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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Imation Analysis Q4 earnings conference call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions)As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Mr. Scott Robinson, you may begin.

Paul Robinson - *Imation Corp. - Controller & IR*

Thank you, Mimi. Good morning, everyone, and welcome to our quarter four 2010 earnings conference call. My name is Scott Robinson, and I am the corporate controller of Imation, and also now, along with Paul Zeller, our CFO, have responsibility for investor relations. I'm delighted to be your host for today's call, where you'll be hearing from our CEO, Mark Lucas, and our CFO, Paul Zeller. On today's call, we will review our fourth-quarter results, and also provide additional information regarding our future strategic direction. During the discussion of our future strategic direction there will be a live webcast, as indicated in our press release this morning. The webcast can be accessed at ir.imation.com, or streetevents.com. In case your particular firewall does not permit webcasting, we have also posted a copy of our presentation at ir.imation.com.

Before I turn the call over to Mark and Paul for their comments, followed by your questions, I want to remind everyone that certain information discussed on this call that does not relate to historical information may be deemed to constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from any projected results. Risk factors that could cause results to differ are outlined in the press release issued today, as well as our filings with the SEC.

With that, I'd like to turn the call over to Mark Lucas, Imation's CEO.

Mark Lucas - *Imation Corp. - CEO*

Good morning, everyone, and thank you for joining our conference call. In addition to our regular financial discussion today, Paul and I will also look forward to sharing more information about our strategic direction as a technology company focused on opportunities in data storage, protection, and connectivity. We will outline our financial goals, our planned uses of cash, and investment direction designed to return the Company to long-term growth and improved operating margins. But, first just a few comments on our fourth-quarter and full-year 2010.

As we announced in our financial results press release this morning, we finished 2010 with a strong quarter, with $12.4 million in operating income, excluding special charges, and this was our strongest quarter in more than two years. As we look back at 2010, we have made solid progress in building a stronger foundation for the Company. You've heard me talk about our Project Excel, which is our global program focused on operational efficiency. Through this focus we have significantly improved our working capital management, resulting in almost $305 million in cash at year end, an increase of $140 million in one year. We have also implemented a disciplined end-to-end project life cycle management process that enables us to better manage our product portfolio.

In addition to our operational improvements, we have also stabilized gross margins through effective management of our product categories across traditional storage, emerging storage, and electronics and accessories. In traditional storage, our emphasis has been on optimization of our optical and magnetic storage businesses. Last month, for example, we announced a strategic alliance with TDK to jointly develop and manufacture advanced magnetic tape products. In emerging storage, we have focused on secure products, such as Defender line of flash, and hard-drive systems, and our removable hard drive systems that provide scalable storage for small and medium businesses. In electronics and accessories, we have already begun rationalizing low-margin products, such as television and video products, as we focus on higher-margin products in our XtremeMac and TDK Life on Record brands, especially in high-end audio.

Now, I'm going to turn the call over to Paul Zeller, who will provide more of the financial detail on the quarter. After words we will look forward to spending the second part of our discussing our go-forward strategy. Paul?

Paul Zeller - *Imation Corp. - VP and CFO*

Thanks, Mark. Good morning, everyone. I'll be covering several topics this morning, including our fourth-quarter financial results, some comments about 2011, as well as our restructuring program we announced this morning. Later on the call, as part of the strategy review, Mark will be providing our thoughts about financial goals and expectations for 2011 and beyond.

Before getting into the operational aspects of our Q4 results, let me start with a few comments about the various charges we've recorded in the quarter. Our fourth-quarter operating income included $56.2 million in various charges. And, our income tax line, we recorded at $90 million of charges. All but $10 million of the Q4 charges are noncash in nature. Our operating income and earnings per share were significantly impacted by these charges, with our operating loss coming in at $43.8 million, and our loss per share at $3.63. Excluding these charges, our operating income was $12.4 million, and our earnings per share was $0.22 per share. The majority of the charges impacting operating income related to our announcement a couple of weeks ago that we're discontinuing our magnetic tape coating operations at our Weatherford, Oklahoma plant and rationalizing certain product lines.

These charges include the write-down of the building and equipment, as well as severance, which impacted the restructuring line of our P&L. In addition, we recorded inventory charges, which impacted cost of goods sold. We also had some less-significant charges association with our restructuring actions and a charge for the settlement of some litigation. The total of all of these pretax charges was $56.2 million. The net $90 million in charges impacting the income tax line related primarily to a valuation allowance we recorded against our deferred tax asset partially offset by some tax benefits associated with restructuring.

My comments today will focus primarily on our results excluding these charges, and, in that regard, I would like to draw your attention to our release issued this in the morning, which reconciles GAAP to our non-GAAP presentation, and includes some cautionary statements about this pro forma non-GAAP information. Now to some of the details on Q4.

Revenue fourth quarter was $398.4 million. This is our strongest quarter of the year, as expected. The rate of decline was 11.8%, which was in line with the rate we've seen through the first nine months of the year. Optical revenues declined about 17% in the quarter, higher than we had seen in the first half of the year, though down somewhat from the decline rate we saw in the third quarter. We continue to see strong growth in Blu-ray formats, up about 40% year over year, driven by Japan, obviously not large enough, however, to offset the much larger revenue declines in CD and DVD.

Magnetic tape revenues declined at a similar rate as optical, about 17%. Though much improved from decline rates we experienced in 2009, it was up somewhat from earlier in 2010. LTL5 continued to ramp, but other tape formats more than offset these gains. Our emerging storage revenues increased 9% in Q4 versus the prior year. Our growth was negatively impacted by actions we took to rationalize certain external hard disk business. Excluding the HDD, this category grew 23%, driven by strong flash drive, as well as RDX revenues. Electronic and accessory revenues were flat year over year. This category was impacted by our planned rationalization of video products begun in late 2009. If we exclude video, this category grew 12% year-over-year.

From a segment standpoint, our America segment revenues were down 14.5% in the quarter, driven by continuing declines in traditional storage, as well as video products. Europe was down 21.5% year over year, also driven by traditional storage. North Asia revenues grew about 1%, and South Asia revenues were roughly flat. On a worldwide basis, our roughly 12% decline in total revenues came from about a ten-point impact from price erosion and about a two-point impact from lower volumes. Currency translation was not a significant factor. Our gross margins in the quarter were 12.7% to sales, significantly impacted by the charges I discussed earlier, which totaled four point -- $14.2 million. Adjusting for these charges, our gross margins were 16.3% in the fourth quarter. That's flat sequentially, but up a full point year-over-year.

We continued to deliver improved margins in both emerging storage products, as well as electronics and accessories. For the second quarter in a row, both of these categories were in double digits, and while there's much work to do, we like the trends we're seeing. In emerging storage, we saw our strongest margins in our Defender line of flash products and in removable hard disks. These products have demonstrated gross margins in the mid 20s to mid 30s.In electronics and accessories, we saw our strongest margin on the accessories side of the business, where our electronics accessories have been averaging in the upper teens to low 20s as a percent to sales in recent quarters.

We believe the improvements in our growth categories is a solid proof points that our strategy of focusing on differentiated products and using a disciplined product life cycle management process is reaping benefits. In fact, the average gross margin for new products launched in 2010 was in excess of 20%. Our margins were flat year over year in traditional storage and up slightly sequentially. Our traditional storage margins have been in a relatively tight band, ranging from 18% to 20% for the last eight quarters.

Our operating expenses totaled $52.4 million in the quarter. That's down $8.5 million from fourth quarter of 2009, driven by benefits from our cost control actions. Operating income, excluding the charges noted earlier, totaled $12.4 million in fourth quarter at a margin of 3.1% to sales. In dollars and as a percent to sales, these are the highest levels of adjusted earnings we've seen in over two years.

Non-operating income was $900,000 in the fourth quarter. That compares to $1.8 million of expense in the same quarter of 2009. We benefited in quarter four from a gain due to collection of certain notes receivable, which had previously been written offer. As noted earlier, we had a $90 million tax-related charge in the quarter, driven by a $106 million valuation allowance against our deferred tax assets, partially offset by tax benefits associated with our restructuring charges. This deferred tax write-off is driven by accounting rules that require us to write-off these assets when we've incurred multiple years of losses.

With our goodwill and restructuring charges in prior years, combined with the quarter four restructuring charges we just recorded, we triggered this requirement in the US, where most of our deferred tax assets exist. This has not changed the potential value of the future tax deductions and net operating losses that gave rise to these assets, and we continue to believe they have substantial value despite this required accounting adjustment. Excluding these charges, our tax rate would have been 36% in the fourth quarter. On a per share basis, excluding the various charges I just mentioned, we had an earnings per share of $0.22 in quarter four of 2010 and that compared to $0.24 in quarter four of 2009 on the same basis.

Our financial position continued to strengthen in the quarter with cash ending the year at $304.9 million. That's up $48.1 million just in the last quarter and over $140 million for the full year. EBITDA contributed roughly 40% of the annual cash improvement, and working capital contributed about 60%. Other factors generally netted out for the year, with tax refunds on the plus side, especially in quarter four where we received a $17 million cash refund, and restructuring cash payments on the minus side. We successfully managed our day sales outstanding and days of inventory supply down a total of nine days during the year. We're very pleased with the success we've had with our working capital programs. Our working capital also benefited from lower revenues. Our business continued to show its ability to be a positive cash generator. I'd like to continue reminding everyone that our operating income is relatively cash rich, carrying a burden of nearly $42 million of depreciation and amortization for the year, versus capital spending of just over $8 million.

Mark will be covering our long-term financial goals in a few minutes. I'd like to make a few comments about 2011, specifically. We see our revenue decline rates continuing to moderate in 2011, driven by continued growth in emerging storage and electronics and accessories. Having said this, we believe we'll not see growth yet in 2011, given our ongoing plans to rationalize certain low-margin business. In terms of operating income excluding charges, we also expect to see declines, driven by $15 million of incremental OpEx investment we have planned for 2011, and Mark will provide you more details on that in a few minutes. We are providing a greater degree of transparency in regard to 2011 than we have in the past several years. This reflects the stabilization we've seen in our traditional storage business and the increased confidence we have in our strategic direction.

The specific levels of revenue and earnings for 2011 will depend on a number of factors, including the level of decline we ultimately see in our traditional storage markets. We've seen a relatively wide range of decline rates over recent quarters, ranging from the low teens to the upper teens. While we had hoped for a moderation in the decline rates, we know it's prudent to be more conservative in our planning assumption. Second, our revenues and earnings will be impacted by the level of ongoing success we have in continuing to drive growth in emerging storage and in CE and accessories. We're encouraged by our successes in 2010 to continue to drive growth, and this needs to continue and to accelerate in 2011. Third, our revenue, and, to a lesser extent, earnings will be impacted by the degree to which we identify and execute on further product category rationalizations. Finally, our results in 2011 will depend on the degree to which we identify and execute on inorganic actions. As a final comment on 2011, I think it's also important to remember that there is a definite seasonal reality to our quarterly earnings, with the vast majority of our earnings coming in the second half of the year, with much of that in the fourth quarter.

Before handling the call back to Mark, I'd like to provide you some details about the new $35 million restructuring program we announced this morning. In requesting authorization from our Board for this program, which is a comprehensive look at what actions were needed to establish the right platform for our go-forward strategy. The major components of the program include charges to restructure benefit plans, including a long-outstanding defined benefit plan outside the US; charges associated with our global sourcing and distribution network; costs we anticipate as we further rationalize certain product categories; and, finally, we anticipate some costs as we continue evolving skill sets to align with the new strategy. The majority of these costs will require cash and be recorded in 2011.

In summary, we're pleased with the strong finish to the year, especially in terms of our adjusted operating earnings and cash flows. Revenue and margin trends continue to be positive in our growth categories, and we believe the restructuring actions we've announced are the right ones to establish a solid platform as we implement our go-forward strategy.

With that, I'll hand the call back to Mark for a discussion of our strategy. Thank you.

Mark Lucas - *Imation Corp. - CEO*

Thank you, Paul. I'd like to turn now to a discussion of our strategy. You'll note that in our -- in addition to our financial release this morning, we also issued a press release unveiling our strategic direction. It is the direction that leverages our deep data storage core while addressing opportunities for growth in the emerging storage and electronics and accessories. You can follow along with a webcast presentation, "Investing in the Future," using the instructions noted in our press releases this morning.

Looking at the agenda, there are three areas we'd like to cover with you this morning. First, we will identify what we believe is the market opportunity for us. Second, we will discuss the strategies that we are pursuing to capitalize on those opportunities. And, thirdly, we will highlight our financial goals to you going forward.

So, we go to slide four, let's start with the trends we see in the marketplace that present opportunities for Imation, which has the technologies and skills to address. On the left-hand side, you see that, by 2020, the digital universe grows by a factor of 44. The left-hand chart shows the amount of data generated that will outpace available storage, again going to 2020. What this tells us is that data storage continues to be a very good and very important market for Imation.

If we look at the next slide, data protection is becoming more and more of a critical issue. Much of the data that needs to be protected today is simply not being protected. It's a serious problem for organizations when data breaches compromise various kinds of financial, personal, and other information. For example, in 2009 there were more than 220 million records which were exposed in US data breaches. The opportunity for Imation is to develop technologies that protect information stored on all forms of removable media.

Now, let's look at connectivity. It used to be that storage was centered in the PC; that is the yesterday chart you see on the left. That has changed, as the today chart depicts. For example, the number of remote workers continues to climb, as does the number of mobile broadband devices. Content is everywhere, including the clouds. We all struggle with this, and solutions are needed. Towards that goal, we have a very clear vision. We will be a technology company, dedicated to helping people and organizations store, protect, and connect their digital world. We have actually shared this with you back in May. We have refined this strategy, and will now go into a little bit more detail of how we expect to implement against this vision.

Let's look at our product categories. Here, you see how the store protect and connect vision is applied to our three main focus areas; traditional storage, emerging storage, and electronics accessories. Let's explain each one in a little bit more detail. Traditional storage, comprised as optical and magnetic. What we call emerging storage is primarily flash, hard drive, removable hard drive, SSD, and other developing forms of storage. The third product category is our consumer electronics and applications area. This is the way that we run our business, and this is the way that we'll be reporting our business going forward. Above and below these lines, you see how storage protection and connection transcend across the different product categories. Store is very important, and then, above the line, you see protection and connection which will be application-focused differentiation to make our products unique.

As we move on to the next slide, we'll talk a little bit more about each of these categories. First, let's talk about our strategy in traditional storage. Our goal there is to optimize profitability and cash in a declining market. We've said before that revenues in this market are declining, as storage media become more efficient. We have a leading position in magnetic tape. It's estimated at 30% to 35% share worldwide. Our goal is to maximize gross margins and cash returns in this category. Second category is emerging storage. Here, we will be investing in higher growth and margin opportunities. We are participating selectively to commercial and international channels in the flash and removable hard disk categories. We will continue to look at opportunities here on how we differentiate our products and provide unique solutions to our customers.

The third product category is electronics and accessories. We have strong recognition with our Memorex and TDK Life on Record brands, as well as XtremeMac. We plan rationalize low-margin businesses and launch differentiated products, such as the new XtremeMac and TDK Life on Record premium audio lines. They carry higher margins, as well.

If we look at the corporate side, there are a couple strategies we'd like to highlight. First, in 2010, we made important operational improvement and installed a disciplined end-to-end product live cycle management process and this has enabled us to help significantly improve our working capital. These initiatives and others will continue in 2011. And, very importantly, we will be investing in four core product technologies. This is a change from the past, as we were investing our resources in many different areas. We have decided to focus them on four core product technologies, which we'll talk about now. We'll take each of these categories separately, but they are secure storage, scalable storage, wireless and connectivity, and magnetic tape.

Let's first talk about secure storage. There's an increasing and urgent need to keep information secure because the loss of sensitive information can be catastrophic. Our efforts are focused on technologies that authenticate the access to media and encrypting the information. Encryption is only good if the key to encrypt and decrypt is managed properly, so key management is part of our technology development. In addition to keeping information secure on devices, most organizations seek central management of these devices, so the IT administrator has ultimate control over the device and information on that device. Therefore, we are developing central management software to manage secure removable devices.

Now, let's talk about scalable storage. There is a pressing need for storage that can be scaled and backed up at the same time, especially for our small and medium-size business users. Removable hard disk drive offers both scalability and backup capability. Our technology efforts are focus on integrating backup with scalable storage by creating NAS solutions with integrated, removable hard disk drives. As bandwidth to move data improves, small and medium-sized businesses are increasingly seeking easy cloud connectivity, and security is becoming a major concern, so we are working on technology that will make removable hard disk drives secure and cloud connected, leveraging self-encrypted drive technologies.

Let's move to the third area, wireless and connectivity. Different devices, from Smartphones to tablets to DVRs, all are storing and routing information as users seek content wherever and whenever they want. We are leveraging new interfaces and partnering with wireless technology companies to develop differentiated products that enable easy connectivity between devices. Early examples include the TDK wireless headphones using clear wireless audio technology, also the link and wireless EHDD, the ultra-wideband technology.

Our fourth area of technology investment is magnetic tape. This is our core, and this is our legacy. With its lowest cost per gigabyte, tape continues to be the most cost-efficient means of archiving storage long term, and the majority of data being stored globally today still sits on tape. By partnering with TDK, we are focusing on developing the next-generation pigment technology, called Barium Ferrite. This will enable multi-terabyte native capacity cartridges. We continue to innovate in the areas of server writing and cartridge development technology to enable the high storage densities needed for high-capacity cartridges. So, that's our four areas of technology investment.

Let's move on to discuss our financial goals. You can see on page 11, our first goal is to return to top-line growth by the end of 2012. We will also improve our gross margin towards 20% through product differentiation. This, by the way, has been averaging 15% to 16% before charges. We will increase our operating margin to the 4% to 5% level, again compared to an average of 1% in the recent past. We will drive results to organic and inorganic investments. And, very importantly, we will continue to generate operating cash flow.

Now, let's dive into this these a little bit more by product category. In traditional storage, you can see here that we intend to improve our return on invested capital and continue to drive cash flow, holding gross margins in the upper teens. These are declining markets that we have discussed, but we believe there's plenty of runway left to maximize our potential in these marketplaces. The second product category is emerging storage. Here, we plan to invest to create differentiation. We want to increase our flash category revenues, driven by our Defender line; grow our hard disk revenues, driven by removable hard drive systems, while still improving our gross margin to the upper teens or more. The third product category is electronics and accessories. Here, we will be focusing on fewer, higher-margin SKUs. It is our goal to have aggressive growth in the TDK Life on Record and XtremeMac brands and reach combined margins well north of 20%.

Let's move on to some goals for the total Company. What does this mean for next year and beyond? Well, let's start with 2011. Because our plans call for rationalizing some low-margin businesses, revenues will not increase in 2011 over last year, but the rate of decline will moderate. And, because of incremental investment of about $15 million over last year, earnings in 2011 will decrease year over year excluding charges. We have $305 million in cash and we will continue to focus on cash flow. As we look forward to 2012, after the investment year of 2011, we expect revenues to return to growth by the end of that year. Further, we anticipate earnings growth in double digits and -- next year and continuing into the future. Over the longer term, we expect gross margins closer to 20%, operating income profitability in the 4% to 5% range, and a target ROIC of 10% or higher.

But, we cannot accomplish our goals without some investment. The largest part of our organic incremental spend in 2011 is going to be in research, development, and engineering, where we are increasing our investment by 30% to enhance our capabilities. This is an integral part of what we're doing, and, if you look at the pie chart on the left, you can see how we're going to be spending this incremental money. This is investing for the future. On the inorganic side, we expect several transactions to occur in the small to medium-size range; that is, from a few million dollars up to $50 million. As we discussed, our strategic areas for investment are in line with our vision. They will include data protection areas, storage hardware areas, scalable storage, and related software. These acquisitions might be focused on acquiring skill sets, or ongoing businesses.

Another important aspect to describe is our planned use of cash in 2011. I've actually already talked about the first two areas of this slide, both organic investment and acquisitions. The third area is capital spending, which we have pegged at about $10 million, and, then, also restructuring activities, which we have announced and which will total about $40 million. Importantly, we believe that repurchasing stock is an important element of our strategy. Therefore, we will begin again to buy back stock under our existing board authorization, which currently stands at 2.3 million shares.

So, in summary, I want to let you know that I am very, very excited to be here and to be leading this transformation of Imation. The strategy we have put in place today, and which we have just explained, is going to be very integral to our long-term growth and providing long-term shareholder value. We are confident that we can achieve this strategy, and we are very enthused about moving forward.

With that, we will accept questions directed at either Paul or myself.

QUESTIONS AND ANSWERS

Operator

Thank you.(Operator Instructions)Our first question comes from Chuck Murphy of Sidoti & Company, your line is open.

Chuck Murphy - *Sidoti & Company - Analyst*

Good morning, guys.

Paul Zeller - *Imation Corp. - VP and CFO*

Good morning, Chuck.

Mark Lucas - *Imation Corp. - CEO*

Good morning, Chuck.

Chuck Murphy - *Sidoti & Company - Analyst*

Congratulations on the progress you're making, especially with the cash flow.

Paul Zeller - *Imation Corp. - VP and CFO*

Thank you.

Chuck Murphy - *Sidoti & Company - Analyst*

Just a few questions here. First, to start out with the incremental investment, the $15 million, will that be something that's going to be around forever, or is that just a 2011-type event?

Paul Zeller - *Imation Corp. - VP and CFO*

As we look at the categories, Chuck, if you think about them, for the most part, this is incremental investment that has a bit of longer tail on it. When we invest in technology that is something that doesn't -- it's primarily resources, so, we're bringing in new and incremental resources to the Company that I think are needed for the long-term strategy we've laid out. There could some categories in there that would be more transitionary in nature, but, fundamentally, we believe this required investment for the long term. And, as part of how we get that improved gross margin over time moving towards 20%, the leverage ends up being quite significant, we believe, over to the long term for the value we get from investment in technology.

Chuck Murphy - *Sidoti & Company - Analyst*

Got you, okay. And, how much of the $15 million would be expense versus capitalized?

Paul Zeller - *Imation Corp. - VP and CFO*

The $15 million is the expense portion, so that's really an impact to operating expenses in 2011.

Chuck Murphy - *Sidoti & Company - Analyst*

Okay, all right. And, then, could you walk me through how you get to 20% gross margins from where you're at today? Would the gross margin be -- in a 20% corporate gross, what would be the gross margin for traditional, emerging and electronics?

Paul Zeller - *Imation Corp. - VP and CFO*

Well, we've talked about our specific goals in the presentation today of taking, and, first, starting with traditional storage, keeping them stable and in the upper teens range as we look to the future. We think we've shown a solid track record in being able to do that. If you look back of the last two years, it's been pretty tightly banded in 18% to 20% range, and I think that's a pretty strong statement, given some of the market factors we've been facing. And, we think the strategy we announced relative to the magnetic tape business and what we're doing is an important part of that.

If you look to emerging storage, we've made a lot of statements about the type of investments we're going to be making, and every one of those categories represents a higher-margin opportunity. And, as a result, we think we can take this business, which, as you know, had struggled to get even to double digits in not that recent a past, and now the last couple of quarters, it's at least got it into the low teens. We think we can take that into the upper teens or better over time as we change the mix away from being more involved with the commodity side of flash and hard disk to the differentiated categories, like Defender and removable hard disk, RDX.

And, then, in CE and accessories, this is a category where we've been stabilized for the last few quarters, again in the low teens. But all the new product categories we're launching are upper teens or into the 20s as a percent of sales, and we believe, over time, we will bring that mix of the business to be more fundamentally involved with differentiated products and in categories where we can achieve 20% plus gross margins. So, that's really how we see it. 20% plus in CE, approaching 20% or maybe beyond in emerging storage, and just short of that with traditional storage.

Chuck Murphy - *Sidoti & Company - Analyst*

Okay. Got you, that helps. All right. I'll pass it to somebody else for now. Thanks.

Paul Zeller - *Imation Corp. - VP and CFO*

Thanks, Chuck.

Mark Lucas - *Imation Corp. - CEO*

Thanks, Chuck.

Operator

Thank you. Our next question comes from Mark Miller of Noble Capital, your line is open.

Mark Miller - *Noble Capital - Analyst*

Interesting plan. I'm just wondering, could you give us a little more granularity? Do you have any expectations where you might be, say, in 2012, in terms of the percentage of sales from emerging storage products and any guidance there?

Paul Zeller - *Imation Corp. - VP and CFO*

That is -- hi, Mark, by the way. That is the one of the fastest-growing segments that we have. They're a new area in protection and security, and it's rather explosive, Mark, so it's somewhat difficult to say exactly how fast it's growing. If you look at our growth in that category this year, we were in the mid-20s, or pushing 30%. We expect that to continue, if not accelerate, as the whole category explodes. It's now a little less than 15% of the total; it's clearly going up from that year by year. Some of this, of course, depends on the degree to which we rationalize out of some lower margin categories, and where those businesses might be. And, then, fundamentally, as I said, what happens with the traditional storage category. It is a large part of the total Company, as you know, and a little change in the trajectory of that business has quite a bit to do with the mix of the products. But, you're right in focusing on that, because that's a key focus area for us.

Mark Miller - *Noble Capital - Analyst*

In terms of the organic investment, you said R&D is going to grow approximately 30% year-over-year, where is the rest of the investment in? Is that more in SG&A, or where is the rest of the investment money going?

Paul Zeller - *Imation Corp. - VP and CFO*

Well, we laid out kind of a chart in the deck that shows that sales and marketing and really channel investment around the VAR and OEM channel, and as you look at that category, the reason for that investment is our product category investments in things like emerging storage require a bit more of a solution sale and a little bit more sophisticated selling effort, and we're investing in the selling resources necessary to drive that. In addition, we have a pretty fast change in dynamic business model, and we're making some investments on the IT side to help drive better decision making. And, then, we're making some investments in international expansion.

Mark Miller - *Noble Capital - Analyst*

Just wondering, in terms of the linearity of the investment and also the restructuring expenses, are they going to be linear throughout the year, or more in the latter end of the year, or the beginning?

Paul Zeller - *Imation Corp. - VP and CFO*

Well, we're aggressively implementing those spending plans because they're critical to our long-term success. There'll be some level of ramp-up throughout the year, but, for the most part, we're going to be adding them in the earlier part of the year. And, in terms of the restructuring itself, that, again, is also going to happen sometime in the earlier part of the year. Some of it will spread throughout the year. There's a number of facets to that program that we announced today. On the earlier program, the one related to the manufacturing facility, that will be implemented by end of first quarter, into early second quarter, in terms of when the facility actually shuts down. But, the new restructuring program will start -- it has already begun, essentially, and it will continue through throughout the year.

Mark Miller - *Noble Capital - Analyst*

And, finally, in terms of cash, you're excellent cash generation this year, where do you think you'll end 2011 cash? Higher, lower, or if lower, how much?

Paul Zeller - *Imation Corp. - VP and CFO*

That's going to depend quite a bit on how many inorganic opportunities exist and then what we execute on relative to that. We do have some uses of cash we've outlined today. That includes $40 million for restructuring. Clearly, that'll have a near-term impact. I think it's important to remember, as I'm sure you know, that there is a solid EBITDA in the Company that starts with the first dollar of revenue, and our -- sorry -- the first dollar of operating income with something around $40 million of D&A, and we're very focused on continuing to improve working capital. There are some investments going on in the year, as we talked about, and there's an open question in terms of how much inorganic action there is. So, that's a little difficult to answer, it sort of depends on some of the factors I just mentioned.

Mark Miller - *Noble Capital - Analyst*

I think you mentioned -- I'm just wondering if you could give us a ballpark figure for some of the inorganic? Are we looking at millions, tens of millions, or closer to $100 million in terms of investments, or are these going to be more like in the tens of millions, in terms of organic -- inorganic acquisitions?

Paul Zeller - *Imation Corp. - VP and CFO*

Mark, we're going to be looking at several different types. For example, there are skill sets that we think we can accelerate our involvement with by acquiring skill sets. Those would tend to be smaller. There may be areas that are emerging technologies in the protect or secure area that might have some ongoing business potential that might be a little bit more. But, we are not looking for a large transformational acquisition. We're looking for a series of smaller acquisitions that will help bolster our growth into the areas that we've described.

Mark Lucas - *Imation Corp. - CEO*

And, as you heard, Mark, we signaled a range from a few million to as high as $50 million, so, in general, it would be in that range.

Mark Miller - *Noble Capital - Analyst*

Okay, thank you.

Paul Zeller - *Imation Corp. - VP and CFO*

Thank you.

Operator

Thank you. (Operator Instructions)Okay, we have a follow-up question from Chuck Murphy of Sidoti & Company, your line is open.

Chuck Murphy - *Sidoti & Company - Analyst*

Hello, again, guys. So, in terms of the gross margin improvement, if I'm just comparing 2010 to 2009 on a pro forma basis, we went from 15.7% to 16.5%. Is that kind of the annual progress you expect to make in the future, or would it be slower, or faster?

Paul Zeller - *Imation Corp. - VP and CFO*

Yes, again, there's -- we're not getting into real specifics on how we get there for the factors I laid out, Chuck. There's a lot of moving parts. We improved between 2009 and 2010 in the categories we'll continue to improve in, and that is in emerging storage and CE and accessories, because, again, it was very flat year over year in traditional storage. It'll depend, again, to the degree which we drive growth in those new categories, because that'll change the mix in terms of our long-term gross margin improvement. So, it'll happen over time, and I think we've been encouraged by the first stabilization in our gross margin after seeing declines for a number of years, and now we think we've reached the bottom and we're going to be able to increase it over time.

Chuck Murphy - *Sidoti & Company - Analyst*

Got you. Okay.

THOMSON REUTERS

Paul Zeller - *Imation Corp. - VP and CFO*

We wanted --

Chuck Murphy - *Sidoti & Company - Analyst*

Go ahead, Mark.

Paul Zeller - *Imation Corp. - VP and CFO*

One proof point, Chuck, is that the -- when we looked at all of the new products that we introduced in 2010, on average, they all met or exceeded 20% gross margin on average. So, the products that we're introducing are driving the Company to a higher gross margin. As Paul said, it's depending on how fast they grow and how big a piece of the mix they become over time.

Chuck Murphy - *Sidoti & Company - Analyst*

Got you, okay. So, if I were to sum up the financial outlook for the next year-and-a-half or so, it's kind of that sales will be down a little bit, but the gross margins would be widening, and then you also have the additional OpEx investment. But, the thought is, in the back half of 2012 into 2013, that, hopefully, the sales and the gross margins would start to more than offset the additional OpEx investment? Is that kind of accurate?

Paul Zeller - *Imation Corp. - VP and CFO*

Yes, I think by the -- as we get to the end of 2012 we're going to see top line start growing. I think as we get to 2012 as a year, we need to be growing operating income over 2011, driven by the factors you talked about.

Chuck Murphy - *Sidoti & Company - Analyst*

Okay. All right, that's all I had. Thanks.

Paul Zeller - *Imation Corp. - VP and CFO*

Thank you.

Mark Lucas - *Imation Corp. - CEO*

Thank you.

Operator

Thank you. We have a question from Mark Miller of Noble Capital, your line is open.

Mark Miller - *Noble Capital - Analyst*

Just like to go back to the last quarter and some of the trends you're seeing. AMC and Intel, others, are all reporting strength in corporate IT spending, I'm wondering if that's showing up in your data center results? And, also, in terms of the price erosion, was there some moderation there, or was that somewhat better than you thought, or was that inline?

Paul Zeller - *Imation Corp. - VP and CFO*

Well, starting with the latter point, our price erosion on average -- and it's, of course, averaging across a bunch of product platforms all over the world -- was about 10% and that's in the range we tended to see quarter to quarter over time. In terms of IT spending, we think the opportunity exist for that to positively impact our business going forward. There's a lot of moving parts in terms of how it impacts our business in any given quarter. We didn't see a better reality in tape in fourth quarter. Our decline rate was 17%, and it was a bit higher than we've seen. The units -- if you think about the data center, the units are looking quite good. There continues to be LTO encroachment into the data center, which is a bit of an offset, so we have this continuing mix issue that impacts us. I think it's a good and positive sign that data center spending is improving, and we're seeing that in terms of units. It's just, overall, it's not flowing down to revenue at this stage.

Mark Miller - *Noble Capital - Analyst*

And, just last two questions. The situation in Europe, you kind of got hit harder there and I know the consumers been weak. Do you see any signs that that's coming back? And, then, finally, you mentioned there was a gain on a note write-off, could you give us the amount of that gain last quarter?

Paul Zeller - *Imation Corp. - VP and CFO*

Let me again start with the last one, and I'll hand it back to Mark on the Europe question. It was about a $2 million benefit in non-operating in the quarter.

Mark Miller - *Noble Capital - Analyst*

Okay.

Paul Zeller - *Imation Corp. - VP and CFO*

Which is why we were in the income direction versus having been in expense in the past.

Mark Lucas - *Imation Corp. - CEO*

In terms of Europe, Mark, yes, Europe is very challenging to us. It's the overall business structure that we're looking at there. We have taken many, many actions to restructure the business that are already been announced or in place and are in process right now. We are optimistic that we're getting ahead he of the curve there, and that we're -- to our reskilling of sales people, marketing people, and so forth, that we actually will have a pretty strong foundation moving forward.

Paul Zeller - *Imation Corp. - VP and CFO*

The one thing to remember, Mark, about our European business is it's more centric around commercial storage. We don't have the same consumer brand presence in Europe that we have in the other regions. The acquisition of Memorex wasn't as impactful in Europe. The acquisition of TDK was important, but wasn't a number one brand, like it is in Japan, and like Memorex is in the US and Imation is in Asia -- South Asia. So, some of the trends and the issues we've seen in our traditional storage impact us more in Europe because they're a greater part of our mix.

Mark Miller - *Noble Capital - Analyst*

Thank you.

Operator

Thank you. Our next call comes from Richard Greenberg of Donald Smith & Company, your line is open.

Richard Greenberg - *Donald Smith & Company - Analyst*

Two topics, if you could address. The 2.3 million share buy back is roughly $25 million, which is less than 10% of your cash, and it's less, probably, than you're planning on doing in inorganic growth, or some of your other strategies. So, is that it, or is this just restarting it and you could see upping that amount after you finish it? And, I guess the second topic is, the acquisitions you're planning on making probably are going to involve a lot of good will and intangibles, that's just the nature of the type of companies you're going to be buying, and we just went through a cycle of this Company making acquisitions and writing off goodwill, which is how most acquisitions land up at the end of the day is goodwill and intangibles, or get written off and there's a lot of disappointment. So, is there any assurance that you can give us that we're not going to see $50 million, $100 million goodwill added to the balance sheet, and we're not going to go through the same destruction of tangible equity that we just went through?

Mark Lucas - *Imation Corp. - CEO*

Richard, let me start with your question on share buy backs. What we announced today was specifically restarting our repurchases under the current authorization, that really is the message we're giving for today. It's not saying we will or won't increase that authorization should we get to the end of it. We do think it's an important message to say we're investing in our stock and we think it's an important part of the overall cash utilization strategy.

Richard Greenberg - *Donald Smith & Company - Analyst*

Okay.

Paul Zeller - *Imation Corp. - VP and CFO*

In terms of our acquisitions, Richard, we believe we have a very strong strategy here that will enable us to move forward we have, basically, a new executive team here. Five of my eight direct reports are new, and we are totally aligned in our direction and are cascading our objectives to the organization worldwide. This team brings significant new skill sets to the Company, but, at the same time, we're leveraging our past core competencies. So, I have a very high degree of confidence that as we move into these acquisitions we will learn from our past lessons and not make the same judgment errors.

Richard Greenberg - *Donald Smith & Company - Analyst*

Okay. Thanks.

Paul Zeller - *Imation Corp. - VP and CFO*

Thank you. Thank you. Our next question comes from Rick D'Auteuil of Columbia Management, your line is open.

Rick D'Auteuil - *Columbia Management - Analyst*

Yes, it's Rick D'Auteuil, just a couple of things. So -- and you may have addressed this, so I apologize if you've already covered it, but the TDK partnership announced with the closing of your Oklahoma facility, are those mutually exclusive from all of the announcements you made today, or is there something imbedded in today's announcements that also include some of the actions taken related to that?

Paul Zeller - *Imation Corp. - VP and CFO*

Really, they're separate, in the sense that the restructuring charges you saw in fourth quarter, part of the $56 million in total charges we recorded were principally driven by that action, and, for the most part, all of the charges now have been booked in fourth quarter. There's a very small amount that continue, but it's relative minor. The incremental restructuring program we announced today is a broader and structural thing that has a number of elements to it, including benefit plans and distribution, and, really, you can think about it as really establishing the right go-forward foundation as we implement the strategy we talked about. So, those charges are pretty much coming in 2011, and versus the plant-related charges, which were primarily noncash, the go-forward are primarily cash. So, two different programs, two different natures to them.

Rick D'Auteuil - *Columbia Management - Analyst*

Okay. And, then, separately, when discussing the new products impact on gross margins, just trying to understand the product life cycle of a new product and the corresponding margin over time, and to the extent there's degradation, how quickly that falls off. So, today, 2010's new products you said averaged over 20% gross margin. What will they likely average one year, two years, three years? And, my sense, is you probably need to be on the old treadmill where you're constantly replacing even those products with new products to stay -- to maintain margins at that 20% rate?

Paul Zeller - *Imation Corp. - VP and CFO*

Okay. You're absolutely right, and one of the big things we've done this last year is to create a very vigorous product life cycle management process. What this entails is putting together roadmaps of our products over the -- what we expect the life of that product to be, and that could be as short as six months, up to five or six years, for some of our magnetic tape storage products. As we look at that roadmap over the life cycle of that product, we try to anticipate potential price erosion in the marketplace, and look at how over that time we can bring the cost of that product down to us, so that the margins remain relatively stable, or potentially even increase. So, because of the very short product life cycle, our development time is also short. So, we scramble to get products to market place very quickly, not necessarily always realizing initially the efficiencies that we can ring out of it later.

So, we launch the product, and we immediately initiate cost reduction programs to get the cost of that product down and get ahead of the margin curve. And, this is a relatively new process to this Company, but one we've embraced, brought people in to manage. We've beefed up our staffs in both Taiwan and Hong Kong. We've changed our supplier base. We've brought new marketing people in, and we're really excited about how we're managing this and the potential going forward.

Rick D'Auteuil - *Columbia Management - Analyst*

So, is your -- just to drill down a little bit. So, is the expectation that as you ring out the inefficiencies and you re-engineer the products that maybe you can maintain a new products gross margin for multiple years, knowing that there's going to be price erosion?

Paul Zeller - *Imation Corp. - VP and CFO*

Potentially, yes. Every product is a little bit different, but when we say potentially years, some products only have a life cycle of 12 months and, if we find that the margin is eroding too fast, and we can't reduce the cost then we discontinue it, and that's why the have an end-of-life that we look at every month, too. So, I think the main message here is that we get it and we're now managing and will do so very aggressively to keep the margins up.

Rick D'Auteuil - *Columbia Management - Analyst*

So, what percent of revenues do you expect to be in that new product bucket, I guess, since that's going to be your -- the focus on the higher margins that we need for the mix to work out to 20% overall.

Paul Zeller - *Imation Corp. - VP and CFO*

It's going to be increasing over time. As we started last year with this new process, it was not as big as I'd like it to be, but, obviously, to get the Company up to 20% the mix of these new products has to grow significantly, and that's our goal.

Rick D'Auteuil - *Columbia Management - Analyst*

Okay, thank you.

Operator

Thank you. I'm showing no further questions in the queue at this time. Mr. Robinson, back to you.

Paul Robinson - *Imation Corp. - Controller & IR*

Yes, I think Mark will just close with a few parting comments.

Mark Lucas - *Imation Corp. - CEO*

Want to thank you for your attention this morning. We laid out a clear direction for Imation and will be very focused now on execution. We need to improve our gross margins, our profitability, and get back to a path of growth. I am very confident the strategies we shared with you today will us there. I'm excited, my team is fully on board and engaged, and we are already moving. This is a journey and our commitment to reach our goal has never been higher. Thank you again for your time today.

Operator

Thank you. Ladies and gentlemen, this concludes the conference for today. You may all disconnect and have a great day.
