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IMN - Q3 2015 Imation Corp Earnings Call

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PRESENTATION

Operator

Good morning. My name is Miriam, and I will be your conference operator today. At this time, I would like to welcome everyone to the Imation Corp., Q3 2015 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session.

(Operator Instructions)

Thank you.

I would now like to turn the conference over to Mr. Scott Robinson, Chief Financial Officer. You may begin your conference.

Scott Robinson - Imation Corporation - CFO

Thank you, Miriam. Good morning, everyone, and thank you for joining us today for our third quarter 2015 earnings call. I am your host for today's call and I'm joined by Interim's CEO, Bob Fernander. We will review our third quarter results and provide an update on our strategic activities.

Before that though, I'd like to remind everyone that certain information discussed on the call that does not relate to historical information may be deemed to constitute forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. Such statements are subject to risks and uncertainties that could cause results to differ materially from any projected results. Risks factors that could cause results to differ are outlined in the press release issued today, as well as our files with the SEC.

With that, I will turn the call over to Bob Fernander.

Robert Fernander - Imation Corporation - Interim CEO

Thank you, Scott. Good morning everyone. Following my appointment as Interim CEO in October I am pleased to be leading my first earnings call today. We've accomplished a great deal during the quarter, and now we made the decision to accelerate our strategic transformation by beginning the process of winding down the non-European operations of our legacy businesses and ending our long-term license agreement with TDK.

We also announce the strategic and highly complementary acquisition of Connected Data and emerging enterprise-class, private cloud, Sync and Share Company. We believe Connected Data will be a significant contributor to shareholder value creation as it puts Imation's product roadmap on trend addressing a significant need articulated by enterprises today.

Furthermore we communicated our strategy using the Company's excess cash which involves considering acquisition opportunities outside of Imation's historical focus to diversify our business activities.



In addition to building upon our storage assets as demonstrated by the Connected Data transaction putting Imation excess capital to use as a key element of boosting shareholder value, something that remains our top priority.

These strategic initiatives which will - we will discuss in greater detail later in call have caused some clocking us in this quarter's financial results. The wind down of our non-European legacy operations and overall revisions in the Company's strategy resulted in increased cost associated with inventory write-off, accounts receivable write-offs and special charges.

In summary during the quarter we booked \$113.9 million in special charges consisting of \$40.2 million in restructuring and other charges, intangible impairments of \$37.6 million and goodwill impairments of \$36.1 million. The goodwill and intangible asset impairments were the result of a change in strategy and revise product portfolio.

It's important to note that the decisions that led to the increase in special charges from the year ago period we are necessary to position Imation is a more competitive company capable of continued growth and success. We appreciate your patience while the newly constituted Board and Management team divides the Company's go forward plan and were confident we are on the right path towards creating a stronger more competitive enterprise that is well-positioned to deliver long-term profitable growth.

With that said, I'd like to take some time to review the Company's Q3 performance across our two business segments, Consumer Storage and Accessories CSA and Tiered Storage and Security Solutions TSS. Before turning the call over to Scott who will walk through the numbers in detail, I'd like to go through this. As mentioned before our key financial metrics specifically revenue and gross margins were impacted by one-time items associated with the Company's restructuring activities.

TSS revenue declined 26% compared with the same period last year due to a 32.6% decline in our commercial storage media revenues and a 13.6% decline in our storage and security solution revenues. The decrease was primarily driven by inventory and accounts receivable write-offs taken as a result of our announcement in certain sales and operations in the commercial storage media business.

While TSS gross margins on decreased by 0.9% compared with the same period last year in the nine months ended September 30, 2015. We saw TSS gross margin increased by 100 basis points to improve sourcing costs, lower discounts and our product mix moving towards the higher margin elements of our storage and security solution products.

As highlighted by our Connected Data acquisition we will continue to refine our portfolio to focus on higher margin products that target high growth markets, which could reestablish Imation as a technology innovator.

Revenues for CSA, which continues to shrink as part of our overall business due to the continued focus on expanding our TSS segment decreased 26.3% compared with the same period last year. This was due in part to the ongoing decline in sales of optical media products along with negative foreign currency impact, as we derived the majority of our CSA revenue outside the U.S.

Foreign currency exchange rates negatively impacted total Q3 2015 revenues by 7% compared with Q3 2014. I will now spend a few minutes providing an update on our corporate restructuring. We've taken a series of actions designed to accelerate our strategic transformation in order to reestablish Imation as a more competitive company that focused on maximizing the value of our storage business.

We're winding down the non-European operations of our legacy businesses and we are ending the long-term license agreement with TDK Corporation. Exiting certain legacy businesses will improve our near term financial performance and allow us to leverage the cash from the wind down to reinvest in our TSS segment, which is the foundation of our future growth.

We expect our corporate wide restructuring to be mainly completed by the end of Q1 2016. As part of the TDK agreement, TDK has transferred to Imation approximately 6.7 million shares of Imation common stock that TDK previously owned. The transaction officially closed on October 29, this move follows last quarter's announced sale of our Rdx storage product line to Sphere 3D for approximately \$6 million.

We continue to work with our Chief Restructuring Officer, Barry Kasoff and our restructuring team to drive change within the Company. We are also exploring strategic alternatives to maximize shareholder value including but not limited to divestitures of its non-core and non-operating assets.

Once the wind down is complete the streamlined business should be operating at breakeven on a run rate basis as we exit the fourth quarter of 2016. Also following the formation of the strategic alternatives committee in August, we recently announced that we will actively explore new alternative uses for our excess capital, this includes deploying the Company's capital by acquiring and investing in businesses we can actively manage and oversee.

The committee concluded the Company's initiative should not be limited solely to the Company's areas of historical focus and that the Company should consider opportunities to diversify its business activities, this gives us more flexibility to execute our restructuring and build our storage assets deploying excess capital with the goal of growing shareholder equity.

I will lead the evaluation and deployment of capital in conjunction with the strategic alternatives committee. We're all looking for opportunities to apply our teams investment and operating expertise to generate profits. A great example of this evaluation and deployment of capital is our recently announced plan to acquire Connected Data, which places us at the forefront of one of the fastest-growing and most important sectors of technology.

Connected Data produces transporter and enterprise class private cloud sync and share line of appliances that offer secure on premise and cost-efficient alternatives to Dropbox and box. Transporter solutions allow corporations to use existing storage infrastructure to achieve high performance cloud functionality by delivering public cloud features without the expense or security compromises of cloud services.

Transporter can be scaled and integrated with existing Imation product lines and the Connected Data product line will be able to leverage the existing Nexsan sales infrastructure and channel relationships to boost sales and create a more comprehensive product offering.

Connected Data puts our product roadmap on trend and boost the enterprise value of all of our storage businesses. Connected Data is projected to have over \$7 million in standalone revenues in 2016 and the transaction will be immediately accretive to Imation. As part of the acquisition Geoff Barrall Connected Data's founder and CEO will join our executive leadership team as Chief Technology Officer.

Geoff is an exceptional business builder and technologist and inventor and Imation is fortunate to bring him on as an executive overseeing all of our storage strategies and development. We're witnessing an increasing global demand for cost-efficient site replication and secure file synchronization to mobile devices and Connected Data's alignment with Imation secure data movement architecture will allow us to deliver industry-leading private cloud solutions.

Imation's vision provides organizations a holistic approach to actively managing their high-value files while protecting them from tampering, destruction, loss or leakage through the entire lifecycle. This empowers the end-users to manage their own policy for protecting their high-value data in addition to enabling organizational control and management policies. It also addresses the need to safeguard data files throughout the lifecycle.

Another part of our strategy is to continue to innovate, enhance and maximize our award-winning product portfolio with over 50 years experience and a comprehensive secure product portfolio and protecting data for organizations around the world Imation has a unique perspective on the risks organizations face in managing the files.

In our Nexsan business, we entered into partnership with Arrow Electronics a global distributor of enterprise computing solutions. Arrow has agreed to distribute Imation's Nexsan product portfolios throughout the United States and Canada extending Imation's coverage and reach in line with the Company's growth objectives. We also added a new feature on Imation locking key to Imation's Nexsan Assureon product. As today's workforces become more mobile, the risk of data being illegally accessed destroyed or stolen increases significantly. Using locking key organizations can enhance their security strategies.

With data growing at an exponential rate, storage solutions continue to use the largest capacity drives available. To support that the E-Series product family has expanded its feature set to reduce the rebuild times necessary to replace a failed drive. In response to increasing demand within enterprise class accounts Connected Data has added a new 500 user appliance increasing storage capacity as well as the number of users served.

The product and engineering teams continue to work closely with existing customers and prospects to deliver compelling features to the solution including audit logs and updated apps from all mobile platforms. Q3 saw the addition of 34 new customer wins including the largest multisite win today coming from the construction vertical. We are seeing great traction with Windows To Go devices reflecting the IT pain point of building secure mobile workforce solutions. IronKey is leading the market and global sales of secure Windows To Go offering enterprises a secure affordable solution to outfit their mobile employees and contractors with Windows Workspaces.

IronKey Windows To Go solutions can equip up to 20 mobile workers for the cost of a single laptop without relinquishing IT's control over the Windows work environment. The accelerated adoption of Windows 10 is driving a growing number of large enterprises to evaluate Windows To Go as an integral part of enabling their mobile workforce. We are seeing increased deployments of our IronKey encrypted bootable Windows To Go USB device at Global 500 companies major federal and international government agencies as we are able to affordably provide superior security and centralized management capabilities.

Lastly, I would like to note that our IronKey Workspace W700 earned a Gold Stevie award in the hardware computer and peripherals category. The IronKey Workspace W700 was honored for its ability to equip employees, partners and contractors with a fast full Windows 10 or Windows 8.1 desktop on secure USB drive that boots from virtually any compatible computer.

With that I'll turn things back over to Scott to walk you through the numbers. Scott?

Scott Robinson - *Imation Corporation - CFO*

Thanks Bob. As Bob noted we have been focused on accelerating our restructuring activities to reduce our cost structure and concurrently on making select investments to position Imation for growth. Our investments have included an acquisition that fits with our priority Tiered Storage and Security Solutions business. Of note, our ongoing efforts to become more efficient have allowed us to improve Imation's cash balance from the end of the second quarter. Our balance now stands at \$94.3 million. This provides us with additional financial flexibility as we consider acquisition opportunities diversify our business, which as Bob mentioned maybe outside of Imation's historical focus.

Total company revenue in Q3 2015 was \$129.2 million down 26.2% from the same period last year. Foreign currency exchange rates negatively impacted revenues during the quarter by 7.2% compared with Q3 2014. Looking at revenue by segment TSS declined 26% compared to Q3 2014. Within TSS the Tiered Storage and Solutions was down 13.6% due to software sales and negative foreign currency impacts. Our commercial storage media decline 32.6% due to the expected secular declines of our legacy magnetic tape business.

Our CSA segment revenues decreased 26.3% from the same quarter last year this was due largely to the ongoing decline in sales of optical media products and the impact of foreign currency exchange rates. As we communicated in an intra-quarter press release we are winding down in non-European operations of our CSA segment and legacy tape media business. As we make progress on this front we look for opportunities to employ that capital in order to drive long-term shareholder value.

Next I will move to gross margins, total gross margins for the third quarter were 10.4% a decrease of 7.4 percentage points from the prior year margins. CSA margins were 3.5% down 21.5% during Q3 2014. TSS margins were 17.9% during Q3 2015 versus 19.3% during the same period last year the decreases stem primarily from inventory write-offs of \$9.7 million associate with our decisions and certain sales and operations in our various business units. As you know expense control remains a company-wide priority.

Total company SG&A was \$43.4 million, up slightly from \$42.5 million during the same period last year due to charges for accounts receivable write-offs of \$7.3 million related to the various business unit wind down activities. We continue to invest in secure storage and solutions to accelerate growth research and development cost came in at \$4.8 million during the quarter down slightly from \$4.9 million during Q3 2014. We are aggressively reducing R&D expense associate with our legacy media products.



Now I would like to turn to our restructuring initiatives. Total special charges in Q3 2015 were \$113.9 million as Bob noted. These related to restructuring and other charges of \$40.2 million which included severance cost and a \$22 million write-down animations corporate headquarters to a carrying value of approximately \$10 million, intangible impairments of \$37.6 million and goodwill impairment of \$36.1 million.

As Bob noted the intangible and goodwill impairments were the result of our change in strategy and revise the Imation's product portfolio to smaller offerings. We also changed our investment philosophy such as the future investments in operating expenses will be significantly reduced. Because our strategy shift we revised our future financial forecasts which is a trigger event for impairment testing which was completed and resulted in the charges noted.

The overall operating loss in Q3 2015 from continuing operations of \$148.7 million compared to a loss of \$55.8 million in the same period last year. Excluding the impact of special charges adjusted operating loss would have been \$38.4 million in Q3 2015 compared to an adjusted operating loss of \$17.2 million in Q3 2014. For additional information and special charges please see Tables 5 and 6 attached to our press release issued this morning.

Our tax expense was a charge of \$3.6 million in Q3 2015, up slightly from \$3.4 million during Q3 2014. The expense related primarily to evaluation allowances established in the current quarter as a result of a restructuring plan which resulted international tax losses not being benefited. As a reminder we do not book a tax provision for the U.S. as you have a full valuation allowance related to our deferred tax assets. Ultimately we incurred a net loss of \$3.70 per diluted share in Q3 2015 compared to a loss of \$1.49 per diluted share in Q3 2014.

Moving to the balance sheet it remain solid as I noted earlier. As of September 30 we had \$94.3 million in cash up \$4.5 million during the quarter. The Company did not repurchase any shares of common stock during Q3 2015 and we are authorized to buyback up to 2 million additional shares. We also recently announced a strategic acquisition of Connected Data a move which Bob talked about earlier.

I'll briefly going to the financial terms of that deal approximately \$900,000 of consideration we paid in cash approximately \$4 million of consideration we paid in Imation common stock and approximate \$2.6 million in debt will be assumed by Imation and paid off. Connected Data is projected to have over \$7 million in standalone revenues in 2016.

In summary our Q3 results show ongoing cost controls and effective management of our legacy businesses. We encourage several expenses during the quarter related to our restructuring process, but we believe we are taking the necessary steps to put Imation on a path of long-term profitable growth to deliver value to our shareholders.

Now we would be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Eric Martinuzzi. Your line is open.

Eric Martinuzzi - Lake Street Capital Markets - Analyst

Thank you for taking my questions. And for Bob congrats on the promotion to interim CEO. Curious to know on the S&S business, now this is the focus of the Company, this is the ongoing, this is the remaining sub-segment after we're done with the wind down of the other business.

To see that down 14% this is a little bit disconcerting, I'd like to know just if you could pick apart how much of that was FX? And then how much of that was that you characterized a softness. I am wondering if that softness was macro, if that was a sales execution, just a layer deeper there on the S&S. Thanks



Robert Fernander - *Imation Corporation - Interim CEO*

Yes, Eric I can speak to the sales side of that, Scott do you want to talk to the FX side of that.

Scott Robinson - *Imation Corporation - CFO*

Sure.

Robert Fernander - *Imation Corporation - Interim CEO*

Sure. So, Eric thanks for the question by the way, that's a great question. One of the greatest opportunities, we have to improve financial performance as we see it is the reduction in our cost of goods, total delivered cost of goods, when we looked at the supply chain here and we saw lots of opportunity and I think we should be able to drive enough change that by the second or third quarter of next calendar year, we'll see marked improvements in gross margins.

One of the things that we saw was a behavior that carried a lot of fixed cost in labor, as well as inventory to try to be sensitive to demand that came in the final hours of the quarter. If you relieve that constraint and try to streamline your operations and tune them for profitability, then you end up with some more linearity in the business and reduce cost.

So what you're seeing there was our first kind of early adjustments in reference to not throwing a lot at the last few minutes of the quarter to drive our gross margins up. And that resulted in some backlog that flowed from quarter-to-quarter. So we carried some backlog into the quarter that might have historically shipped, have we've been willing to compromise gross margin. Do you want to speak to the FX side of that? Scott.

Scott Robinson - *Imation Corporation - CFO*

Sure. we had about a 7% overall decrease in revenues due to the exchange rates and I would say those businesses are in line with that or maybe just a bit less in terms of their FX impact on revenues.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

And then shifting over to wind down businesses, that struggle to model I guess how the rate of wind down there is non-European in this and there is inventory position that as far as your own expectations first on the CFA side. We finished now Q3 at \$68 million that was down sequentially from I think we are at \$76 million in Q2, what does that number look like do we have a view into that number, say being zero by Q2 or Q3 of 2016.

And the same question on the Commercial Storage Media, I understand we're winding down. I know the goal is to -- it's going to get to zero but just a sense of when that actually happens?

Scott Robinson - *Imation Corporation - CFO*

Yes, I can take that one. We announced that the majority of our restructuring charges will be incurred in the third and fourth quarters. And so we expect that the majority of the restructuring will really be done by the end of the year, certainly there will be some action that flow into next year.

But we would expect that the majority of our restructuring will be completed by December 31 and then our sales for those legacy businesses should be pretty much wound down by them.



Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Okay. Couple of more questions here. I see you're writing-off inventory, you're writing-off AR, the special charges I get all that. But the AR write-off, what is it about the quality of the AR that were just not going to see payment there?

Scott Robinson - *Imation Corporation - CFO*

Well, I think. As I just said we're moving to a wind down situation and we're trying to wind down as quickly as possible. And I think our wind down situation you know your receivable environment is a bit different than in an ongoing business situation.

So we try to be prudent in estimating the net realizable value of our inventory and in our receivables and we took the charges that were required by GAAP and we thought appropriate to record those asset balances at their estimated net realizable value at the end of the quarter.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Okay. And then lastly on cash I know as of the September 30 snapshot we are at \$94 million you are also carrying it looks like \$18 million of debt so we've got a net cash number here of about \$76 million on September 30. What does that look like as of maybe October 31, last week were do we finish out, what does it look like as of December 31, what's the pro forma cash after the restructuring effort?

Scott Robinson - *Imation Corporation - CFO*

So we indicated in our restructuring plan that we expected total charges of \$140 million to \$160 million, if you look at what we've taken this to date this quarter we're at \$114 million of special charges, \$10 million of inventory, \$7 million of AR that brings us to about \$130 million of total charges.

As we said total charges for the quarter we said the total for the whole program was estimated to be \$140 million to \$160 million of which \$30 million to \$40 million was expected to be cash charges.

And so I would say we haven't incurred much in terms of cash charges, because we started the restructuring program towards the latter part of this quarter. So those cash payments will occur in the fourth quarter and I would say the beginning of the first quarter. And so that will be the biggest impact on our cash that in paying off the debt going forward.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Okay. And then you got the burn from ops on top of that for Q4 and Q1 so just kind of estimate that in addition so it would be net number of 76 plus the 30 to 40 less burn in ops?

Scott Robinson - *Imation Corporation - CFO*

I think that's fair.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Okay, thanks for taking my question.

Scott Robinson - *Imation Corporation - CFO*

Eric, but plus any working capital recovery, as those benefits are wound down.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Yes, understand.

Operator

Your next question comes from the line of Trevor Colhoun. Your line is open.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Hi guys.

Robert Fernander - *Imation Corporation - Interim CEO*

Good morning Trevor.

Scott Robinson - *Imation Corporation - CFO*

Hi Trevor.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Good morning. So could you just talk to us a little bit and walk us through the math here on share count?

Scott Robinson - *Imation Corporation - CFO*

Sure, I can do that. So at the end of the quarter we had 41.7 million shares. We talked about the TDK transaction which will return 6.7 million shares. Then we have the Connected Data transaction which will result in providing 1.5 million so we should end up around 37 million.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Okay. And then switching gears I guess adding on to Eric's question, can you help us think about gross margins going forward in the Nexsan, Connected Data, S&S business and we should think of gross margins?

Robert Fernander - *Imation Corporation - Interim CEO*

Sure, Nexsan, Connected Data because the business was engineered to provide for short cycle times for fulfillment at the end of each quarter based on bookings, lack of linearity with booking. The Company carried two parallel supply chains, one for its European operations, one for its U.S. operations. Two separate contract manufacturers split the business between those and then carried a tremendous amount of inventory that allowed for very sensitive fulfillment meaning short cycle time at the end of every quarter. And to do that fixed cost and the inventory that were provided for that sensitivity were enormously expensive and in my mind not necessary.

So it's our intent to relieve the constraints from our organization to be extraordinarily sensitive to order cycle times at the end of the quarter and to narrow the product configuration options that customers have such that we can deliver more finished goods directly from the contract manufacturer without having another touch in a facility owned by Imation. When we look at rolling up our expectations there we see a 5% to 10% increase in our gross margins from a blended perspective within the Nexsan portfolio. So we see really good opportunity there to improve our performance.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

So I mean you're getting above 55% to 60% here?

Robert Fernander - *Imation Corporation - Interim CEO*

While we have some products there are in excess of 60% we have others that are kind of in the low-30s, but in across-the-board those products find themselves sitting in a warehouse, waiting for an order that requires us to do final integration and test by inserting say a controller and unique describe configurations before they get shipped out. Most of those configurations are common.

So they really don't need to have that degree of second touch if you will after the contract manufacturer builds the product for us. And so it our intent to push more of that activity back on the contract manufacturer to remove the necessary touch by us and the inventory required by us to provide for that last minute fulfillment of an order and we see just through that activity significant saving.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Great, like us move to different area in terms of other businesses that you guys have, can you just talk about brands that you guys currently have and how you look to I guess monetize or continue to hold and royalty stream?

Robert Fernander - *Imation Corporation - Interim CEO*

I am sorry what was that you said land..

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Brand.

Scott Robinson - *Imation Corporation - CFO*

The brand, I can take that Bob.

Robert Fernander - *Imation Corporation - Interim CEO*

Yes, yes.



Scott Robinson - *Imation Corporation - CFO*

I can really start so you know we had several brands and play here you know we have the Imation legacy brand, which I would say is a storage both consumer and commercial media storage brand we have the Memorex consumer brand you know that was acquired with the Memorex transaction many years ago we do have a few small licensing arrangements on the Memorex brand right now.

There's certainly I think value in the Memorex name it's been around very long time and has good name recognition. But TDK brand will eventually be returned back to the TDK Corporation in Japan as a result of that the transaction we spoke about earlier today and then you know the three recent brands we have you know would really be Nexsan which was acquired with the Nexsan acquisition.

We have IronKey brand which was acquired with the security acquisitions and really is a trusted name and security I would say. And now just recently we have the Connected Data company coming into the Imation family. So I think there's quite a few brands with which to operate strategize and think about taking into the future.

Trevor Colhoun - *Spear Point Capital Management LLC - Analyst*

Okay switching gears in relation to Connected Data how is the sales force - current sales force taking that in terms of Nexsan sales force or IronKey sales force?

Robert Fernander - *Imation Corporation - Interim CEO*

Actually it's been extraordinarily positive you know a list of customers on both sides that have needs that are fulfilled by Connected Data I will give you specific example. So on the IronKey side of the house they sell to customers that are worried about managing storage and secure environments that distributed but they have no way of synchronizing the data from the core to those edge devices once they deliver them.

So if I have a data set minutes we have DOD customers one of our customers that I don't know if got a press release, but I am happy to talk about was the Chilean Navy had a major procurement of IronKey devices last quarter. And there going to have a need to provide for all of those drives to have a secure set of data that gets refreshed on occasional basis from the core.

There's no easy way to do that and with the solution coming from Connected Data we can then to them a way for them to securely push data from the core to the edge devices without any kind of physical administration of the devices. So this value there and there is a number of from both product integration opportunities were looking at integrating Connected Data deeper into IronKey products as well as just the delivery of our current solution which works out of the box.

So that's ongoing on the other side of the house on the Nexsan same side we have a number of customers primarily those that about our NAS products and that are looking for ways to export data to mobile clients, the traditional market if you will for Connected Data was speaking with our sales executive last evening before I left the office and he was excited that he had four working opportunities that had come up from nowhere from the Nexsan sales organization and they were larger enterprise opportunities, bigger in scale than those he have been working prior, so he was quite pleased.

So we see a lot of synergy between both sales organizations and our challenge right now is to come up with product plans that allow us to more tightly integrate Connected Data software products into the Nexsan products as well as the IronKey products.

Unidentified Participant

Hey, Bob. It's Ron.



Robert Fernander - *Imation Corporation - Interim CEO*

Hi, Ron.

Unidentified Participant

How are you doing? I you know you guys working really hard on this restructuring and I think you guys are doing a great job because no sense in dilly-dallying. I got a couple of questions for you. What is the average sale price for a Connected Data client?

Robert Fernander - *Imation Corporation - Interim CEO*

Right now they're moving from \$11,000 on a kind of an average sale price for their smaller appliances up to \$15,000 to \$18,000 is kind of where I see, their average price going, a lot of it's because it is moving from what we would call a kind of medium-size businesses to larger ones, I'll use a specific example, there is a construction company that recently acquired the product, they have -- they do construction and architectural work for commercial and they've got I believe it was six or eight different offices with dozens of architects and engineers in each offices but they work on common projects, so they have a large database of drawings, architectural drawings that have to be shared with not only them but all other subcontractors and that they have to be synchronized across all the facilities.

So we think of file, sync and share is a Dropbox like you know client running on our phone or iPad but they're using this as a way to keep a common pool of drawing, synchronized across all of the architects and engineers and head offices. So this is truly an enterprise class use case and what that does Ron is drive the average selling price from a single appliance for say, 75 users in a medium-size business, which would sell for \$10,000, suddenly we're selling for hundreds of clients per site and we're doing that across multiple sites and we're looking at \$150,000 to \$200,000 kind of sale for Connected Data.

So as the use case matures for more of small business synching or a medium-size business synching to mobile clients to an enterprise solution that looks almost like site replication but it happens in a real-time synchronized basis. We are just seeing a lots of opportunity open up to drive that average selling price from a low number to high number.

Unidentified Participant

Also we were able to dig up at one point Imation I put out how many customers Nexsan has, I believe it was 11,000 in a press release a few years back. Can you give us some color on the number of installed customers or customers that you have with IronKey and Nexsan combined, which could be your hurdle.

Robert Fernander - *Imation Corporation - Interim CEO*

That's a great question I don't know the exact number I can give you a data point that I have is a piece of that, which is, right now we're going through looking at IT infrastructure for all the businesses and trying to understand how to streamline our expense on the IT side of the house, because we have several ERP systems and were looking for ways to consolidate that.

And in the process I learned we have over 2,000 contracts with end-users for contraction, I will call them outsourced services with IronKey which I thought was a very large number but these are people we actually do administration of the secure key distribution to the devices that they purchase.

So that might be DOD 8 and see I might buy a 1000 devices but I don't want to necessarily administer the actual encryption keys and so we have a service that we provide customers to do that and we have over 2,000 contracts there.

I think your number for Nexsan probably about right maybe a little bigger than that. And then from Connected Data point of view I believe Connected Data prior to the acquisition had about 1200 large customers and they were in the 150-ish range. I'm sorry 1200 small customers about 150 enterprise class customers.

Unidentified Participant

Great. And are you guys going to breakout at some point recurring revenue, do you...?

Scott Robinson - Imation Corporation - CFO

This is Scott. Well think about that for our 10-K at the end of the year and then for sure next year going forward the noise will significantly reduce as the revenues from the legacy businesses essentially closed off.

Unidentified Participant

And the shifting gears completely; do you have 2 million shares under your share buyback agreement or \$2 million?

Scott Robinson - Imation Corporation - CFO

2 million shares.

Unidentified Participant

And are you guys going to buy shares at these prices I mean the shares worth more than cash?

Robert Fernander - Imation Corporation - Interim CEO

Well the strategic alternatives committee will drive that decision Scott, but my vote is yes.

Unidentified Participant

Why didn't talk a little about kind of employee moral, you are going through a pretty huge rift here and a lot of changes and you've got in a great new team from Connected Data. Can you just talk about that a little bit and how we should...

Robert Fernander - Imation Corporation - Interim CEO

Yes, so that's a great question and I would say that right now it's stressed, because we have a lot of pending decisions coming from the restructuring and because we've been extraordinarily open with the employees about what we are doing. There are a lot of employees that are sitting anxiously waiting our decisions and Joe De Perio, our Chairman told me the other day that was a great piece of coaching.

He said Bob, measure twice, cut once and so we kind of have a plan that we are pretty comfortable with, but we are going back and we're making sure we are making the right calls not only from a business point of view, but also from an individual point of view from a team member perspective which is adding a little bit of time to our process in making these decisions and executing on some of the restructuring that we need to do. And that I will tell you that now that put some pressure on morale and it's a bit painful right now. I do believe that as we get through the Thanksgiving period and through this quarter that'll turn around, but right now there's some challenges there.

Unidentified Participant

Well, thanks for your time guys. I really appreciate you allowing us to ask this many questions.

Scott Robinson - *Imation Corporation - CFO*

Yes, thank you.

Operator

There are no further questions in queue. I will now turn the call back over to Scott Robinson for closing remarks.

Scott Robinson - *Imation Corporation - CFO*

Go ahead Bob.

Robert Fernander - *Imation Corporation - Interim CEO*

Yes, thanks everybody. I know this is - for a Q this was a big one and we had a lot that we've been working on in parallel so it's hard to keep up with this. I appreciate all your patience will be as open with everyone as we possibly can as we go through this process and don't get confused at all our interests are aligned 100% with yours. We are trying to build value for our shareholders and ourselves through that process.

That's all I have. Thanks for your time.

Operator

This concludes today's conference call, you may now disconnect

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