

DRAFT FPR Q3 COMMENTS

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Thank you, Brad and good morning.

As we said last week when we pre-announced the quarter, our Q3 results were disappointing. But we understand our problem and we will fix it. Our other businesses performed generally as we expected and Paul will get into more detail on the overall results.

Our miss for the quarter was entirely due to the flash business in the US retail market so I want to spend my time discussing the flash business. In most of the rest of the business we had a good quarter, including our flash business outside of the US retail market. In just about all other market segments and regions on the world, we continue to participate in the flash business with an acceptable margin.

Now, I want to take a few moments to answer three key questions that you may have on your mind:

- Why stay in the flash business?
- How do you intend to fix the flash business?
- When will we see the benefits from all the changes?

First, the flash market still represents an attractive growth opportunity for Imation. Today the removable flash market for USB flash, and flash card is estimated to be \$11 billion. It is a market projected to continue to generate solid growth through 2011 -- our strategic horizon.

We have achieved acceptable margins in our flash business in US commercial channels and in commercial and consumer channels outside of the US. I believe that the changes we are making to our flash business will allow us to take advantage of some of flash's growth opportunity, but as a profitable business at acceptable margins. As a result, I expect that Imation will continue to have a meaningful participation in the overall flash market, but it will be more focused and selective.

We clearly need to change how we participate in the flash market, a business that represents less than 10 percent of our worldwide revenues, and has a disproportionately negative impact on our results.

So how do we intend to fix the flash business? By making changes in three key areas:

- First: We are changing how we participate at retail; both in terms of where we compete and on what basis we compete;
- Second: We continue to seek strategic sourcing relationships that change our value chain position;
- Third: We have changed how we manage day-to-day operational activities in the business.

We recognize how important our retail channel partners are to Imation. We have large and valuable business with them across other product categories outside of flash. Also, these same channel partners are part of our future strategy and plans. As we make these changes, we need to continue to work collaboratively, deliberately and thoughtfully with these channel partners.

We will selectively participate in the US market in one of three ways: We will participate with key customers willing to work with us under terms which allow us to make acceptable margins with a continued on-shelf presence in flash – OR -- we will participate on a limited basis in

accounts where we can move product profitably on in & out promotions -- OR -- we could be entirely out of flash at some retail accounts while maintaining our optical and other businesses.

One way to think about our approach here is to recognize that the terms under which we participate in retail work for us in optical, where we have strong brands and the leading market share globally, strategic sourcing relationships and significant channel presence. The flash market in U.S. retail has significant price and cost volatility and we occupy a different position in the marketplace compared with our optical position. So we are ratcheting down our participation in US retail with flash and focusing our effort on those regions, channels and accounts that will enable us to have acceptable margins over time in the markets where we choose to compete.

As we more selectively participate in the US retail market and continue to participate outside of the US where we generate acceptable margins, I expect flash will still represent some portion of our total revenue. As we ramp up the TDK and Memcorp acquisitions, neither of which has a significant flash business, this percentage could vary quarter-to-quarter.

The second change is to fix the flash business in the area of sourcing. We continue to look for strategic sourcing relationships or other ways for us to occupy a different value chain position in the industry. We have been working on this for some time and we remain focused on establishing a different "footprint" in the industry than the one we occupy today as a reseller.

This approach is similar in intent to the move we made with MBI in optical. However, the market structure in flash is very different than what we found in optical media. Flash is a fragmented industry, one company makes chips, another makes controllers and a third assembles them. There are multiple brands, some of them brought to market by chip or controller manufacturers and assemblers. Strategic relationships are difficult and take time to establish in any industry. So it is a challenge, but we continue to work at it. Our plan is to move to a better sourcing model in 2008.

The third change we are making in flash is in the way we operate the business. Several years ago, we gave significant operational latitude to regions which controlled business operations for all products: Regions did their own sourcing and managed their own inventory, they managed pricing, and they had the freedom to create new SKU's,

This model has worked well for us in more stable businesses such as optical media, but given the volatile nature of the flash business and our current lack of leverage as a reseller, it is not viable for Imation.

To address this reality, I decided to consolidate the management of the flash business under a corporate team led by Pete Koehn, our new VP of Operations.

Now centralized flash product management in Oakdale has authority and accountability for:

- Tight constraints on SKUs and SKU proliferation;
- Inventory management and sourcing;
- Purchasing
- Logistics and supply chain.

As a result, we have eliminated independent buys, reduced SKU proliferation and we are reviewing promotions ahead of commitment. Our regional sales organization is focused on being highly efficient implementation organization designed to deliver sales, channel management and regional marketing. I believe all these changes are necessary to manage this volatile business and I will update you on our progress of these changes in the coming months.

So when will we see the benefits?

We are still cautious about Q4 as reflected in our outlook. Paul will get into more detail in a moment, but we have already risk-adjusted our outlook assuming continued pressure in the flash business as we make the changes I've outlined. Having said all that, I believe we will start to see

the benefit in our flash business as we exit Q4. Our restructuring programs in both manufacturing and R&D are proceeding ahead of plan. Each of these actions will contribute to a more positive 2008 and beyond. I firmly believe that the actions we are taking will add significant value for the future.

Finally, we continue to implement our overall strategy, namely transforming Imation into a brand and product management company. The TDK and Memcorp acquisitions contributed positively in the quarter and the integration is proceeding on plan. We are making progress in our strategy as we build strong and differentiated positioning statements for each of our brands. In Q1 '08 we will describe to you in some detail how the Imation, Memorex and TDK Life On Record brands will stand apart across various channels, regions and products. This is a bold and novel approach to bring a classic consumer packaged goods marketing mentality to a consumer technology in a category that has not seen this approach in any significant way before. We are building our strategy on the fundamental principle that brands matter.

With that I'll turn the call over to Paul Zeller, Imation's CFO.