

Frank Russomanno Comments Second Quarter, 2006 Results July 27, 2006

Thanks Paul:

This morning my comments will focus on two distinct topics: a) our regional performance, and b) an update on the Memorex integration.

Before I go there, I want to point out that earlier this month we celebrated our 10th anniversary as an independent company, which I believe is a significant milestone. As you know, many spin-offs don't last much more than a few years, but Imation has not only survived, by the end of this year, it will have more than doubled the data storage business. From 1997, the first full year after spin, through 2005, while we were divesting seven businesses, our data storage revenue grew from \$777 million to \$1.2 billion, a 6.2% compound annual growth rate. And the focus that we gained as we divested non-data businesses has accelerated our growth. Since 2001, the growth rate has averaged 9.5%. With Memorex we should end this year close to \$1.6 billion.

I am going to start by discussing some of the factors driving our revenue performance both by product and by region and then give you an update on the Memorex integration effort. As Paul mentioned, our revenue in Q2, without Memorex, was essentially flat vs Q2 last year. From a product perspective, we saw growth from:

- LTO Tape Products, especially LTO generation 3
- Optical products from our Global Data Media Joint Venture,
- Flash products, as well as
- Modest growth in Sun StorageTek's 9940 and our distribution of IBM's 3592.

We continue to see growth opportunities in certain tape categories as we continue to take share in midrange, and as the Sun StorageTek T 10000 begins to ramp up. We also recently announced an agreement to jointly develop and launch an extension to the successful Sun StorageTek 9840 drive platform.

We also expect to see continued growth and share gains in optical and flash media, particularly now with the Memorex brand. While it is still early, we are evaluating market opportunities to possibly extend the Memorex brand both geographically and across other new product categories.

While our overall magnetic revenue was down, the declines came in from mature product categories: diskettes, entry level tape and older legacy data center tape formats. I want to remind you that we instituted selective price increases in the first quarter which we believe may have pulled some revenue into the first quarter accounting for some of the softness in Q2 especially in the data center.

Last week, we had our global business leaders in Oakdale for our annual mid-year review. In this meeting, we share ideas and information across regions. In talking with the global team, we remain confident in our 2006 plan and see significant opportunities to continue to grow the business longer term.

Regionally, the Americas led growth driven by incremental Memorex revenues in the US as well as solid growth in Latin America, which currently does not have significant Memorex brand business. We saw growth in Europe, which also benefited from Memorex and continued growth in our Global Data Media joint venture, which is primarily a European based business. APAC, which had little impact from the Memorex transaction, was down slightly from last year primarily due to price erosion.

Now with the regional segment detail Paul discussed, we are providing operating income by region. As you can see, the most profitable region is the Americas, followed by Europe and APAC. The US in particular is the largest single market for our products globally, has the best product mix of tape, optical and flash products and finally Imation's end user focus and channel relationships are stronger with a longer history here in the U.S..

Update on Memorex Integration

Now, I want to give you a brief update on the integration of the Memorex acquisition. We recognize that a successful integration is a key factor in the ultimate success of any acquisition. With all the divestitures that Imation has undergone, this is a team that has a lot of experience at planning and implementing organizational change. While this time we are integrating as opposed to divesting, we have very good processes and proven project management skills and have used those capabilities in the Memorex integration.

As part of the planning process we have been guided by four basic principles:

- What is right for the success of the retail business;
- What is the appropriate cost structure;
- What is right for the people;
- What is required for a public company:

When we announced the acquisition last January, we immediately began planning for the integration of the business into Imation but, as you know, we could not actually begin implementation until after we closed on April 28th. We created an integration team with team leaders from each company assigned to specific areas such as sales and marketing, finance, IT, supply chain and logistics and so on. Those teams -- with the help of others in their organization -- were responsible for identifying more than 285 milestones that needed to be completed in accordance with a timeline for each task. We assigned an experienced project manager full time to monitor the process, follow up with various sub-teams, maintain the master schedule, and report progress to senior

management on a regular basis. Numerous other employees have supported the integration activity without giving up responsibility for their quote/unquote *real* jobs.

While we are not done, I am particularly pleased and proud of the integration team work that has been done to date. We have had no major setbacks, the transition has been relatively seamless and we are very much on track to complete the integration work by the end of this year

To give you some sense of the scale of work that we have undertaken, here are just a few highlights of the integration to date.

We integrated the two organizations in both the US and Europe, with little impact on customer service and maintained all critical customers, moved some key people from Oakdale into positions in sales, marketing and finance to Cerritos, California, the office for our Consumer Division, while retaining key senior sales talent from Memorex.

The combined sales teams could not begin sharing pricing information, terms and conditions or other competitively sensitive information until we had closed. But they wasted no time once we did close, and in the Americas we now have one fully integrated organization for the consumer business under the leadership of Ron Zinke, an experienced Imation business leader and the critical customer responsibility continues under Scott Popovich, who was with Memorex.

In Europe, we are in the process of consolidating into one organization with one combined regional headquarters location and a regional consumer sales team that carries both Imation and Memorex branded products into the market place. We expect this integration to be completed by the end of the year.

Finally, we have started the planning process of integrating the Memorex brand into the Asia Pacific region. Recognizing that there are regional differences in terms of the brand strength of Imation and Memorex, we are moving forward with a product brand strategy in each country that is appropriate for that individual competitive environment.

As far as Supply chain activities are concerned, Imation previously consolidated into one distribution center in the US. With the acquisition, we are moving out of the three distribution centers for Memorex, down to one large distribution center. The net/net of all of these changes is that this one leased facility will meet the needs of the business in the US for both the consumer and commercial/OEM divisions for both Memorex and Imation brands. We expect to be moved in sometime in Q4.

As Paul mentioned in his remarks, we had a requirement to file the Memorex historical financial results and reconciliation to US GAAP, which we filed two weeks ago. This effort has involved both the finance organization and key people in operations from both organizations.

In addition, significant integration efforts involving the IT organization, legal, HR and communications have been accomplished by our teams.

Given the scope of effort we have undertaken and the aggressive timeline we laid out, I believe there has been some slight impact on sales, but we had planned for that, as we laid out in our outlook for 2006 and we are still tracking on our overall plan for the year.

In terms of our balance sheet, we have seen an increase in working capital primarily driven by the addition of Memorex. Our base business inventory levels also show some increase. This is a mainly seasonal inventory increase as we build up consignment inventory for two accounts Back to School promotions.

In summary, the second quarter delivered solid results both in terms of earnings as well as cash flow as the business continues to deliver the projected results. We have a mature and experienced management team that can work on major strategic moves while maintaining discipline and achieving business results.

While there is much yet to be done, we also see lots of opportunity in front of us and the team is very focused on taking advantage of the explosive growth for digital storage capacity. We will also continue to evaluate strategic moves to build value.

With that, I'll turn the call back over to Brad and we'll take your questions.