

Frank Russomanno Comments

Third Quarter, 2006 Results

October 24, 2006

Thanks Brad and good morning.

We are very pleased with the third quarter results as we continue to build a solid platform for growth. Today I want to highlight four points on the quarter including a brief update on Bruce, then I will turn the call over to Paul to review our Q3 financial results.

First is the Memorex acquisition. The contributions from the Memorex acquisition are very much as expected. In addition, the extensive Memorex integration effort that I detailed on last quarter's earnings call continues on track and essentially on schedule. We expect to have the Memorex business fully integrated by the end of the year. This allows us to start 2007 with the Memorex integration behind us.

Second is that we are seeing growth from several different factors. As we indicated in today's release, revenue growth in the Americas was driven by the acquisition as well as growth in optical, LTO tape, and flash products. In Europe, our Moser Baer joint venture, Global Data Media and Memorex, were the significant growth drivers. Our APAC region revenues continue to be soft due to aggressive pricing environments and our greater focus on higher gross margin business. Despite the revenue decline, we did see improvement in operating income.

Magnetic products represents about 38 percent of revenues for the quarter. From a product standpoint our midrange LTO tape continued to grow and we believe we gained market share in the quarter. The midrange market is the largest and fastest growing tape market and represents Imation's largest growth opportunity in tape. We also had a good quarter in data center tape products up slightly from Q2 driven by growth in Sun formats including 9840, 9940 and T10000 as well as IBM's 3592 format. Entry level tape and diskettes both declined as expected.

In Q3'06, Optical products now represent 45 percent of revenue with the addition of Memorex and continued strong growth from Global Data Media. In the quarter, we announced Blu Ray and HD-DVD availability as we start the ramp up of production and introduce this new product into Retail and B2B markets.

Flash and other products represent about eight percent of revenue. USB flash products continue to show significant growth in all regions under both Memorex and the Imation brands. You may have noticed just last week that we introduced Memorex branded flash cards into the European market as we explore this fast growing sector on a regional basis. We see the flash market overall as being potentially a significant growth opportunity for Imation. We will investigate this market to identify the most logical way for Imation to profitably participate.

We recently announced an agreement with ProStor Systems to manufacture, market and sell Imation branded RDX storage systems which is a removable hard disk cartridge and drive for the SMB market.

We will continue to seek and to aggressively pursue growth opportunities in all of our markets.

The third point I want to make is about our cost structure and business model. As has been the case for several years, our growth is coming primarily from products that carry lower gross margins than our traditional magnetic tape. We anticipated this shift and have adjusted our cost structure to be aligned with both the opportunity and business reality this shift represents. The result of those decisions and actions taken in the past can be seen in part, by the record low operating expense ratio of 14.1 percent we achieved in the quarter. This leveragable business model focuses on delivering operating income growth and return on invested capital even with lower gross margins.

Let me emphasize that this management team remains focused on delivering solid business results, exploring additional strategic opportunities and building shareholder value.

Point four, this past August we announced that Bruce Henderson was undergoing treatment for a brain tumor. During the quarter, many of you have asked about Bruce, and some have sent your best wishes to him. Bruce appreciates the messages of support and concern. Bruce has completed a six week course of radiation therapy and we expect to know the results of that treatment in the coming weeks. We'll update you when we have something to report.

Finally, I'd like to remind all of you that we will be hosting an analyst day at our Corporate headquarters in our Discovery R&D Center here in Oakdale on Tuesday, November 14th. We look forward to seeing many of you here in Minnesota on that day.

Now let me turn the call over to Paul Zeller, Imation's CFO.