 2007.

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PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities***

Common Stock Market Price

Our common stock has been traded on the Nasdaq Global Market (and its predecessor the Nasdaq National Market) under the symbol MNKD since July 28, 2004. The following table sets forth for the quarterly periods indicated, the high and low sales prices for our common stock as reported by the Nasdaq Global Market.

	High	Low
Year ended December 31, 2006		
First quarter	$ 22.00	$ 11.05
Second quarter	$ 21.74	$ 16.42
Third quarter	$ 21.48	$ 15.50
Fourth quarter	$ 21.68	$ 15.73
Year ended December 31, 2007		
First quarter	$ 17.24	$ 14.30
Second quarter	$ 15.47	$ 10.47
Third quarter	$ 13.57	$ 8.21
Fourth quarter	$ 11.93	$ 7.58

The closing sales price of our common stock on the Nasdaq Global Market was $4.99 on March 10, 2008 and there were 192 registered holders of record as of that date.

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Performance Measurement Comparison

The material in this section is not soliciting material, is not deemed filed with the SEC and shall not be incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into anyof our filings under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act of 1934, as amended, or the Exchange Act, except to the extent we specifically incorporate this section by reference.

Performance Measurement Comparison

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of our common stock with (i) the Nasdaq Composite Index and (ii) the Nasdaq Biotechnology Index. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

Assumes a $100 investment, on July 28, 2004, in (i) our common stock, (ii) the securities comprising the Nasdaq Composite Index and (iii) the securities comprising the Nasdaq Biotechnology Index.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. Accordingly, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors.

Recent Sales of Unregistered Securities

Not applicable.

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Use of Proceeds

None.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
Statement of Operations Data:	**2003**	**2004**	**2005**	**2006**	**2007**
	(In thousands, except per share amounts)				
Revenue	$	$	$	$ 100	$ 10
Operating expenses:					
Research and development	45,613	59,406	95,347	191,796	256,844
General and administrative	20,699	17,743	22,775	42,001	50,523
Total operating expenses	66,312	77,149	118,122	233,797	307,367
Loss from operations	(66,312)	(77,149)	(118,122)	(233,697)	(307,357)
Other income (expense)	36	226	78	208	(197)
Interest expense on note payable to principal stockholder				(1,511)	
Interest expense on senior convertible notes				(222)	(3,408)
Interest income	398	932	3,707	4,679	17,775
Loss before provision for income taxes	(65,878)	(75,991)	(114,337)	(230,543)	(293,187)
Income tax	(1)	(1)	(1)	(5)	(3)
Net loss	(65,879)	(75,992)	(114,338)	(230,548)	(293,190)
Deemed dividends related to beneficial conversion feature of convertible preferred stock	(1,017)	(19,822)			
Accretion on redeemable preferred stock	(253)	(60)			
Net loss applicable to common stockholders	$ (67,149)	$ (95,874)	$ (114,338)	$ (230,548)	$ (293,190)
Basic and diluted net loss per share	$ (3.63)	$ (3.80)	$ (2.87)	$ (4.52)	$ (3.66)

Shares used to compute basic and diluted net loss per share	18,488	25,221	39,871	50,970	80,038

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Balance Sheet Data:	2003	2004	As of December 31, 2005 (In thousands)	2006	2007
Cash, cash equivalents and marketable securities	$ 55,945	$ 90,533	$ 145,634	$ 436,479	$ 368,285
Working capital	49,097	82,837	128,507	404,588	311,154
Total assets	125,876	163,483	228,371	539,737	543,443
Deferred compensation and other liabilities	404	76	29	24	24
Senior convertible notes				111,267	111,761
Redeemable convertible preferred stock	5,188				
Deficit accumulated during the development stage	(366,971)	(442,963)	(557,301)	(787,849)	(1,081,039)
Total stockholders equity	111,577	150,363	206,977	383,487	364,100

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes thereto included in this Annual Report on Form 10-K.

OVERVIEW

We are a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products for diseases such as diabetes and cancer. Our lead investigational product candidate, the Technosphere Insulin System, is currently in Phase 3 clinical trials in the United States, Europe and Latin America to study its safety and efficacy in the treatment of diabetes. This dry powder therapy consists of our proprietary Technosphere particles onto which insulin molecules are loaded. These loaded particles are then aerosolized and inhaled into the deep lung using our proprietary MedTone inhaler. We believe that the performance characteristics, unique kinetics, convenience and ease of use of the Technosphere Insulin System may have the potential to change the way diabetes is treated. Currently, we are conducting clinical trials to evaluate the safety and efficacy of another Technosphere-based product for the treatment of diabetes and are developing additional formulations of active compounds loaded onto Technosphere particles. We are also developing therapies for the treatment of different types of cancer. Our other product candidates are at the research stage or in pre-clinical development.

We are a development stage enterprise and have incurred significant losses since our inception in 1991. As of December 31, 2007, we have incurred a cumulative net loss of $1.1 billion. To date, we have not generated any product revenues and have funded our operations primarily through the sale of equity securities.

We do not expect to record sales of any product prior to regulatory approval and commercialization of our Technosphere Insulin System. We currently do not have the required approvals to market any of our product candidates, and we may not receive such approvals. We may not be profitable even if we succeed in commercializing any of our product candidates. We expect to make substantial and increasing expenditures and to incur additional operating losses for at least the next several years as we:

- continue the clinical development of our Technosphere Insulin System for the treatment of diabetes;
- expand our manufacturing operations for our Technosphere Insulin System to meet our currently anticipated commercial production needs;
- expand our other research, discovery and development programs;
- expand our proprietary Technosphere platform technology and develop additional applications for the pulmonary delivery of other drugs; and
- enter into sales and marketing collaborations with other companies, if available on commercially reasonable terms, or develop these capabilities ourselves.

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Our business is subject to significant risks, including but not limited to the risks inherent in our ongoing clinical trials and the regulatory approval process, the results of our research and development efforts, competition from other products and technologies and uncertainties associated with obtaining and enforcing patent rights.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses consist mainly of costs associated with the clinical trials of our product candidates that have not yet received regulatory approval for marketing and for which no alternative future use has been identified. This includes the salaries, benefits and stock-based compensation of research and development personnel, laboratory supplies and materials, facility costs, costs for consultants and related contract research, licensing fees, and depreciation of laboratory equipment. We track research and development costs by the type of cost incurred. We partially offset research and development expenses with the recognition of estimated amounts receivable from the State of Connecticut pursuant to a program under which we can exchange qualified research and development income tax credits for cash.

Our research and development staff conducts our internal research and development activities, which include research, product development, clinical development, manufacturing and related activities. This staff is located in our facilities in Valencia, California; Paramus, New Jersey; and Danbury, Connecticut. We expense the majority of research and development costs as we incur them.

Clinical development timelines, likelihood of success and total costs vary widely. We are focused primarily on advancing the Technosphere Insulin System through Phase 3 clinical trials and regulatory filings. Based on the results of preclinical studies, we plan to develop additional applications of our Technosphere technology. Additionally, we anticipate that we will continue to determine which research and development projects to pursue, and how much funding to direct to each project, on an ongoing basis, in response to the scientific and clinical success of each product candidate. We cannot be certain when any revenues from the commercialization of our products will commence.

At this time, due to the risks inherent in the clinical trial process and given the early stage of development of our product candidates other than the Technosphere Insulin System, we are unable to estimate with any certainty the costs that we will incur in the continued development of our product candidates for commercialization. The costs required to complete the development of our Technosphere Insulin System will be largely dependent on the scope of our clinical trials, the cost and efficiency of our manufacturing process and discussions with the FDA on its requirements.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses consist primarily of salaries, benefits and stock-based compensation for administrative, finance, business development, human resources, legal and information systems support personnel. In addition, general and administrative expenses include professional service fees and business insurance costs.

CRITICAL ACCOUNTING POLICIES

We have based our discussion and analysis of our financial condition and results of operations on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making estimates of expenses such as stock option expenses and judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. The significant accounting policies that are critical to the judgments and estimates used in the preparation of our financial statements are described in more detail below.

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Impairment of long-lived assets

Assessing long-lived assets for impairment requires us to make assumptions and judgments regarding the carrying value of these assets. We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The assets are considered to be impaired if we determine that the carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances:

- significant changes in our strategic business objectives and utilization of the assets;
- a determination that the carrying value of such assets cannot be recovered through undiscounted cash flows;
- loss of legal ownership or title to the assets; or
- the impact of significant negative industry or economic trends.

If we believe our assets to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. Any write-downs would be treated as permanent reductions in the carrying amount of the asset and an operating loss would be recognized. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the useful lives of the assets. If a change were to occur in any of the above-mentioned factors or estimates, our reported results could materially change.

To date, we have had recurring operating losses, and the recoverability of our long-lived assets is contingent upon executing our business plan. If we are unable to execute our business plan, we may be required to write down the value of our long-lived assets in future periods.

Clinical trial expenses

Our clinical trial accrual process seeks to account for expenses resulting from our obligations under contract with vendors, consultants, and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary from contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to us under such contracts. Our objective is to reflect the appropriate trial expenses in our financial statements by matching period expenses with period services and efforts expended. We account for these expenses according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. We determine accrual estimates through discussions with internal clinical personnel and outside service providers as to the progress or state of completion of trials, or the services completed. Service provider status is then compared to the contractual obligated fee to be paid for such services. During the course of a clinical trial, we adjust our rate of clinical expense recognition if actual results differ from our estimates. In the event that we do not identify certain costs that have begun to be incurred or we underestimate or overestimate the level of services performed or the costs of such services, our reported expenses for a period would be too low or too high. The date on which certain services commence, the level of services performed on or before a given date and the cost of the services are often judgmental. We make these judgments based upon the facts and circumstances known to us in accordance with generally accepted accounting principles.

Stock-based compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123R, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Prior to January 1, 2006, the Company accounted for employee stock options and the employee stock purchase plan using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*, and adopted the disclosure only alternative of SFAS No. 123. SFAS No. 123R eliminated the intrinsic value method of accounting for stock options which the Company followed until December 31, 2005. Further, SFAS No. 123R requires all share-based payments to employees, including grants of stock options and the compensatory elements of employee stock purchase plans, to be recognized in the income statement based upon the fair value of the awards at the grant date.

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Upon adoption of SFAS No. 123R, the Company selected the modified prospective transition method whereby unvested awards at the date of adoption, as well as awards that are granted, modified or settled after the date of adoption, will be measured and accounted for in accordance with SFAS No. 123R. Measurement and attribution of compensation cost for awards unvested as of January 1, 2006 is based on the same estimate of the grant-date or modification-date fair value and the same attribution method (straight-line) used previously under SFAS No. 123. Our consolidated financial statements as of and for the years ended December 31, 2007 and 2006 reflect the impact of SFAS No. 123R. In accordance with the modified prospective transition method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

Accounting for income taxes

We must make significant management judgments when determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At December 31, 2007, we have established a valuation allowance of $387.5 million against all of our net deferred tax asset balance, due to uncertainties related to our deferred tax assets as a result of our history of operating losses. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to change the valuation allowance, which could materially impact our financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We are subject to the provisions of FIN 48 as of January 1, 2007. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Our adoption of FIN 48 did not result in a cumulative effect adjustment to retained earnings. Tax years since 1992 remain subject to examination by the major tax jurisdictions in which we are subject to tax.

RESULTS OF OPERATIONS

Years ended December 31, 2007 and 2006

Revenues

During the years ended December 31, 2007 and 2006, the Company recognized $10,000 and $100,000, respectively, in revenue under a license agreement. We do not anticipate sales of any product prior to regulatory approval and commercialization of our Technosphere Insulin System.

Research and Development Expenses

The following table provides a comparison of the research and development expense categories for the years ended December 31, 2007 and 2006 (dollars in thousands):

	Year Ended December 31,			
	2007	2006	$ Change	% Change
Clinical	$ 124,655	$ 110,623	$ 14,032	13%
Manufacturing	86,473	40,656	45,817	113%
Research	36,720	33,962	2,758	8%
Research and development tax credit	(753)	(585)	(168)	29%
Stock-based compensation expense	9,749	7,140	2,609	37%
Research and development expenses	$ 256,844	$ 191,796	$ 65,048	34%

The increase in research and development expenses for the year ended December 31, 2007, as compared to the year ended December 31, 2006, was primarily due to increases in manufacturing costs, including clinical supplies, for Technosphere Insulin and increased costs associated with the expanded clinical development of our Technosphere Insulin System and the continuation of other preclinical studies. We anticipate that our research and development expenses will increase slightly in 2008 as we complete our pivotal Technosphere Insulin trials, continue preparation for commercial scale manufacturing of Technosphere Insulin, expand our Technosphere platform technology, and continue to pursue cancer therapies. Specifically, we anticipate increased expenses related to the expansion, qualification and validation of our commercial manufacturing processes and facilities.

The research and development tax credit recognized for the years ended December 31, 2007 and 2006 partially offsets our research and development expenses. The State of Connecticut provides an opportunity to exchange certain research and development income tax credit carryforwards for cash in exchange for forgoing the carryforward of the research and development credits. Estimated amounts receivable under the program are recorded as a reduction of research and development expenses. During the years ended December 31, 2007 and 2006, research and development expenses were offset by $0.8 million and $0.6 million, respectively, in connection with the program.

General and Administrative Expenses

The following table provides a comparison of the general and administrative expense categories for the years ended December 31, 2007 and 2006 (dollars in thousands):

	Year Ended December 31,			
	2007	2006	$ Change	% Change
Salaries, employee related and other general expenses	$ 42,627	$ 34,474	$ 8,153	24%
Stock-based compensation expense	7,896	7,527	369	5%
General and administrative expenses	$ 50,523	$ 42,001	$ 8,522	20%

The increase in general and administrative expenses for the year ended December 31, 2007, as compared to the year ended December 31, 2006, was primarily due to increased headcount and professional service fees. We expect general and administrative expenses to increase slightly in 2008 as a result of increased salary related expenses and professional service fees.

Interest Income and Expense

Interest income for the year ended December 31, 2007 increased $13.1 million as compared to the year ended December 31, 2006 primarily due to higher cash balances resulting from the sale by the Company of common stock and convertible notes in December 2006. Interest expense for the year ended December 31, 2007 was related to the convertible notes issued in December 2006 and amortization of the debt issuance costs, partially offset by capitalized interest related to construction in progress. Interest expense for the year ended December 31, 2006 was related to amounts borrowed under the loan arrangement with our principal stockholder in August 2006.

Years ended December 31, 2006 and 2005

Revenues

During the year ended December 31, 2006, the Company recognized $100,000 in revenue under a license agreement. No revenues were recorded for the year ended December 31, 2005.

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Research and Development Expenses

The following table provides a comparison of the research and development expense categories for the years ended December 31, 2006 and 2005 (dollars in thousands):

	Year Ended December 31, 2006	Year Ended December 31, 2005	$ Change	% Change
Clinical	$ 110,623	$ 49,483	$ 61,140	124%
Manufacturing	40,656	25,401	15,255	60%
Research	33,962	22,449	11,513	51%
Research and development tax credit	(585)	(1,666)	1,081	(65)%
Stock-based compensation expense (benefit)	7,140	(320)	7,460	
Research and development expenses	$ 191,796	$ 95,347	$ 96,449	101%

The increase in research and development expenses for the year ended December 31, 2006, as compared to the year ended December 31, 2005, was primarily due to increased costs associated with the expanded clinical development of our Technosphere Insulin System and the continuation of other preclinical studies; increased salaries and related expenses driven by higher headcount; increases in consulting services and technology agreements; and increases in stock-based compensation expense. The increase in stock-based compensation expense was due to the adoption of SFAS 123R on January 1, 2006 and the stock-based compensation benefit in 2005 resulting from the fluctuation of our stock price on the stock options that were repriced in November 2003.

The research and development tax credit recognized for the years ended December 31, 2006 and 2005 partially offsets our research and development expenses. The State of Connecticut provides an opportunity to exchange certain research and development income tax credit carryforwards for cash in exchange for forgoing the carryforward of the research and development credits. Estimated amounts receivable under the program are recorded as a reduction of research and development expenses. During the years ended December 31, 2006 and 2005, research and development expenses were offset by $0.6 million and $1.7 million, respectively, in connection with the program.

General and administrative expenses

The following table provides a comparison of the general and administrative expense categories for the years ended December 31, 2006 and 2005 (dollars in thousands):

Year Ended December 31, 2006	Year Ended December 31, 2005	$ Change	% Change
$ 34,474	$ 24,183	$ 10,291	43%

Salaries, employee related and other general expenses				
Stock-based compensation expense (benefit)	7,527	(1,408)	8,935	
General and administrative expenses	$ 42,001	$ 22,775	$ 19,226	84%

General and administrative expenses for the year ended December 31, 2006 increased as compared to the year ended December 31, 2005. Salaries, employee related and other general expenses increased primarily due to increased headcount and administrative services. The increase in stock-based compensation expense was due to the adoption of SFAS 123R on January 1, 2006 as compared to the stock-based compensation benefit in 2005 that resulted from the fluctuation of our stock price on stock options that were repriced in November 2003.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations primarily through the sale of equity securities. In October 2007, we issued and sold a total of 27,014,686 shares of our common stock. Of this total, 15,940,489 shares were sold to our principal stockholder at a price per share of $9.41 and 11,074,197 shares were sold to other investors at a price per share of $9.03. The resulting aggregate net proceeds were approximately $249.8 million after expenses. In December 2006, we issued and sold 23,000,000 shares of our common stock at a price of $17.42 per share in an underwritten public offering. The resulting aggregate net proceeds to us from this common stock offering were approximately $384.7 million after expenses. In December 2006, we also sold $115.0 million aggregate principal amount of 3.75% Senior Convertible Notes due 2013. The resulting aggregate net proceeds to us from this note offering were approximately $111.3 million after expenses.

In August 2006, we entered into a $150.0 million loan arrangement with our principal stockholder, which was amended on August 1, 2007 and replaced with a new loan arrangement on October 2, 2007. Under the new loan arrangement, we can borrow up to a total of $350.0 million before January 1, 2010. From April 1, 2008 until September 30, 2008, we can borrow up to $150.0 million in one or more advances, and from March 1, 2009 until December 31, 2009, we can borrow the remaining $200.0 million plus any amount not previously borrowed in one or more advances. We may not borrow more than one advance in any 12-month period, and each advance must be not less than $50.0 million. Interest will accrue on each outstanding advance at a fixed rate equal to the one-year LIBOR rate as reported by the *Wall Street Journal* on the date of such advance plus 3% per annum and will be payable quarterly in arrears. Principal repayment is due on December 31, 2011. At any time after January 1, 2010, our principal stockholder can require us to prepay up to $200.0 million in advances that have been outstanding for at least 12 months. If our principal stockholder exercises this right, we will have until the earlier of 180 days after our principal stockholder provides written notice or December 31, 2011 to prepay such advances. In the event of a default, all unpaid principal and interest either becomes immediately due and payable or may be accelerated at our principal stockholder s option, and the interest rate will increase to the one-year LIBOR rate calculated on the date of the initial advance or in effect on the date of default, whichever is greater, plus 5% per annum. Any borrowings under the loan arrangement will be unsecured. The loan arrangement contains no financial covenants. There are no warrants associated with the loan arrangement, nor are advances convertible into our common stock.

During the year ended December 31, 2007, we used $245.1 million of cash for our operations compared to using $189.8 million for our operations in the year ended December 31, 2006. We had a net loss of $293.2 million for the year ended December 31, 2007, of which $27.6 million consisted of non-cash charges such as depreciation and amortization, stock-based compensation, and other stock-based charges pursuant to a research agreement. We expect our negative operating cash flow to continue at least until we obtain regulatory approval and achieve commercialization of our Technosphere Insulin System.

We generated $38.7 million of cash for investing activities during the year ended December 31, 2007, compared to using $48.3 million for the year ended December 31, 2006. Cash provided by investing activities was primarily from net sales of marketable securities of $116.9 million partially offset by $78.3 million in machinery and equipment purchases used to expand our manufacturing operations and quality systems in support of our expansion of clinical trials for Technosphere Insulin System. We expect to make significant purchases of equipment in the foreseeable future.

Our financing activities provided cash of $255.2 million for the year ended December 31, 2007 compared to $501.6 million for 2006. Cash from financing activities in 2007 was primarily from the equity offering in October 2007 and the exercise of stock options throughout the year. For 2006, cash from financing activities was primarily from the equity and convertible note offerings in December 2006, as well as the exercise of stock options.

As of December 31, 2007, we had $368.3 million in cash and cash equivalents. Although we believe our existing cash resources, including the expanded $350.0 million loan arrangement with our principal stockholder, will be sufficient to fund our anticipated cash requirements through the fourth quarter of 2009, we will require significant additional financing in the future to fund our operations. Accordingly, we expect that we will need to raise additional capital, either through the sale of equity and/or debt securities, a strategic business collaboration with a pharmaceutical or biotechnology company or the establishment of other funding facilities, in order to continue the development and commercialization of our Technosphere Insulin System and other product candidates and to support our other ongoing activities.

We intend to use our capital resources to continue the development of our Technosphere Insulin System and to develop additional applications for our proprietary Technosphere platform technology. In addition, portions of our capital resources will be devoted to expanding our other product development programs for the treatment of different types of cancers. We are expending a portion of our capital to scale up our manufacturing capabilities in our Danbury facilities. We also intend to use our capital resources for general corporate purposes, which may include in-licensing or acquiring additional technologies.

We have held extensive discussions with a number of pharmaceutical companies concerning a potential strategic business collaboration for our Technosphere Insulin System. To date, we have not reached agreement with any of these companies on a collaboration. While we are continuing to engage in such discussions, we believe that we will have to expend significant additional time and effort before we could reach agreement, and we cannot predict when, if ever, we could conclude such an agreement with a partner. There can be no assurance that any such collaboration will be available to us on a timely basis or on acceptable terms, if at all.

If we enter into a strategic business collaboration with a pharmaceutical or biotechnology company, we would expect, as part of the transaction, to receive additional capital. In addition, we expect to pursue the sale of equity and/or debt securities, or the establishment of other funding facilities. Issuances of debt or additional equity could impact the rights of our existing stockholders, dilute the ownership percentages of our existing stockholders and may impose restrictions on our operations. These restrictions could include limitations on additional borrowing, specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends, redeem our stock or make investments. We also may seek to raise additional capital by pursuing opportunities for the licensing, sale or divestiture of certain intellectual property and other assets, including our Technosphere technology platform. There can be no assurance, however, that any strategic collaboration, sale of securities or sale or license of assets will be available to us on a timely basis or on acceptable terms, if at all. If we are unable to raise additional capital, we may be required to enter into agreements with third parties to develop or commercialize products or technologies that we otherwise would have sought to develop independently, and any such agreements may not be on terms as commercially favorable to us.

However, we cannot provide assurances that our plans will not change or that changed circumstances will not result in the depletion of our capital resources more rapidly than we currently anticipate. If planned operating results are not achieved or we are not successful in raising additional equity financing or entering a business collaboration, we may be required to reduce expenses through the delay, reduction or curtailment of our projects, including our Technosphere Insulin System development activities, or further reduction of costs for facilities and administration.

Off-Balance Sheet Arrangements

As of December 31, 2007, we did not have any off-balance sheet arrangements.

COMMITMENTS AND CONTINGENCIES

Our contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude contingent liabilities for which we cannot reasonably predict future payments. Accordingly, the table below excludes contractual obligations relating to milestone and royalty payments due to third parties, all of which are contingent upon certain future events. The expected timing of payment of the obligations presented below is estimated based on current information. Future payments relate to operating lease obligations (including facility leases executed in March 2005 and November 2005), the senior convertible notes, and open purchase order and supply commitments consisted of the following at December 31, 2007 (in thousands):

Contractual Obligations	Payments Due in Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Open purchase order and supply commitments(1)	$ 191,276	$ 36,951	$ 84,980	$	$ 313,207
Senior Convertible Note Obligations(2)	4,384	8,745	8,757	119,372	141,258
Operating lease obligations	1,693	2,651			4,344
Total contractual obligations	$ 197,353	$ 48,347	$ 93,737	$ 119,372	$ 458,809

(1) The amounts included in open purchase order and supply commitments are subject to performance under the purchase order or contract by the supplier of the goods or services and do not become our obligation until such

performance is rendered. The amount shown is principally for the purchase of materials for our clinical trials, the acquisition of manufacturing equipment, and commitments related to the expansion of our manufacturing plant and the purchase of raw materials under long-term supply agreements.

(2) The senior convertible note obligation amounts include future interest payments at a fixed rate of 3.75% and payment of the notes in full upon maturity in 2013.

RELATED PARTY TRANSACTIONS

For a description of our related party transactions see Note 16 Related Party Transactions in the notes to our financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB ratified the EITF consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements,* that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent.,* Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. We are evaluating the impact, if any, the adoption of this consensus will have on our results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests to Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). These standards will significantly change the accounting and reporting for business combination transactions and noncontrolling (minority) interests in consolidated financial statements, including capitalizing at the acquisition date the fair value of acquired IPR&D, and remeasuring and writing down the assets, if necessary, in subsequent periods during their development. These new standards will be applied prospectively for business combinations that occur on or after January 1, 2009, except that presentation and disclosure requirements of SFAS No. 160 regarding noncontrolling interests shall be applied retrospectively.

In September 2007, the FASB ratified EITF 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity s first fiscal year that begins after December 15, 2007. We are evaluating the impact, if any, the adoption of EITF 07-3 will have on our results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are evaluating the impact, if any, the adoption of this Statement will have on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157*, Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value for accounting purposes, and expands disclosures about fair value measurements. SFAS No. 157 is effective for us beginning January 1, 2008, and the provisions of SFAS No. 157 will be applied prospectively as of that date. In February 2008, FASB Staff Position (FSP) No. 157-2 was issued. FSP No. 157-2 delays the implementation of certain aspects of SFAS No. 157 to January 1, 2009. We are evaluating the impact, if any, the adoption of this Statement will have on our results of operations, financial position or cash flows.

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Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We have not used derivative financial instruments in the past to hedge market risk. We are exposed to market risk related to changes in interest rates impacting our cash investment portfolio as well as the interest rate on our credit facility. The interest rate on our credit facility is a fixed rate equal to the one-year LIBOR rate as reported by the *Wall Street Journal* on the date of such advance plus 3% per annum. Our current policy requires us to maintain a highly liquid short-term investment portfolio consisting mainly of U.S. money market funds and investment-grade corporate, government and municipal debt. None of these investments is entered into for trading purposes. Our cash is deposited in and invested through highly rated financial institutions in North America. We do not have any short-term investments at December 31, 2007. If we were to draw the available amount on our $350 million credit facility and interest rates were to increase from levels at December 31, 2007 we could experience a higher level of interest expense than assumed in our current operating plan.

Item 8. ***Financial Statements and Supplementary Data***

The information required by this Item is included in Items 15(a)(1) and (2) of Part IV of this Annual Report on Form 10-K.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our chief executive officer and chief financial officer performed an evaluation under the supervision and with the participation of our management, of our disclosure controls and procedures (as defined in Rule 13a-15(b) of the Exchange Act) as of December 31, 2007. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2007. Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements included in this 2007 Form 10-K, has issued an attestation report on our internal control over financial reporting as of December 31, 2007, which is included herein.

Remediation of Material Weakness

As of June 30, 2007, our management concluded that we had a material weakness in the operation of controls for identifying and recording clinical trial costs, principally from the failure of our controls to detect an

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overstatement of clinical trial liabilities. The following is a summary of control deficiencies that contributed to the material weakness:

Certain balance sheet accounts relating primarily to accrued vendor invoices and clinical trial costs were not adequately analyzed or reconciled to supporting documentation.

Controls designed to ensure that these accounts and the supporting analysis were reviewed by knowledgeable personnel did not operate effectively.

Personnel responsible for the preparation of these accruals were not adequately trained.

During the latter part of 2007, we implemented a remediation plan to address the control deficiencies that contributed to this material weakness. As of December 31, 2007, we completed the execution of our remediation plan which included recruiting, hiring and training additional accounting staff with technical expertise for identifying and recording clinical trial costs. Additionally, we implemented revised policies and procedures and enhanced our review of the balance sheet accounts relating to clinical trial costs. We anticipate making additional improvements and changes in future periods, however, except as described herein, there were no other changes in our internal control over financial reporting during the fourth quarter of 2007, that materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of MannKind Corporation
Valencia, California

We have audited the internal control over financial reporting of MannKind Corporation and subsidiaries (the Company) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control*

Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 14, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding a change in the manner in which the Company accounts for share-based compensation in 2006.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
March 14, 2008

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Item 9B. *Other Information.*

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file our Proxy Statement within 120 days after the end of our fiscal year pursuant to Regulation 14A for our 2008 Annual Meeting of Stockholders, and the information included in the Proxy Statement is incorporated herein by reference.

Item 10. *Directors and Executive Officers of the Registrant.*

(a) *Executive Officers* For information regarding the identification and business experience of our executive officers, see Executive Officers in Part I, Item 1 of this Annual Report on Form 10-K.

(b) *Directors* The information required by this Item regarding the identification and business experience of our directors and corporate governance matters is contained in the section entitled Proposal 1 Election of Directors and Corporate Governance Principles and Board and Committee Matters in the Proxy Statement, and is incorporated herein by reference.

Additional information required by this Item is incorporated by reference to the section entitled Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement.

We have adopted a Code of Business Conduct and Ethics Policy that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and have posted the text of the policy on our website (www.mannkindcorp.com) in connection with Investor Relations materials. In addition, we intend to promptly disclose on our website (i) the nature of any amendment to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

Item 11. *Executive Compensation*

The information under the caption Executive Compensation in the Proxy Statement is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information under the captions Security Ownership of Certain Beneficial Owners and Management and Executive Compensation Securities Authorized for Issuance under Equity Compensation Plans in the Proxy Statement is incorporated herein by this reference.

Item 13. *Certain Relationships, Related Transactions and Director Independence*

The information under the caption Certain Transactions and Corporate Governance Principles and Board and Committee Matters in the Proxy Statement is incorporated herein by reference. With the exception of the information specifically incorporated by reference from the Proxy Statement in this Annual Report on Form 10-K, the Proxy Statement shall not be deemed to be filed as part of this report. Without limiting the foregoing, the information under the captions Report of the Audit Committee of the Board of Directors and Report of the Compensation Committee of the Board of Directors in the Proxy Statement is not incorporated by reference.

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Item 14. *Principal Accounting Fees and Services*

The information under the caption Principal Accounting Fees and Services in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

(1)(2) Financial Statements and Financial Statement Schedules. The following Financial Statements of MannKind Corporation, Financial Statement Schedules and Report of Independent Registered Public Accounting Firm are included in a separate section of this report beginning on page F-2:

All financial statement schedules have been omitted because the required information is not applicable or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(3) Exhibits. The exhibits listed under Item 15(c) hereof are filed with, or incorporated by reference into, this Annual Report on Form 10-K. Each management contract or compensatory plan or arrangement is identified separately in Item 15(c) hereof.

(c) Exhibits. The following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

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Exhibit Index

Exhibit Number	Description of Document
3.1(1)	Restated Certificate of Incorporation.
3.2(13)	Certificate of Amendment of Amended and Restated Certificate of Incorporation.
3.2(10)	Amended and Restated Bylaws.
4.1(11)	Indenture, by and between MannKind and Wells Fargo Bank, N.A., dated November 1, 2006.
4.2(4)	First Supplemental Indenture, by and between MannKind and Wells Fargo Bank, N.A., dated December 12, 2006.
4.3(4)	Form of 3.75% Senior Convertible Note due 2013.
4.4(1)	Form of common stock certificate.
4.5(1)	Registration Rights Agreement, dated October 15, 1998 by and among CTL ImmunoTherapies Corp., Medical Research Group, LLC, McLean Watson Advisory Inc. and Alfred E. Mann, as amended.
10.1(2)	Promissory Note made by MannKind in favor of Alfred E. Mann dated October 3, 2007.
10.2(13)	Agreement, dated September 13, 2006, between MannKind and Torcon, Inc.
10.3(3)	Securities Purchase Agreement, dated August 2, 2005 by and among MannKind and the purchasers listed on Exhibit A thereto.
10.4 (5)	Supply Agreement, dated December 31, 2004, between MannKind and Vaupell, Inc.
10.5 (1)	Supply Agreement, dated January 1, 2000, between Diosynth B.V. and Pharmaceutical Discovery Corporation.
10.6*(1)	Form of Indemnity Agreement entered into between MannKind and each of its directors and officers.
10.7*(9)	Description of Officers Incentive Program.
10.8*(6)	Description of 2006 executive officer salaries.
10.9*(6)	Description of 2006 non-employee director compensation.
10.9*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and Hakan Edstrom.
10.10*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and David Thomson.
10.11*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and Richard Anderson.
10.12*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and Peter Richardson.
10.13*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and Juergen Martens.
10.14*(12)	Executive Severance Agreement, dated October 10, 2007, between MannKind and Diane Palumbo.
10.15*(12)	Change of Control Agreement, dated October 10, 2007, between MannKind and Hakan Edstrom.
10.16*(12)	Change of Control Agreement, dated October 10, 2007, between MannKind and David Thomson.
10.17*(12)	Change of Control Agreement, dated October 10, 2007, between MannKind and Richard Anderson.
10.18*(12)	

	Change of Control Agreement, dated October 10, 2007, between MannKind and Peter Richardson.
10.19*(12)	Change of Control Agreement, dated October 10, 2007, between MannKind and Juergen Martens.
10.20*(12)	Change of Control Agreement, dated October 10, 2007, between MannKind and Diane Palumbo.
10.21*(8)	2004 Equity Incentive Plan and form of stock option agreement there under.
10.22*(7)	Form of Phantom Stock Award Agreement under the 2004 Equity Incentive Plan.
10.23*(9)	2004 Non-Employee Directors Stock Option Plan and form of stock option agreement there under.
10.24*(1)	2004 Employee Stock Purchase Plan and form of offering document there under.
10.25*(1)	Pharmaceutical Discovery Corporation 1991 Stock Option Plan.
10.26*(1)	Pharmaceutical Discovery Corporation 1999 Stock Plan and form of stock option plan there under.
10.27*(1)	AlleCure Corp. 2000 Stock Option and Stock Plan.
10.28*(1)	CTL Immunotherapies Corp. 2000 Stock Option and Stock Plan.
10.29*(1)	2001 Stock Awards Plan.
10.30**	Supply Agreement, dated November 16, 2007, between MannKind and N.V. Organon.
23.1	Consent of Independent Registered Public Accounting Firm

Exhibit Number	Description of Document
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350)

* Indicates management contract or compensatory plan.

** Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

(1) Incorporated by reference to MannKind s registration statement on Form S-1 (File No. 333-115020), filed with the SEC on April 30, 2004, as amended.

(2) Incorporated by reference to MannKind s Current Report on Form 8-K filed with the SEC on October 3, 2007.

(3) Incorporated by reference to MannKind s current report on Form 8-K filed with the SEC on August 5, 2005.

(4) Incorporated by reference to MannKind s current report on Form 8-K filed with the SEC on December 12, 2006.

(5) Incorporated by reference to MannKind s current report on Form 8-K filed with the SEC on February 23, 2005.

(6) Incorporated by reference to MannKind s current report on Form 8-K filed with the SEC on February 22, 2006.

(7) Incorporated by reference to MannKind s current report on Form 8-K filed with the SEC on December 14, 2005.

(8) Incorporated by reference to MannKind s Current Report on Form 8-K filed with the SEC on May 31, 2006.

(9) Incorporated by reference to MannKind s Annual Report on Form 10-K filed with the SEC on March 16, 2006.

(10)

Incorporated by reference to MannKind s Current Report on Form 8-K filed with the SEC on November 19, 2007.

(11) Incorporated by reference to MannKind s Registration Statement on Form S-3 (File No. 333-138373) filed with the SEC on November 2, 2006.

(12) Incorporated by reference to MannKind s Current Report on Form 8-K, as amended, filed with the SEC on October 16, 2007.

(13) Incorporated by reference to MannKind s Quarterly Report on Form 10-Q filed with the SEC on August 9, 2007.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mannkind Corporation

By: /s/ Alfred E. Mann

Alfred E. Mann
Chief Executive Officer

Dated: March 14, 2008

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hakan S. Edstrom, Richard L. Anderson and David Thomson, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and any other documents in connection therewith, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Alfred E. Mann Alfred E. Mann	Chief Executive Officer and chairman of the Board of Directors *(Principal Executive Officer)*	March 14, 2008
/s/ Hakan S. Edstrom Hakan S. Edstrom	President, Chief Operating Officer and Director	March 14, 2008
/s/ Richard L. Anderson Richard L. Anderson	Corporate Vice President and Chief Financial Officer *(Principal Financial and Accounting*	March 14, 2008

	Officer)	
/s/ A. E. Cohen A. E. Cohen	Director	March 14, 2008
/s/ Ronald J. Consiglio Ronald J. Consiglio	Director	March 14, 2008
/s/ Michael Friedman, M.D. Michael Friedman, M.D.	Director	March 14, 2008

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Signature	Title	Date
/s/ Kent Kresa Kent Kresa	Director	March 14, 2008
/s/ David H. MacCallum David H. MacCallum	Director	March 14, 2008
/s/ Heather Hay Murren Heather Hay Murren	Director	March 14, 2008
/s/ Henry L. Nordhoff Henry L. Nordhoff	Director	March 14, 2008

MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of MannKind Corporation
Valencia, California

We have audited the accompanying consolidated balance sheets of MannKind Corporation and subsidiaries (a development stage company) (the Company) as of December 31, 2006 and 2007 and the related statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2007 and for the period from February 14, 1991 (date of inception) to December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MannKind Corporation and subsidiaries as of December 31, 2006 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 and for the period from February 14, 1991 (date of inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
March 14, 2008

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2007
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 319,555	$ 368,285
Marketable securities	116,924	
State research and development credit exchange receivable current	2,418	831
Prepaid expenses and other current assets	10,650	9,596
Total current assets	449,547	378,712
Property and equipment net	88,328	162,683
State research and development credit exchange receivable net of current portion	1,500	1,500
Other assets	362	548
Total	$ 539,737	$ 543,443
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,715	$ 35,463
Accrued expenses and other current liabilities	34,244	32,095
Total current liabilities	44,959	67,558
Senior convertible notes	111,267	111,761
Other liabilities	24	24
Total liabilities	156,250	179,343
Commitments and contingencies		
Stockholders equity:		
Undesignated preferred stock, $0.01 par value 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2006 and 2007		
Common stock, $0.01 par value 90,000,000 and 150,000,000 shares authorized at December 31, 2006 and 2007, respectively; 73,360,154 and 101,380,823 shares issued and outstanding at December 31, 2006 and 2007, respectively	734	1,014
Additional paid-in capital	1,170,602	1,444,125
Deficit accumulated during the development stage	(787,849)	(1,081,039)

Total stockholders equity		383,487		364,100
Total	$	539,737	$	543,443

See notes to financial statements.

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2005	2006	2007	Cumulative Period from February 14, 1991 (Date of Inception) to December 31, 2007
	(In thousands, except per share data)			
Revenue	$	$ 100	$ 10	$ 2,968
Operating expenses:				
Research and development	95,347	191,796	256,844	747,040
General and administrative	22,775	42,001	50,523	190,499
In-process research and development costs				19,726
Goodwill impairment				151,428
Total operating expenses	118,122	233,797	307,367	1,108,693
Loss from operations	(118,122)	(233,697)	(307,357)	(1,105,725)
Other income (expense)	78	208	(197)	(1,881)
Interest expense on note payable to principal stockholder		(1,511)		(1,511)
Interest expense on senior convertible notes		(222)	(3,408)	(3,630)
Interest income	3,707	4,679	17,775	31,732
Loss before provision for income taxes	(114,337)	(230,543)	(293,187)	(1,081,015)
Income taxes	(1)	(5)	(3)	(24)
Net loss	(114,338)	(230,548)	(293,190)	(1,081,039)
Deemed dividend related to beneficial conversion feature of convertible preferred stock				(22,260)
Accretion on redeemable preferred stock				(952)
Net loss applicable to common stockholders	$ (114,338)	$ (230,548)	$ (293,190)	$ (1,104,251)
Net loss per share applicable to common stockholders basic and	$ (2.87)	$ (4.52)	$ (3.66)	

diluted			
Shares used to compute basic and diluted net loss per share applicable to common stockholders	39,871	50,970	80,038

See notes to financial statements.

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Issuable	Series C Convertible Preferred Stock Subscriptions Receivable	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Stockholders	Notes Receivable from Officers	Deficit Accumulated During the Development Stage	T
								(In thousands)					
BALANCE, FEBRUARY 14, 1991													
Issuance of common stock for cash		$		$	$	$	998	$ 10	$ 890	$	$	$	$
Net loss												(911)	
BALANCE, FEBRUARY 29, 1992							998	10	890			(911)	
Issuance of common stock for cash and services							73	1	887				
Capital contribution									20				
Net loss												(1,175)	
BALANCE, FEBRUARY 28, 1993							1,071	11	1,797			(2,086)	
Issuance of common stock for cash							11		526				
Issuance of stock for notes receivable							8		400	(400)			
Net loss												(1,156)	
BALANCE, FEBRUARY 28, 1994							1,090	11	2,723	(400)		(3,242)	

Issuance of common stock for cash and services	36		1,805		
Collection of stock subscription				400	
Net loss					(2,004)
BALANCE, DECEMBER 31, 1994	1,126	11	4,528		(5,246)
Issuance of common stock for services			8		
Exercise of stock options	1		22		
Stock compensation			384		
Net loss					(2,815)
BALANCE, DECEMBER 31, 1995	1,127	11	4,942		(8,061)
Issuance of common stock for cash and services	1		59		
Exercise of stock options	3		12		
Stock compensation			126		
Net loss					(2,570)
BALANCE, DECEMBER 31, 1996	1,131	11	5,139		(10,631)
Issuance of common stock for cash and services	548	6	190		
Stock compensation			2		
Exercise of stock options	27		135		
Conversion of notes payable	12		60		
Net loss					(2,280)
BALANCE, DECEMBER 31, 1997	1,718	17	5,526		(12,911)
Issuance of common stock for cash and services	2,253	23	12,703		

Stock compensation			150	
Exercise of stock options	68	1	24	
Conversion of notes payable	215	2	1,200	
Net loss				(3,331)
BALANCE, DECEMBER 31, 1998	4,254	43	19,603	(16,242)
Issuance of common stock	162	2	532	
Conversion of notes payable	80	1	994	
Net loss				(5,679)

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Issuable	Subscriptions Receivable	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Stockholders	Notes Receivable from Officers	Deficit Accumulat During the Developme Stage
							(In thousands)					
ALANCE, ECEMBER 31, 1999							4,496	46	21,129			(21,92
onversion of notes ayable							63	1	1,073			
ssuance of Series B referred stock for cash	193	15,000										
ssuance of common stock or cash, services and notes							4,690	46	33,945	(2,358)		
iscount on notes below arket rate										241		
ccrued interest on notes										(117)		
urchase of Series A edeemable convertible referred stock									(993)			
mount in excess of edemption obligation									999			
ccretion to redemption alue on Series A edeemable convertible referred stock									(149)			
tock-based compensation									9,609			
et loss												(24,66
ALANCE, DECEMBER 1, 2000	193	15,000					9,249	93	65,613	(2,234)		(46,58
ssuance of common stock or cash							3,052	30	78,000			
									3,900			

ash received for common tock to be issued							
ssuance of common stock or services			3		60		
xercise of stock options			1		13		
ccrued interest on notes						(189)	
ayments on notes eceivable						28	
ccretion to redemption alue on Series A edeemable convertible referred stock					(239)		
tock-based compensation					1,565		
ssuance of put option by tockholder					(2,949)		
ecord merger of entities					171,154		
et loss							(48,24
ALANCE, DECEMBER 1, 2001	193	15,000	12,305	123	317,117	(2,395)	(94,82
ssuance of common stock or cash			3,922	40	58,775		
ssuance of common stock or cash already received			234	2	(2)		
ssuance of stock award to mployee			3		84		
ash received for common tock issuable					98		
ccrued interest on notes						(229)	
ayments on notes eceivable						1,314	
eneficial conversion eature of Series B onvertible preferred stock					1,421		
eemed dividend related to eneficial conversion eature of Series B onvertible preferred stock					(1,421)		
ccretion to redemption alue on Series A edeemable convertible referred stock					(251)		
tock-based compensation					268		
ut option redemption by tockholder					1,921		
et loss							(206,26

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Issuable	Series C Convertible Preferred Stock Subscriptions Receivable	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Stockholders	No Recei fr Offi
						(In thousands)					
CEMBER	193	15,000					16,464	165	378,010	(1,310)	
s C rred stock					50,000	(50,000)					
n Series C rred stock						31,847					
non stock							3,494	35	49,965		
nsation r resulting									70		
non stock received by d to							17		225		(
on notes rsion										(102)	
B rred stock d related to rsion									1,017		
B rred stock mption									(1,017)		
A ertible									(253)		
pensation									4,501		

majority									623		
CEMBER	193	15,000			50,000	(18,153)	19,975	200	433,141	(1,412)	(
s C rred stock			356	18,153	(18,153)	18,153					
s C rred stock received			624	31,847	(31,847)						
options							86		1,079		
nts							4		46		
on notes										(107)	
tes ckholder									(225)		
ck note							(90)	(1)	(1,518)	1,519	
ries A rred stock							891	9	5,239		
ries B rred stock	(193)	(15,000)					811	8	14,992		
ries C rred stock			(980)	(50,000)			4,464	45	49,955		
mon shares varrants							22				
mon shares Stock							36		430		
m initial							6,557	66	83,110		
rsion B rred stock									19,822		
ds related version B and ble									(19,822)		
mption A ertible									(60)		
pensation									6,810		

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Series C Convertible Preferred Stock Issuable	Subscriptions Receivable	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Stockholders	Notes Receivable from Officers	Deficit Accumulated During the Development Stage
								(In thousands)				
BALANCE, DECEMBER 31, 2004							32,756	327	592,999			(442,963)
Issuance of common shares in exchange for warrants							24		245			
Issuance of common shares under Employee Stock Purchase Plan							58	1	494			
Exercise of stock options							304	3	1,948			
Issuance of stock awards to consultants							40	1	(146)			
Issuance of stock and warrants for cash							17,132	171	170,063			
Stock-based compensation									(1,828)			
Net loss												(114,338)
BALANCE, DECEMBER 31, 2005							50,314	503	763,775			(557,301)
Exercise of warrants							339	3	2,691			
Issuance of common shares under Employee Stock Purchase Plan							86	1	980			
Exercise of stock options							263	3	2,309			
Cancellation of common shares for stock notes receivable							(844)	(8)	8			
Issuance of stock for cash							23,000	230	384,440			
Issuance of common shares from the release of restricted stock units							102	1	(341)			

Issuance of common shares pursuant to research agreement	100	1	2,073	
Stock-based compensation			14,667	
Net loss				(230,548)
BALANCE, DECEMBER 31, 2006	73,360	734	1,170,602	(787,849)
Issuance of common shares under Employee Stock Purchase Plan	124	1	1,064	
Exercise of stock options	607	6	4,917	
Issuance of stock awards to consultants	30		123	
Issuance of stock for cash	27,014	270	249,480	
Issuance of common shares from the release of restricted stock units	146	2	(526)	
Issuance of common shares pursuant to research agreement	100	1	943	
Stock-based compensation			17,522	
Net loss				(293,190)
BALANCE, DECEMBER 31, 2007	101,381	1,014	1,444,125	(1,081,039)

See notes to financial statements.

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MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2006	2007	Cumulative Period from February 14, 1991 (Date of Inception) to December 31, 2007
		(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (114,338)	$ (230,548)	$ (293,190)	$ (1,081,039)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	7,391	8,517	8,973	48,127
Stock-based compensation (benefit) expense	(1,728)	14,667	17,645	54,830
Stock expense for shares issued pursuant to research agreement		2,074	944	3,018
Loss on sale, abandonment/disposal or impairment of property and equipment	16	79	7,047	10,493
Accrued interest on investments, net of amortization of premiums	(146)	204		58
In-process research and development				19,726
Discount on stockholder notes below market rate				241
Non-cash compensation expense of officer resulting from stockholder contribution				70
Accrued interest expense on notes payable to stockholders				1,538
Non-cash interest expense				3
Accrued interest on notes receivable				(747)
Goodwill impairment				151,428
Loss on available-for-sale securities				229
Changes in assets and liabilities:				
State research and development credit exchange receivable	(695)	(693)	1,587	(2,331)
Prepaid expenses and other current assets	221	(7,606)	2,654	(7,996)
Other assets	(224)	(77)	(186)	(548)
Accounts payable	509	7,168	16,265	26,980

Accrued expenses and other current liabilities	9,185	16,426	(6,885)	27,359
Other liabilities	(47)	(5)		22
Payment of deferred compensation	(1,373)			
Net cash used in operating activities	(101,229)	(189,794)	(245,146)	(748,539)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of marketable securities	(258,150)	(154,431)	(169,801)	(726,950)
Sales of marketable securities	180,245	126,900	286,725	726,665
Purchase of property and equipment	(17,169)	(20,773)	(78,262)	(209,404)
Proceeds from sale of property and equipment	90	32		214
Restricted cash	583			
Net cash (used in) provided by investing activities	(94,401)	(48,272)	38,662	(209,475)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of common stock and warrants	172,680	390,657	255,738	1,139,646
Collection of Series C convertible preferred stock subscriptions receivable				50,000
Issuance of Series B convertible preferred stock for cash				15,000

MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

STATEMENTS OF CASH FLOWS (Continued)

	Years Ended December 31, 2005	2006	2007	Cumulative Period from February 14, 1991 (Date of Inception) to December 31, 2007
	(In thousands)			
Cash received for common stock to be issued				3,900
Repurchase of common stock				(1,028)
Put shares sold to majority stockholder				623
Borrowings under lines of credit				4,220
Proceeds from notes receivables				1,742
Borrowings on notes payable from principal stockholder		70,000		70,000
Principal payments on notes payable to principal stockholder		(70,000)		(70,000)
Borrowings on notes payable				3,460
Principal payments on notes payable				(1,667)
Payable to stockholder				
Proceeds from senior convertible notes		111,267		111,267
Payment of employment taxes related to vested restricted stock units		(340)	(524)	(864)
Net cash provided by financing activities	172,680	501,584	255,214	1,326,299
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (22,950)	$ 263,518	$ 48,730	$ 368,285
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	78,987	56,037	319,555	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 56,037	$ 319,555	$ 368,285	$ 368,285
SUPPLEMENTAL CASH FLOWS DISCLOSURES:				
Cash paid for income taxes	$ 1	$ 5	$ 3	$ 24
Interest paid in cash		1,615	4,348	6,043
				(952)

Accretion on redeemable convertible preferred stock		
Issuance of common stock upon conversion of notes payable		3,331
Increase in additional paid-in capital resulting from merger		171,154
Issuance of common stock for notes receivable		2,758
Issuance of put option by stockholder		(2,949)
Put option redemption by stockholder		1,921
Notes receivable by stockholder issued to officers		
Issuance of Series C convertible preferred stock subscriptions		50,000
Issuance of Series A redeemable convertible preferred stock		4,296
Conversion of Series A redeemable convertible preferred stock		(5,248)
Non-cash construction in progress and property and equipment	13,219	13,219
Non-cash transfer from property and equipment to other current assets	1,600	1,600

In connection with the Company s initial public offering, all shares of Series B and Series C convertible preferred stock, in the amount of $15.0 million and $50.0 million, respectively, automatically converted into common stock in August 2004.

See notes to financial statements.

MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Business MannKind Corporation (the Company) is a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products for diseases such as diabetes and cancer. The Company s lead investigational product candidate, the Technosphere Insulin System, is currently in Phase 3 clinical trials in the United States, Europe and Latin America to study its safety and efficacy in the treatment of diabetes. The Technosphere Insulin System consists of the Company s proprietary Technosphere particles onto which insulin molecules are loaded. These loaded particles are then aerosolized and inhaled deep into the lung using the Company s MedTone inhaler.

Basis of Presentation The Company is considered to be in the development stage as its primary activities since incorporation have been establishing its facilities, recruiting personnel, conducting research and development, business development, business and financial planning, and raising capital. Since its inception through December 31, 2007 the Company has reported accumulated net losses of $1.1 billion, which include a goodwill impairment charge of $151.4 million (see Note 2), and cumulative negative cash flow from operations of $748.5 million. It is costly to develop therapeutic products and conduct clinical trials for these products. Based upon the Company s current expectations, management believes the Company s existing capital resources will enable it to continue planned operations through the fourth quarter of 2009. However, the Company cannot provide assurances that its plans will not change or that changed circumstances will not result in the depletion of its capital resources more rapidly than it currently anticipates. Accordingly, the Company expects that it will need to raise additional capital, either through the sale of equity and/or debt securities, a strategic business collaboration with a pharmaceutical company or the establishment of other funding facilities, in order to continue the development and commercialization of its Technosphere Insulin System and other product candidates and to support its other ongoing activities.

On December 12, 2001, the stockholders of AlleCure Corp. (AlleCure) and CTL ImmunoTherapies Corp. (CTL) voted to exchange their shares for shares of Pharmaceutical Discovery Corporation (PDC). Upon approval of the merger, PDC then changed its name to MannKind Corporation. PDC was incorporated in the State of Delaware on February 14, 1991. The stockholders of PDC did not vote on the merger. At the date of the merger, Mr. Alfred Mann owned 76% of PDC, 59% of AlleCure and 69% of CTL. Accordingly, only the minority interest of AlleCure and CTL was stepped up to fair value using the purchase method of accounting. As a result of this purchase accounting, in-process research and development of $19.7 million and goodwill of $151.4 million were recorded at the entity level. The historical basis of PDC and the historical basis relating to the ownership interests of Mr. Mann in AlleCure and CTL have been reflected in the financial statements. For periods prior to December 12, 2001, the results of operations have been presented on a combined basis. All references in the accompanying financial statements and notes to the financial statements to number of shares, sales price and per share amounts of the Company s capital stock have been retroactively restated to reflect the share exchange ratios for each of the entities that participated in the merger.

For periods subsequent to December 12, 2001, the accompanying financial statements have been presented on a consolidated basis and include the wholly-owned subsidiaries, AlleCure and CTL. On

December 31, 2002, AlleCure and CTL merged with and into MannKind and ceased to be separate entities.

Segment Information In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. To date, the Company has viewed its operations and manages its business as one segment operating entirely in the United States of America.

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NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies

Financial Statement Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents The Company considers all highly liquid investments with a purchased maturity date of three months or less to be cash equivalents.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and marketable securities. Cash and cash equivalents consist primarily of interest-bearing accounts and are regularly monitored by management and held in high credit quality institutions. Marketable securities consist of highly liquid short-term investment securities such as government and investment-grade corporate debt.

Marketable Securities The Company accounts for marketable securities as available for sale, in accordance with SFAS No. 115, *Accounting for Certain Debt and Equity Securities.* Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders equity until realized. The Company reviews the portfolio for other than temporary impairment in accordance with Emerging Issues Task Force (EITF) Issue No. 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* and Financial Accounting Standards Board (FASB) Staff Position No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.*

State Research and Development Credit Exchange Receivable The State of Connecticut provides certain companies with the opportunity to exchange certain research and development income tax credit carryforwards for cash in exchange for foregoing the carryforward of the research and development credits. The program provides for an exchange of research and development income tax credits for cash equal to 65% of the value of corporation tax credit available for exchange. Estimated amounts receivable under the program are recorded as a reduction of research and development expenses.

Fair Value of Financial Instruments The carrying amounts of financial instruments, which include cash equivalents, marketable securities, accounts payable and payable to stockholder, approximate their fair values due to their relatively short maturities. The carrying amounts of the notes receivable from stockholders through the dates when they were settled reflect market rates of interest for similar loans of similar amounts and terms available from a third party (see Note 7). The carrying amounts of the senior convertible notes reflect market rates of interest for similar loans of similar amounts and terms to a third party (see Note 9). The senior convertible notes had a carrying value of $111.3 million and $111.8 million and a fair value of $118.8 million and $95.2 million as of December 31, 2006 and 2007, respectively.

Goodwill and Identifiable Intangibles As a result of the merger with AlleCure and CTL on December 12, 2001, as described in Note 1, goodwill of $151.4 million was recorded at the entity level in 2001. Upon adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company adopted a policy of testing goodwill and intangible assets with indefinite lives for impairment at least annually, as of December 31, with any related impairment losses being recognized in earnings when identified. In December 2002 the Company concluded that the major AlleCure product development program should be terminated and that the clinical trials of the CTL product should be halted and returned to the research stage. As a result of this determination, the Company closed the CTL facility and reduced headcount for AlleCure and CTL by approximately 50%. In connection with the annual test for impairment of goodwill as of December 31, 2002, the Company determined that on the basis of the internal study, the goodwill recorded for the AlleCure and CTL units was potentially impaired. The Company performed the second step of the annual impairment test as of December 31, 2002 for each of the potentially

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impaired reporting units and estimated the fair value of the AlleCure and CTL programs using the expected present value of future cash flows which were expected to be negligible. Accordingly, the goodwill balance of $151.4 million was determined to be fully impaired and an impairment loss was recorded in 2002. Subsequent to December 31, 2002, the Company had no goodwill or intangibles with indefinite lives included on its balance sheet.

Property and Equipment Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the term of the lease or the service lives of the improvements, whichever is shorter. Assets under construction are not depreciated until placed into service.

Impairment of Long-Lived Assets The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived-Assets.* Assets are considered to be impaired if the carrying value may not be recoverable based upon management s assessment of the following events or changes in circumstances:

significant changes in the Company s strategic business objectives and utilization of the assets;

a determination that the carrying value of such assets can not be recovered through undiscounted cash flows;

loss of legal ownership or title to the assets; or

the impact of significant negative industry or economic trends.

If the Company believes an asset to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Any write-downs would be treated as permanent reductions in the carrying amount of the asset and an operating loss would be recognized. For the years ended December 31, 2005 and 2006 the Company did not consider any long-lived assets to be impaired based on management s assessment. During the year ended December 31, 2007, asset impairment of approximately $6.6 million was recognized as described in Note 5 Property and Equipment.

Accounts Payable and Accrued Expenses All liabilities, including accounts payable and accrued expenses, are recorded consistent with the definition of liabilities and accrual accounting as provided by FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements.*

Income Taxes In accordance with SFAS No. 109, *Accounting for Income Taxes,* deferred income tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the income tax basis of assets and liabilities. A valuation allowance is recorded to reduce net deferred income tax assets to amounts that are more likely than not to be realized.

Income tax positions are considered for uncertainty in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). The provisions of FIN 48 are effective beginning January 1, 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Our adoption of FIN 48 did not result in a cumulative effect adjustment to retained earnings.

Significant management judgment is involved in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. Due to uncertainties related to deferred tax assets as a result of the history of operating losses, a valuation allowance has been established against the gross deferred tax asset balance. The valuation allowance is based on management s estimates of taxable income by jurisdiction in which the Company operates and the period over which deferred tax assets will be

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recoverable. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, a change in the valuation allowance may be needed, which could materially impact the Company s financial position and results of operations.

Contingencies Contingencies are recorded in accordance with SFAS No. 5, *Accounting for Contingencies.*

Stock-Based Compensation As of December 31, 2007, the Company had three active stock-based compensation plans, which are described more fully in Note 11. On January 1, 2006, the Company adopted the provisions of SFAS No. 123R (SFAS No. 123R), *Share-based Payment*, which is a revision of SFAS No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation.* Prior to January 1, 2006, the Company accounted for employee stock options and the employee stock purchase plan using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*, and adopted the disclosure only alternative of SFAS No. 123. SFAS No. 123R eliminated the intrinsic value method of accounting for stock options which the Company followed until December 31, 2005. Further, SFAS No. 123R requires all share-based payments to employees, including grants of stock options and the compensatory elements of employee stock purchase plans, to be recognized in the income statement based upon the fair value of the awards at the grant date.

Upon adoption of SFAS No. 123R, the Company selected the modified prospective transition method whereby unvested awards at the date of adoption as well as awards that are granted, modified, or settled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123R. Measurement and attribution of compensation cost for awards unvested as of January 1, 2006 is based on the same estimate of the grant-date or modification-date fair value and the same attribution method (straight-line) used previously under SFAS No. 123.

Warrants The Company has issued warrants to purchase shares of its common stock. Warrants have been accounted for as equity in accordance with the provisions of EITF Issue No. 00-19: *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock.*

Research and Development Expenses Research and development expenses consist primarily of costs associated with the clinical trials of the Company s product candidates, manufacturing supplies and other development materials, compensation and other expenses for research and development personnel, costs for consultants and related contract research, facility costs, and depreciation. Research and development costs, which are net of any tax credit exchange recognized for the Connecticut state research and development credit exchange program, are expensed as incurred consistent with SFAS No. 2, *Accounting for Research and Development Costs.*

Clinical Trial Expenses Clinical trial expenses, which are reflected in research and development expenses in the accompanying statements of operations, result from obligations under contracts with vendors, consultants, and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary from contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The appropriate level of trial expenses are reflected in the Company s financial statements by matching period expenses with period services and efforts expended. These expenses are recorded according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. Clinical trial accrual estimates are determined through discussions with internal clinical personnel and outside service providers as to the progress or state of completion of trials, or the services completed. Service provider status is then compared to the contractually obligated fee to be paid for such services. During the course of a clinical trial, the Company may adjust the rate of clinical expense recognized if actual results differ from management s estimates. The date on which certain services commence, the level of services performed on or before a given date and the cost of the services are often judgmental.

Interest Expense Interest costs are expensed as incurred, except to the extent such interest is related to construction in progress, in which case interest is capitalized. Interest expense, net, for the years ended December 31, 2006 and 2007 was $1.7 million and $3.4 million, respectively. Interest costs capitalized for the years ended

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December 31, 2006 and 2007 were $0.1 million and $1.4 million, respectively. No interest was capitalized for the year ended December 31, 2005.

Net Loss Per Share of Common Stock Basic net loss per share excludes dilution for potentially dilutive securities and is computed by dividing loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share for all of the periods presented in the accompanying statements of operations because the reported net loss in each of these periods results in their inclusion being antidilutive.

Potentially dilutive securities outstanding are summarized as follows:

	December 31, 2005	December 31, 2006	December 31, 2007
Exercise of common stock options	4,985,831	6,216,698	6,886,657
Conversion of senior convertible notes into common stock		5,117,523	5,117,523
Exercise of common stock warrants	3,438,776	2,895,332	2,882,873
Vesting of restricted stock units	164,901	776,653	1,359,662

Exit or Disposal Activities SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for the costs associated with exit or disposal activities and EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Costs to Exit and Disposal Activity (Including Certain Costs Incurred in a Restructuring).* SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred and establishes that fair value is the objective for initial measurements of the liability.

Recently Issued Accounting Standards In December 2007, the FASB ratified the EITF consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements,* that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent.,* Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective beginning January 1, 2009 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is evaluating the impact, if any, the adoption of this consensus will have on its results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). These standards will significantly change the accounting and reporting for business combination transactions and noncontrolling (minority) interests in consolidated financial statements, including capitalizing at the acquisition date the fair value of acquired IPR&D, and remeasuring and writing down these assets, if necessary, in subsequent periods during their development. These new standards will be applied prospectively for business combinations that occur on or after January 1, 2009, except that presentation and disclosure requirements of SFAS No. 160 regarding noncontrolling interests shall be applied retrospectively.

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In September 2007, the FASB ratified EITF Issue No. 07-3 *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity s fiscal year that begins after December 15, 2007. The Company is evaluating the impact, if any, the adoption of EITF 07-3 will have on its results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is evaluating the impact, if any, the adoption of this Statement will have on its results of operations, financial position or cash flows

In September 2006, the FASB issued SFAS No. 157*, Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value for accounting purposes, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning January 1, 2008, and the provisions of SFAS No. 157 will be applied prospectively as of that date. In February 2008, FASB Staff Position (FSP) No. 157-2 was issued. FSP No. 157-2 delays the implementation of certain aspects of SFAS No. 157 to January 1, 2009. The Company is evaluating the impact, if any, the adoption of this Statement will have on its results of operations, financial position or cash flows.

3. Investment in securities

The following is a summary of the available-for-sale securities classified as current assets (in thousands).

	December 31, 2006		December 31, 2007	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Auction rate municipal bonds	$ 116,924	$ 116,924		

As of December 31, 2007, the Company no longer held any available-for-sale securities. The Company s policy is to maintain a highly liquid short-term investment portfolio. The contractual maturities for auction rate municipal bonds at December 31, 2006 were between 21 and 39 years. Despite the long-term nature of their stated contractual maturities, the Company had the ability to quickly liquidate these securities. Proceeds from the sale and maturities of available-for-sale securities amounted to approximately $180.2 million, $126.9 million, and $286.7 million for the years ended

December 31, 2005, 2006, and 2007, respectively. Gross realized gains and losses for available-for-sale securities were insignificant for the years ended December 31, 2005, 2006 and 2007. Gross realized gains and losses for available-for-sale securities are recorded as other income (expense). The cost of securities sold is based on the specific identification method. Unrealized gains and losses for available-for-sale securities for all periods presented in the table above were not material.

4. State research and development credit exchange receivable

The State of Connecticut provides certain companies with the opportunity to exchange certain research and development income tax credit carryforwards for cash in exchange for forgoing the carryforward of the research and development income tax credits. The program provides for an exchange of research and development income tax credits for cash equal to 65% of the value of corporation tax credit available for exchange. Estimated amounts receivable under the program are recorded as a reduction of research and development expenses. During the years

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ended December 31, 2005, 2006, and 2007, research and development expenses were offset by $1.7 million, $0.6 million, and $0.8 million, respectively, in connection with the program.

5. Property and equipment

Property and equipment consist of the following (dollar amounts in thousands):

	Estimated Useful Life (Years)	December 31, 2006	December 31, 2007
Land		$ 5,273	$ 5,273
Buildings	39-40	9,566	9,566
Building improvements	5-40	44,041	52,438
Machinery and equipment	3-10	26,623	30,172
Furniture, fixtures and office equipment	5-10	2,923	3,657
Computer equipment and software	3	5,878	7,559
Leasehold improvements		103	205
Construction in progress		20,164	89,657
Deposits on equipment		6,903	4,882
		121,474	203,409
Less accumulated depreciation and amortization		(33,146)	(40,726)
Property and equipment net		$ 88,328	$ 162,683

Leasehold improvements are amortized over four years which is the shorter of the term of the lease or the service lives of the improvements. Depreciation and amortization expense related to property and equipment for the years ended December 31, 2005, 2006 and 2007, and the cumulative period from February 14, 1991 (date of inception) to December 31, 2007 was $7.4 million, $8.5 million, $8.5 million and $47.6 million, respectively. Capitalized interest during the years ended December 31, 2006 and 2007 was $0.1 million and $1.4 million, respectively, and no capitalized interest was recorded during the year ended December 31, 2005.

In December 2007, the Company determined that machinery being built for commercial manufacturing use would no longer be used for this purpose and had no other further alternative use other than for research related to Technosphere Insulin. Accordingly, the Company expensed to research and development the $5.0 million carrying value of the machinery previously included in construction in progress. Additionally, in November 2007, the Company initiated a plan to sell certain manufacturing machines. A charge in the amount of $1.6 million is reflected in the research and development expenses in the accompanying statement of operations for the year ended December 31, 2007 to write down the machines being held for sale to their estimated fair value of $1.6 million. The $1.6 million carrying value of the machines held for sale are included in the prepaid expenses and other current assets caption in the accompanying consolidated balance sheet as of December 31, 2007.

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6. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities are comprised of the following (in thousands):

	December 31, 2006	December 31, 2007
Salary and related expenses	$ 7,255	$ 11,989
Research and clinical trial costs	18,707	11,657
Accrued interest	228	192
Construction in progress	1,929	4,736
Other	6,125	3,521
Accrued expenses and other current liabilities	$ 34,244	$ 32,095

7. Notes receivable from stockholders

The Company issued 110,000 shares of common stock to an executive of AlleCure in exchange for notes receivable, in the amounts of $1.2 million during the year ended December 31, 2000 and $750,000 during the year ended December 31, 2001. The notes bore interest at fixed rates and were payable in five years. The notes were pre-payable at the option of the debtor. The notes were collateralized by the underlying common stock. The executive had no further obligation to the Company under the terms of the stock purchase. During the first quarter of 2003, the executive was terminated by the Company (See Note 13-Commitments and Contingencies Litigation). The note-for-stock transactions have been accounted for as in-substance stock option grants to an employee. The in-substance stock option grants had no intrinsic value as of the transaction dates. The pre-payment feature of the notes resulted in the exercise price of the in-substance stock option being unknown until the notes were paid in full. Accordingly, the Company was required to measure the intrinsic value of the in-substance stock options on the balance sheet date of each financial reporting period. During 2001, the Company recorded approximately $815,000 of stock-based compensation expense, which was included in general and administrative expense, relating to the in-substance stock options. This amount was reversed in 2002 because the in-substance stock options had no intrinsic value as of December 31, 2002. There was no stock-based compensation expense recorded for the in-substance options in 2003 because they had no intrinsic value as of December 31, 2003. The Company recorded approximately $17,000 of stock-based compensation expense relating to the in-substance stock options during the year ended December 31, 2004, which represented the intrinsic value of the in-substance options at year end. This amount was reversed in 2005 because the in-substance stock options had no intrinsic value as of December 31, 2005. In September and October 2005, the principal and interest totaling $1.6 million on the notes issued in exchange for approximately 78,000 of the 110,000 shares of common stock issued became due and payable. The Company pursued collection and, in January 2006, the debtor tendered 143,949 shares as full repayment of the notes in default and the note issued in exchange for 32,000 shares which would have become due in April 2006. These shares were valued at $2.6 million on January 31, 2006 and represented principal and interest due through that date on all notes outstanding. The Company received and cancelled 143,949 shares on January 31, 2006.

During the years ended December 31, 2000 and 2001, the Company issued an aggregate 701,333 shares of common stock to various consultants in exchange for notes receivable aggregating approximately $10.9 million. The notes bore interest at fixed rates and were payable in five years. The notes were pre-payable at the option of the debtors. The notes were collateralized by the underlying common stock. The consultants had no further obligation to the Company under the terms of the stock purchases. The note-for-stock transactions have been accounted for as in-substance stock option grants to non-employees. Since the in-substance stock options were 100% vested and nonforfeitable upon issuance, a measurement date was deemed to have occurred on the issuance date. Accordingly, the Company recorded stock-based compensation expense equal to the estimated fair value of the in-substance options of $8.4 million in 2000 and $15,000 in 2001. These amounts were estimated using the Black-Scholes option

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valuation model and the following weighted-average assumptions: volatility of 100%, term of five years, interest rate of 5.06%. Notes issued in exchange for 699,972 of the 701,333 shares aggregating $10.9 million in principal became due on October 19, 2005. The remaining note for $32,000 was to become due in September 2006. A total of $14.6 million in principal and interest became due and payable on October 19, 2005 and the Company pursued collection. On November 21, 2005, the consultants filed a complaint against the Company in the California Superior Court, County of Los Angeles, *Rollins et al. v. MannKind et al*, Case No. BC343381. The complaint alleges causes of action for breach of certain agreements. On January 19, 2006, the parties mediated and settled the case. Under the settlement, the Company repurchased 620,697 shares from the consultants in full satisfaction of the principal and interest on the notes previously accounted for by the Company as in-substance stock options. These shares were tendered and cancelled on February 3, 2006. The Company also agreed to repurchase the remaining 79,275 shares held by the consultants for $1.4 million in cash. The settlement was reflected as a $1.4 million charge to general and administrative expense in the fourth quarter of the year ended December 31, 2005 with a corresponding amount payable included in accrued expenses and other current liabilities as of December 31, 2005. On February 21, 2006, the Company received and cancelled the 79,275 shares, and paid the purchase price of $1.4 million to the consultants. The complaint was dismissed in its entirety with prejudice.

8. Related-party loan arrangement

On August 2, 2006, the Company entered into a $150.0 million loan arrangement with its principal stockholder, which was amended on August 1, 2007 and replaced with a new loan arrangement on October 2, 2007. Under the new arrangement, the Company can borrow up to a total of $350.0 million before January 1, 2010. From April 1, 2008 until September 30, 2008, the Company can borrow up to $150.0 million in one or more advances, and from March 1, 2009 until December 31, 2009, the Company can borrow the remaining $200.0 million plus any amount not previously borrowed in one or more advances. The Company may not borrow more than one advance in any 12-month period, and each advance must be not less than $50.0 million. Interest will accrue on each outstanding advance at a fixed rate equal to the one-year LIBOR rate as reported by the *Wall Street Journal* on the date of such advance plus 3% per annum and will be payable quarterly in arrears. Principal repayment is due on December 31, 2011. At any time after January 1, 2010, the principal stockholder can require the Company to prepay up to $200.0 million in advances that have been outstanding for at least 12 months. If the principal stockholder exercises this right, the Company will have until the earlier of 180 days after the principal stockholder provides written notice or December 31, 2011 to prepay such advances. In the event of a default, all unpaid principal and interest either becomes immediately due and payable or may be accelerated at the principal stockholder s option, and the interest rate will increase to the one-year LIBOR rate calculated on the date of the initial advance or in effect on the date of default, whichever is greater, plus 5% per annum. Any borrowings under the loan arrangement will be unsecured. The loan arrangement contains no financial covenants. There are no warrants associated with the loan arrangement, nor are advances convertible into the Company s common stock.

Under the previous loan arrangement, the Company borrowed $50.0 million on August 2, 2006 and $20.0 million on November 27, 2006. On December 12, 2006, the Company paid off the total borrowings of $70.0 million following the completion of concurrent offerings of convertible notes and common stock. As of December 31, 2007, there was no balance outstanding or accrued interest related to the $350.0 million loan arrangement.

9. Senior convertible notes

On December 12, 2006, the Company completed an offering of $115.0 million aggregate principal amount of 3.75% Senior Convertible Notes due 2013 (the Notes), including $15.0 million aggregate principal amount of the Notes sold pursuant to the underwriters over-allotment option that was exercised in full. The Notes are governed by the terms of an indenture dated as of November 1, 2006 and a First Supplemental Indenture, dated as of December 12, 2006. The Notes bear interest at the rate of 3.75% per year on the principal amount of the Notes,

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payable in cash semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2007. As of December 31, 2007, the Company had accrued interest of $192,000 related to the Notes. The Notes are general, unsecured, senior obligations of the Company and effectively rank junior in right of payment to all of the Company s secured debt, to the extent of the value of the assets securing such debt, and to the debt and all other liabilities of the Company s subsidiaries. The maturity date of the Notes is December 15, 2013 and payment is due in full on that date for unconverted securities. Holders may convert, at any time prior to the close of business on the business day immediately preceding the stated maturity date, any outstanding Notes into shares of the Company s common stock at an initial conversion rate of 44.5002 shares per $1,000 principal amount of Notes, which is equal to a conversion price of approximately $22.47 per share, subject to adjustment. Except in certain circumstances, if the Company undergoes a fundamental change: (1) the Company will pay a make-whole premium on the Notes converted in connection with a fundamental change by increasing the conversion rate on such Notes, which amount, if any, will be based on the Company s common stock price and the effective date of the fundamental change, and (2) each holder of the Notes will have the option to require the Company to repurchase all or any portion of such holder s Notes at a repurchase price of 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any.

The Company incurred approximately $3.7 million in debt issuance costs which are recorded as an offset to the debt in the accompanying balance sheet. These costs are being amortized to interest expense using the effective interest method over the term of the Notes.

10. Common and preferred stock

Private Placements On August 5, 2005, the Company closed a $175.0 million private placement of common stock and the concurrent issuance of warrants for the purchase of additional shares of common stock to accredited investors including the Company s principal stockholder who purchased $87.3 million of the private placement. The Company sold 17,132,000 shares of common stock in the private placement, together with warrants to purchase up to 3,426,000 shares of common stock at an exercise price of $12.228 per share which became exercisable on February 1, 2006 and expire on August 5, 2010. In connection with this private placement, the Company paid $4.5 million in commissions to the placement agents and incurred $300,000 in other offering expenses which resulted in net proceeds of approximately $170.2 million.

On October 2, 2007, the Company sold 15,940,489 shares of the Company s common stock to its principal stockholder at a price per share of $9.41 and 11,074,197 million shares of common stock to other investors at a price per share of $9.03. The sales of common stock resulted in aggregate net proceeds to the Company of approximately $249.8 million after deducting offering expenses.

Public Equity Offering On December 12, 2006, the Company closed the sale of 20,000,000 shares of its common stock at a public offering price of $17.42 per share and on December 19, 2006, closed the sale of an additional 3,000,000 shares of its common stock at a public offering price of $17.42 per share pursuant to an over-allotment option granted to the underwriters of the offering. Approximately 5.8 million shares were sold to certain of the Company s officers and directors, including 5.75 million shares sold to the principal stockholder. In connection with this offering, the Company paid approximately $15.0 million in underwriting fees and incurred approximately $1.1 million in other offering expenses which resulted in net proceeds of approximately $384.7 million.

Common Stock In May 2007, the Company s stockholders approved an increase in the Company s authorized shares of common stock from 90,000,000 to 150,000,000. As of December 31, 2007, 101,380,823 shares of common stock are issued and outstanding.

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The Company had reserved shares of common stock for issuance as follows:

	December 31, 2006	December 31, 2007
Exercise of common stock options	6,216,698	6,886,657
Conversion of senior convertible notes into common stock	5,117,523	5,117,523
Exercise of common stock warrants	2,895,332	2,882,873
Vesting of restricted stock units	776,653	1,359,662
	15,006,206	16,246,715

Preferred Stock The Company is authorized to issue 10,000,000 shares of preferred stock. As of December 31, 2007, no shares of preferred stock are issued and outstanding.

Registration rights In August 2007, the registration rights of the holders of 17,132,000 shares of common stock together with warrants to purchase up to 2,882,873 shares of common stock, all of which were issued in the August 2005 private placement, expired. All of the warrants remained outstanding as of December 31, 2007.

As of December 31, 2006 the holders of 916,715 shares of the Company s common stock and the holders of warrants to purchase 12,459 shares of the Company s common stock had rights, subject to some conditions, to require the Company to file registration statements covering the resale of their shares or to include their shares in registration statements that the Company may file for itself or other stockholders. All such rights expired on December 1, 2007. Additionally, the warrants to purchase 12,459 shares of common stock all expired, unexercised on December 1, 2007.

11. Stock award plans

As of December 31, 2007, the Company has three active stock-based compensation plans the 2004 Equity Incentive Plan (the Plan), the 2004 Non-Employee Directors Stock Option Plan (the NED Plan), and the 2004 Employee Stock Purchase Plan (the ESPP). The Plan provides for the granting of stock awards including stock options and restricted stock units, to employees, directors and consultants. The NED Plan provides for the automatic, non-discretionary grant of options to the Company s non-employee directors. Awards also remain outstanding at December 31, 2007 under the following inactive plans: the 1999 Stock Plan, the CTL Plan, and the Allecure Plan. There are also options outstanding to our principal stockholder at December 31, 2007 that were not granted under any plan; these options were granted during the year ended December 31, 2002, vested over four years, and have an exercise price of $25.23 per share. The following table summarizes information about our stock-based award plans as of December 31, 2007:

	Outstanding Options	**Outstanding Restricted Stock Units**	**Shares Available for Future Issuance**
2004 Equity Incentive Plan	6,041,576	1,359,662	421,758
2004 Non-Employee Directors Stock Option Plan	447,500		352,500
1999 Stock Plan	122,314		
CTL and Allecure Plan	34,296		
Options outside of any plan granted to principal stockholder	240,972		
Total	6,886,658	1,359,662	774,258

The Company s board of directors determines eligibility, vesting schedules and exercise prices for stock awards granted under the Plan. The NED Plan provides for automatic, non-discretionary grant of options to the

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Company s non-employee directors. Options and other stock awards under the Plan and the NED Plan expire not more than ten years from the date of the grant and are exercisable upon vesting. Stock options generally vest over four years. Current stock option grants vest and become exercisable at the rate of 25% after one year and ratably on a monthly basis over a period of 36 months thereafter. Restricted stock units generally vest at a rate of 25% per year over four years with consideration satisfied by service to the Company. Certain performance-based awards vest upon achieving three pre-determined performance milestones which are expected to occur over periods ranging from 27 months to 42 months. The Plan provides for full acceleration of vesting if an employee is terminated within thirteen months of a change in control, as defined.

In March 2004, the Company s board of directors approved the 2004 Employee Stock Purchase Plan, which became effective upon the closing of the Company s initial public offering. Initially, the aggregate number of shares that could be sold under the plan was 2,000,000 shares of common stock. On January 1 of each year, for a period of ten years beginning January 1, 2005, the share reserve automatically increases by the lesser of: 700,000 shares, 1% of the total number of shares of common stock outstanding on that date, or an amount as may be determined by the board of directors. However, under no event can the annual increase cause the total number of shares reserved under the purchase plan to exceed 10% of the total number of shares of capital stock outstanding on December 31 of the prior year. On January 1, 2006, 2007, and 2008 the purchase plan share reserve was increased by 503,141, 700,000 and 700,000 shares, respectively. In November 2006, the Company s board of directors approved a decrease of 2.6 million shares to the reserve in order to make additional shares available for the Company s December 2006 offerings (see Note 1 Description of Business and Basis of Presentation Public Offerings). As of December 31, 2007, 626,805 shares were available for issuance under the plan. For the years ended December 31, 2005, 2006, and 2007 the Company sold 57,642, 86,093, and 124,011 shares, respectively, of its common stock to employees participating in the plan.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123R (SFAS No. 123R), *Share-based Payment*, which is a revision of SFAS No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation.* Prior to January 1, 2006, the Company accounted for employee stock options and the employee stock purchase plan using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*, and adopted the disclosure only alternative of SFAS No. 123. Accordingly, prior to January 1, 2006, no compensation expense was recorded for options issued to employees with fixed option quantities and fixed exercise prices which were at least equal to the fair value of the Company s common stock at the date of grant. Conversely, when the exercise price for accounting purposes was below fair value of the Company s common stock on the date of grant, a non-cash charge to compensation expense was recorded for the amount equal to the difference between the exercise price and the fair value ratably over the term of the option vesting period. SFAS No. 123R eliminated the intrinsic value method of accounting for stock options which the Company followed until December 31, 2005. Further, SFAS No. 123R requires all share-based payments to employees, including grants of stock options and the compensatory elements of employee stock purchase plans, to be recognized in the income statement based upon the fair value of the awards at the grant date.

Upon adoption of SFAS No. 123R, the Company selected the modified prospective transition method whereby unvested awards at the date of adoption as well as awards that are granted, modified, or settled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123R. Measurement and attribution of compensation cost for awards unvested as of January 1, 2006 is based on the same estimate of the grant-date or modification-date fair value and the same attribution method (straight-line) used previously under SFAS No. 123.

On October 7, 2003, our board of directors approved a repricing program for certain outstanding options to purchase shares of our common stock granted under each of our stock plans. Compensation cost for all options repriced under the repricing program were remeasured on a quarterly basis until the adoption of SFAS No. 123R. For the year ended December 31, 2004, the Company recorded $4.4 million in stock-based compensation expense

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related to the re-pricing program. For the year ended December 31, 2005, the Company recorded a decrease in stock-based compensation expense of approximately $2.4 million relating to the re-pricing program.

Upon adoption of SFAS No. 123R, the Company continues to account for non-employee stock-based compensation expense based on the estimated fair value of the options, determined using the Black-Scholes option valuation model, in accordance with EITF No. 96-18, and amortizes such expense on a straight-line basis. In November 2004, pursuant to assignment agreements with two consultants, the Company issued 200 shares of its common stock under its 2004 Equity Incentive Plan. The Company agreed to issue 99,800 additional shares upon the achievement of certain milestones specified in consulting agreements and for the year ended December 31, 2004, the Company recorded approximately $1.1 million in stock-based compensation expense related to these agreements. In November 2005, 39,800 of the 99,800 shares were issued to the consultants and the Company decreased stock-based compensation expense by approximately $146,000 based on the fair market value of the shares when issued. In September 2007, the next milestone was considered probable and the Company decreased stock compensation expense by approximately $115,000 based on the fair market value of the shares. In October 2007, the milestone was met and 30,000 shares were issued. In December 2007, the third milestone was considered probable of achievement and the Company recognized stock compensation expense of approximately $238,000. In January 2008, the final milestone was met and 30,000 shares were issued. As of December 31, 2007, there were 448,380 options outstanding to consultants.

During the years ended December 31, 2006 and 2007, the Company recorded stock-based compensation expense related to its stock award plans and the ESPP of $14.7 million and $17.6 million, respectively. The following table presents stock-based compensation expense included in operating expenses and the pro forma stock-based compensation amounts that would have been included in the statements of operations for the year ended December 31, 2005 had stock-based compensation expense been determined in accordance with the fair value method prescribed by SFAS No. 123 (in thousands, except per share data):

		Year Ended December 31, 2005
Stock-based employee compensation expense determined under the fair value based method for all awards	$	13,162
Fair value of discount on employee stock purchase plan		290
Total stock-based employee compensation expense	$	13,452
Net loss as reported	$	114,338
Stock-based employee compensation benefit included in reported net loss		1,892
		13,452

Total stock-based employee compensation expense determined under the fair value based method for all awards		
Net loss applicable to common stockholders pro forma	$	129,682
Basic and diluted loss applicable to common stockholders per share, as reported	$	2.87
Basic and diluted loss applicable to common stockholders per share, pro forma	$	3.25

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Total stock-based compensation expense/(benefit) recognized in the accompanying statements of operations is as follows (in thousands):

	Year Ended December 31, 2005	2006	2007
Employee-related	$ (1,892)	$ 14,387	$ 17,513
Consultant-related	164	280	132
Total	$ (1,728)	$ 14,667	$ 17,645

Total stock-based compensation expense/(benefit) recognized in the accompanying statements of operations is included in the following categories (in thousands):

	Year Ended December 31, 2005	2006	2007
Research and development	$ (320)	$ 7,140	$ 9,749
General and administrative	(1,408)	7,527	7,896
Total	$ (1,728)	$ 14,667	$ 17,645

Included in stock compensation expense is approximately $1.2 million in expense related to the modification of stock awards for five individuals during the year ended December 31, 2007. Under the terms of their modification of stock awards, these individuals options that were granted during their association with the Company will continue to vest over their respective modification periods. Due to the nature of the modification agreements, one hundred percent of the incremental expense related to the award modifications were expensed during the year ended December 31, 2007.

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected life of the option is estimated using the simplified method as provided in SEC Staff Accounting Bulletin No. 107 (SAB No. 107). Under this method, the expected life equals the arithmetic average of the vesting term and the original contractual term of the options. The Company also estimates volatility as provided in SAB 107. Under this method, volatility is estimated based on the historical volatility of similar entities whose share prices are publicly available. The Company has selected risk-free interest rates based on U.S. Treasury Securities with an equivalent expected term in effect on the date the options were granted. Additionally, the Company uses historical data and management judgment to estimate stock option exercise behavior and employee turnover rates to estimate the number of stock option awards that will eventually vest. The Company calculated the fair value of employee stock options for the years ended December 31, 2006 and 2007 using the following assumptions:

	Year Ended December 31,	
	2006	2007
Risk-free interest rate	4.54% 4.96%	4.03% 4.80%
Expected lives	6.1 6.6 years	5.9 6.2 years
Volatility	56% 63%	51% 57%
Dividends		

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Prior to January 1, 2006, under SFAS No. 123, the Company estimated the fair value of each stock option at the grant date or modification date, if any, using the Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31, 2005
Risk-free interest rate	3.43% 4.49%
Expected lives	4.0 years
Volatility	100%
Dividends	

The following table summarizes information about stock options outstanding:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2005	4,067,979	$ 12.19		
Granted	1,634,679	12.03	$ 8.14	
Exercised	(304,555)	6.42		$ 1,318
Forfeit	(379,850)	13.04		
Expired	(32,422)	16.02		
Outstanding at December 31, 2005	4,985,831	12.40		
Granted	1,792,525	17.51	$ 10.41	
Exercised	(262,987)	8.79		$ 2,523
Forfeit	(250,216)	13.25		
Expired	(48,455)	17.94		
Outstanding at December 31, 2006	6,216,698	13.94		
Granted	1,639,845	10.48	$ 5.86	
Exercised	(606,833)	8.11		$ 1,252
Forfeit	(252,016)	14.11		
Expired	(111,036)	12.66		

Outstanding at December 31, 2007	6,886,658	13.64	$	381
Vested or expected to vest at December 31, 2007	6,573,773	13.66	$	381
Exercisable at December 31, 2007	3,290,292	14.08	$	381

Cash received from the exercise of options during the years ended December 31, 2005, 2006, and 2007 was approximately $2.0 million, $2.3 million, and $4.9 million respectively. The weighted-average remaining contractual terms for options outstanding, vested or expected to vest, and exercisable at December 31, 2007 was 7.5 years, 7.4, and 6.3 years, respectively.

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A summary of restricted stock units activity for the years ended December 31, 2005, 2006 and 2007 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at January 1, 2005		
Granted	165,354	$ 11.00
Forfeited	(453)	
Outstanding at December 31, 2005	164,901	
Granted	773,713	17.02
Vested	(135,744)	
Forfeited	(26,217)	
Outstanding at December 31, 2006	776,653	16.26
Granted	876,575	9.81
Vested	(202,009)	15.63
Forfeited	(91,557)	13.54
Outstanding at December 31, 2007	1,359,662	12.36

The total fair value of restricted stock units vested during the years ended December 31, 2006 and 2007 was $2.5 million and $1.9 million, respectively. The weighted-average remaining contractual terms for restricted stock units outstanding at December 31, 2007 was 9.0 years. As of December 31, 2007, there were 22,188 restricted stock units outstanding to two consultants.

A summary of the status of the Company s nonvested stock options for the year ended December 31, 2007, is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Nonvested at January 1, 2007	3,462,549	$ 12.96
Granted	1,639,845	5.86

Vested	(1,254,012)	9.83
Forfeited	(252,017)	8.95
Nonvested at December 31, 2007	3,596,365	8.02

As of December 31, 2007, there was $24.1 million and $14.7 million of unrecognized compensation cost related to options and restricted stock units, respectively, which is expected to be recognized over the weighted average vesting period of 2.4 years.

12. Warrants

During 1995 and 1996, the Company issued warrants to purchase shares of common stock. The warrants contain provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event the Company declares any stock dividends or effects any stock split, reclassification or consolidation of its common stock. The warrants also contain a provision that provides for an adjustment to the

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exercise price and the number of shares issuable in the event that the Company issues securities for a per share price less than a specified price. As of December 31, 2004, warrants to purchase 131,628 shares of common stock were outstanding. During the second quarter ended June 30, 2005, warrants to purchase 110,888 shares of common stock were exchanged for 24,210 shares of common stock resulting in stock-based compensation expense of $245,000 based on a fair market value of the common stock of $10.12 per share. Warrants to purchase 8,304 shares of common stock expired during 2005. The remaining warrants to purchase 12,459 shares of common stock at a weighted average exercise price of $12.64 per share all expired unexercised on December 1, 2007.

In connection with the sale of common stock in the private placement which closed on August 5, 2005, the Company concurrently issued warrants to purchase up to 3,426,000 shares of common stock at an exercise price of $12.228 per share. See also Note 10 Common and Preferred Stock Private Placement. These warrants became exercisable on February 1, 2006 and expire in August 2010. During the year ended December 31, 2006, approximately 543,000 warrants were exercised and net settled for approximately 339,000 shares. As of December 31, 2007, warrants to purchase 2,882,873 shares of common stock remained outstanding. In connection with the sale of common stock in the public offering that closed on December 6, 2006, two holders of outstanding warrants to purchase a total of 1,710,091 shares of common stock agreed to amend the terms of their warrants to provide that such warrants would not be exercisable from December 6, 2006 until the date on which the Company has at least 100,000,000 shares of its common stock duly and validly authorized. In May 2007, the Company s stockholders approved an increase in the Company s authorized shares of common stock from 90,000,000 to 150,000,000. Accordingly, as of December 31, 2007, all warrants were exercisable.

13. Commitments and contingencies

Operating Leases The Company leases certain facilities and equipment under various operating leases, which expire at various dates through 2010. Future minimum rental payments required under operating leases are as follows at December 31, 2007 (in thousands):

Year Ending December 31,	
2008	$ 1,693
2009	1,883
2010	768
After 2010	
Total minimum lease payments	$ 4,344

Rent expense under all operating leases for the years ended December 31, 2005, 2006 and 2007 was approximately, $1.1 million, $1.3 million, and $1.5 million, respectively.

Capital Leases The Company s capital leases were not material for the years ended December 31, 2005, 2006 and 2007.

Supply Agreement In November 2007, the Company entered into a long-term supply agreement with Organon pursuant to which Organon will manufacture and supply specified quantities of recombinant human insulin. The initial term of this supply agreement will end on December 31, 2012 and can be automatically extended for consecutive two-year terms under specified circumstances. The Company has made annual purchase commitments through the initial term. If the Company terminates the supply agreement following failure to obtain or maintain regulatory approval of the Technosphere Insulin System or either party terminates the agreement following the parties inability to agree after any regulatory authority mandated changes to product specifications that relate specifically to the use of insulin in Technosphere Insulin, the Company will be required to pay Organon a specified termination fee if Organon is unable to sell certain quantities of insulin to other parties.

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Guarantees and Indemnifications In the ordinary course of its business, the Company makes certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. The Company, as permitted under Delaware law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company s request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. The Company has not recorded any liability for these indemnities in the accompanying consolidated balance sheets. However, the Company accrues for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. No such losses have been recorded to date.

Litigation The Company is involved in various legal proceedings and other matters. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company would record a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

In May 2005, the Company s former Chief Medical Officer filed a complaint against the Company in the California Superior Court, County of Los Angeles, alleging causes of action for wrongful termination in violation of public policy, breach of contract and retaliation. A trial on the claims remaining after pre-trial proceedings began on April 30, 2007 and concluded on June 5, 2007. On June 15, 2007, the Company announced the dismissal of the complaint.

In 2000, the Company issued 699,972 shares of common stock to three consultants in exchange for notes receivable aggregating approximately $10.9 million. The fixed interest bearing notes were collateralized by the underlying common stock. The notes-for-stock transactions were accounted for as in-substance stock option grants to non-employees. In November 2004, the consultants informed the Company that they had entered into an agreement in October 2001 with Alfred E. Mann, the Company s chairman, chief executive officer and principal stockholder, under which Mr. Mann would purchase a portion of the consultants common stock, and that the Company was to apply the proceeds to the amounts owed under the consultants respective notes. The consultants informed the Company that they believed both the Company and Mr. Mann were in breach of the alleged agreement, and indicated their intent to seek alleged damages arising from the Company s failure to perform the alleged agreement. On October 19, 2005, the principal and interest on the notes aggregating $14.6 million became due and payable and the Company pursued collection. On November 21, 2005, the consultants filed a complaint against the Company in the California Superior Court, County of Los Angeles, *Rollins et al. v. MannKind et al*, Case No. BC343381. The complaint alleges causes of action for breach of the above mentioned agreement, among other things. On January 19, 2006, the parties mediated and settled the case. Under the settlement, the Company repurchased 620,697 shares from the consultants in full satisfaction of the notes. These shares were tendered and cancelled on February 3, 2006. The Company also agreed to repurchase the remaining 79,275 shares held by the consultants for $1.4 million in cash. The settlement was reflected as a $1.4 million charge to general and administrative expense in the fourth quarter of the year ended December 31, 2005 with a corresponding amount payable included in accrued expenses and other current liabilities as of December 31 2005. On February 21, 2006, the Company received and cancelled the 79,275 shares, and paid the purchase price of $1.4 million to the consultants. The complaint has been dismissed in its entirety with prejudice.

In September and October 2005, the principal and interest totaling $1.6 million on notes issued in exchange for approximately 78,000 shares of common stock to a former executive of the Company became due and payable to the Company. On December 31, 2005, the 78,000 shares of common stock issued in exchange for the notes receivable had a market value of approximately $878,000.

The Company pursued collection. On January 31, 2006, former executive tendered 143,949 shares as full repayment of the notes in default and an additional note due in April 2006 issued in exchange for approximately

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32,000 shares of common stock. The 143,949 shares were valued at $2.6 million on January 31, 2006 and represented principal and interest due through that date on all notes. The Company received and cancelled these shares on January 31, 2006.

Licensing Arrangement On October 12, 2006, the Company entered into an agreement with The Technion Research and Development Foundation Ltd. (TRDF), an Israeli corporation affiliated with the Technion-Israel Institute of Technology (the Technion) to license certain technology from TRDF and to collaborate with TRDF in the further research in and the development and commercialization of such technology. In exchange for the rights that the Company obtained under this agreement, the Company agreed to pay to TRDF aggregate license fees of $3.0 million and to issue to TRDF a total of 300,000 shares of the Company s common stock. The license fees will be paid and the shares issued in three equal installments. The first installment occurred on October 18, 2006. The second installment was paid on December 3, 2007. The third installment will occur, subject to the accomplishment of certain milestones, on October 12, 2008. The Company has also agreed to pay royalties to TRDF with respect to sales of certain products that contain or use the licensed technology or are covered by patents included in the licensed technology or are discovered through the use of the licensed technology. The Company agreed to pay up to $6.0 million of the royalties in advance upon the receipt of specified regulatory approvals. The Company agreed to pay to TRDF specified percentages of any lump-sum sub-license payments that the Company receives if it decides to sub-license the technology. The Company has also agreed to pay a total of $2.0 million to TRDF in three nearly equal installments to fund sponsored research to be conducted at TRDF by a team led by a faculty member at the Technion. The initial sponsored research payment was made upon signing of the agreement. The second sponsored research payment occurred on December 3, 2007 and the third sponsored research payment will occur, subject to the accomplishment of certain milestones, on October 12, 2008. The Company also agreed to retain the services of the Technion faculty member as a consultant, for which the Company agrees to pay the consultant $60,000 per year and granted the individual an option to purchase 60,000 shares of the Company s common stock. Under the terms of the agreement, the Company issued 100,000 shares of common stock to TRDF on October 12, 2006 and November 29, 2007, respectively. Additionally, $1.6 million in license fees were paid on October 18, 2006 and December 3, 2007, respectively.

14. Employee benefit plans

The Company administers a 401(k) Savings Retirement Plan (the MannKind Retirement Plan) for its employees. For the years ended December 31, 2005, 2006 and 2007, the Company contributed $372,000, $567,000 and $821,000 respectively, to the MannKind Retirement Plan.

15. Income taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when

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uncertainty exists as to whether all or a portion of the net deferred tax assets will be realized. Components of the net deferred tax asset as of December 31, 2006 and 2007 are approximately as follows (in thousands):

	December 31, 2006	December 31, 2007
Deferred Tax Assets:		
Net operating loss carryforwards	$ 220,643	$ 317,939
Research and development credits	7,971	25,677
Accrued expenses	14,509	29,036
Non-qualified stock option expense	7,723	13,175
Depreciation	1,197	1,626
Total gross deferred tax assets	252,043	387,453
Valuation allowance	(252,043)	(387,453)
Net deferred tax assets	$	$

The Company s effective income tax rate differs from the statutory federal income tax rate as follows for the years ended December 31, 2005, 2006 and 2007:

	December 31, 2005	December 31, 2006	December 31, 2007
Federal tax benefit rate	35.0%	35.0%	35.0%
State tax benefit, net of federal benefit			
Permanent items			
Other			
Valuation allowance	(35.0)	(35.0)	(35.0)
Effective income tax rate	0.0%	0.0%	0.0%

As required by SFAS No. 109, management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Management has concluded, in accordance with the applicable accounting standards, that it is more likely than not that the Company may not realize the benefit of its deferred tax assets. Accordingly, the net deferred tax assets have been fully reserved. Management reevaluates the positive and negative evidence on an annual basis. During the years ended December 31, 2005, 2006 and 2007, the change in the valuation allowance was $47.8 million, $96.2 million and $135.4 million respectively, for income taxes.

At December 31, 2007, the Company had federal and state net operating loss carryforwards of approximately $851.2 million and $361.5 million available, respectively, to reduce future taxable income and which will expire at various dates beginning in 2008 and 2012, respectively. As a result of the Company s initial public offering, an ownership change within the meaning of Internal Revenue Code Section 382 occurred in August 2004. As a result, federal net operating loss and credit carry forwards of approximately $216.0 million are subject to an annual use limitation of approximately $13.0 million. The annual limitation is cumulative and therefore, if not fully utilized in a year can be utilized in future years in addition to the Section 382 limitation for those years. The federal net operating losses generated subsequent to the Company s initial public offering in August 2004 are currently not subject to any such limitation as there have been no ownership changes since August 2004 within the meaning of Internal Revenue Code Section 382. At December 31, 2007, the Company had research and development credits of $30.4 million that expire at various dates through 2028.

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The Company has evaluated the impact of FIN 48 on its financial statements, which was effective beginning January 1, 2007. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: The enterprise determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company did not record a cumulative effect adjustment related to the adoption of FIN 48. Tax years since 1992 remain subject to examination by the major tax jurisdictions in which the Company is subject to tax.

16. Related party transactions

The Company issued 8,550,446 shares of its common stock to its principal stockholder during the year ended December 31, 2005 for proceeds of approximately $87.3 million. In connection with this issuance, the board of directors approved the issuance of warrants to purchase 1,710,091 shares of the Company s common stock at $12.228 per share, which expire on August 2, 2010. The issuance of shares and warrants to the principal stockholder was on terms identical to the other purchasers in the private placement, as approved by the Company s board of directors.

During the year ended December 31, 2006 the principal stockholder purchased 5,750,000 shares of common stock at $17.42 per share in the Company s December 2006 equity offering on terms identical to other purchasers resulting in proceeds of approximately $100.1 million to the Company. In connection with the equity offering the Company paid $280,000 in filing fees related to the principal stockholder s filings made pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976. During the year ended December 31, 2006, the Company borrowed $70.0 million from its principal stockholder under the loan arrangement described in Note 8. On December 12, 2006, in connection with the completion of their equity and convertible debt offerings, the Company paid principal and interest of $70.0 million and $1.6 million, respectively, under the loan arrangement.

On October 2, 2007, the Company sold 15.9 million shares of the Company s common stock to its principal stockholder at a price per share of $9.41 and 11.1 million shares of common stock to other investors at a price per share of $9.03. The sales of common stock resulted in aggregate net proceeds to the Company of approximately $249.8 million after deducting offering expenses. Also, on October 2, 2007, the Company entered into a new loan arrangement with its principal stockholder to borrow up to a total of $350.0 million before January 1, 2010. This new arrangement replaced the existing loan arrangement with its principal stockholder to borrow up to $150.0 million through August 1, 2008. See Note 8 Related-Party Loan Arrangement.

Alfred E. Mann, our principal stockholder and chief executive officer, has established the Alfred Mann Institute for Biomedical Development at the Technion (AMI-Technion) to expedite the translation of intellectual property and technology of the Technion into commercial medical products for the public benefit. Over a period of several years, Mr. Mann will establish a $100 million endowment for AMI-Technion. Mr. Mann does not directly or

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indirectly have any interest in TRDF (see Note 13 Commitments and Contingencies Licensing Arrangement).

On January 19, 2006, the Company settled a claim filed by three consultants related to certain notes-for-stock transactions (see Note 13 Commitments and Contingencies Litigation).

In connection with certain meetings of the Company s board of directors and on other occasions when the Company s business necessitated air travel for the Company s principal stockholder and other Company employees, the Company utilized the principal stockholder s private aircraft, and the Company paid the charter company that manages the aircraft on behalf of the Company s majority stockholder approximately $62,000, $212,000, and $105,090, respectively, for the years ended December 31, 2005, 2006 and 2007 on the basis of the corresponding cost of commercial airfare. These payments were approved by the audit committee of the board of directors.

Heather Hay Murren, a member of our board of directors, is the Cofounder, Chair and Chief Executive Officer of Nevada Cancer Institute, a nonprofit organization. Nevada Cancer Institute is currently conducting a clinical trial for the Company through a clinical research organization and was paid approximately $10,000 for the year ended December 31, 2007 by the clinical research organization.

The Company has entered into indemnification agreements with each of its directors and executive officers, in addition to the indemnification provided for in its amended and restated certificate of incorporation and amended and restated bylaws (see Note 13 Commitments and Contingencies Guarantees and Indemnifications).

17. Subsequent events

On January 30, 2008, the Company s board of directors approved an amendment to the 2004 Equity Incentive Plan to increase the number of shares of common stock available for issuance under the plan by 5,000,000 shares.

On February 6, 2008, the Compensation Committee approved a management proposal designed to encourage employee retention. The proposal involved the issuance of restricted stock units to the majority of employees and executive officers of the Company. A total of 1,678,674 restricted stock units were granted under the 2004 Equity Incentive Plan. These units will remain unvested until June 30, 2009, at which point they will fully vest. Stock compensation expense associated with this grant will be recorded on a straight line basis from February 6, 2008 through June 30, 2009 and is estimated to total approximately $11.0 million.

On February 8, 2008, the Company closed a transaction to purchase seven patents and one patent application from Emisphere Technologies, Inc. for $2.5 million. The patents relate to diketopiperazine delivery systems. The purchase price will be paid in three installments. The first payment of $1.5 million towards the acquisition price was paid on February 11, 2008. An additional $500,000 will be paid on the earlier of the filing of a new drug application, or NDA, with the United States

Food and Drug Administration, or FDA for Technosphere Insulin or June 30, 2009. The remaining $500,000 will be paid on the earlier of the final FDA approval of the NDA or September 30, 2010.

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18. Selected quarterly financial data (unaudited)

	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2006				
Net loss	$ (43,559)	$ (54,751)	$ (60,970)	$ (71,268)
Net loss applicable to common stockholders	$ (43,559)	$ (54,751)	$ (60,970)	$ (71,268)
Net loss per share applicable to common stockholders basic and diluted	$ (0.87)	$ (1.10)	$ (1.23)	$ (1.30)
Weighted average common shares used to compute basic and diluted net loss per share applicable to common stockholders	49,787	49,638	49,731	54,684

	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2007				
Net loss	$ (73,141)	$ (71,989)	$ (73,047)	$ (75,013)
Net loss applicable to common stockholders	$ (73,141)	$ (71,989)	$ (73,047)	$ (75,013)
Net loss per share applicable to common stockholders basic and diluted	$ (1.00)	$ (0.98)	$ (0.99)	$ (0.75)
Weighted average common shares used to compute basic and diluted net loss per share applicable to common stockholders	73,388	73,421	73,520	99,605