IOMEGA CORP
Form 10-Q
November 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED OCTOBER 2, 2005

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the Transition Period from .... to...............

COMMISSION FILE NUMBER 1-12333

Iomega Corporation

(Exact name of registrant as specified in its charter)

Delaware	**86-0385884**
(State or other jurisdiction of incorporation or organization	(IRS employer identification number)

10955 Vista Sorrento Parkway, San Diego, CA 92130

(Address of principal executive offices)

(858) 314-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of November 4, 2005.

Common Stock, par value $0.03 1/3	**51,640,948**
(Title of each class)	(Number of shares)

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains a number of forward-looking statements, including, without limitation, any statements referring to:

- The ongoing or carrying value of inventory;
- Anticipated or predicted future warranty costs;
- All accruals and reserves;
- The future impact of accounting changes;
- Anticipated future revenue and predictions about employee headcount being aligned with revenue in the future;
- Anticipated asset disposition including furniture disposition and future lease terminations;
- The useful life of assets;
- The potential future receipt by Iomega of additional funds in connection with Iomega s entry into a Termination Agreement with ByteTaxi, Inc.;
- Goals for the hard drive business, goals concerning profitability, future growth in REV sales, and predicted annual savings as a result of the Company s restructuring (discussed, for example, in the Overview within Item 2 below);
- Predictions of future volatility in Zip drive sales;
- References to the fourth quarter normally being a seasonally strong quarter;
- Our intention to wind down certain product lines and focus ongoing resources on hard drive-based product solutions including REV products, portable, desktop, network and mini hard disk drives (HDD) and Network Storage Systems (NSS) for consumer and small business markets and to continue to manage the Zip products business with the goal to maximize cash flow;
- Expected declines in Zip product sales, and statements concerning future impairment of Zip goodwill;
- The estimates of income taxes that could be incurred upon repatriation of foreign earnings;
- Our goal to reverse the negative cash flows from operations through the implementation of the 2005 restructuring actions and other cost reductions, continued focus on cash flow management, improving REV product sales and margins;
- The goal of profitably growing the NSS business and managing the Zip Products business for cash flow;
- The goal to develop REV products into a significant part of our overall product portfolio;
- The goal to improve Consumer Storage Solutions product gross margins;
- Our intended areas of focus in our Consumer Storage Solutions business;
- The future success or adequacy of our internal controls;
- Our belief that our balance of total unrestricted cash, cash equivalents, and temporary investments will be sufficient to fund anticipated working capital requirements for at least one year.

Any other statements that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, intends, goal and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words.

Numerous factors could cause actual events or results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth under the captions Application of Critical Accounting Policies, Liquidity and Capital Resources, Factors Affecting Future Operating Results and Quantitative and Qualitative Disclosures About Market Risk included in Items 2 and 3 of Part I of this Quarterly Report on Form 10-Q. Any forward-looking statements represent our estimates only as of the date of this report and we specifically disclaim any obligation to update forward-looking statements, even if our estimates change.

IOMEGA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	Oct. 2, 2005	Dec. 31, 2004
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 72,572	$ 103,403
Restricted cash	261	-
Temporary investments	25,534	17,406
Trade receivables, less allowance for doubtful accounts of $2,679 at October 2, 2005 and $2,885 at December 31, 2004	26,740	30,764
Inventories	24,142	31,345
Deferred income taxes	5,533	9,710
Other current assets	5,208	7,045
Total Current Assets	159,990	199,673
Property and Equipment, at Cost	96,672	128,395
Accumulated Depreciation	(87,532)	(114,832)
Net Property and Equipment	9,140	13,563
Goodwill	11,691	11,691
Other Intangibles, Net	1,247	2,448
Other Assets	84	127
Total Assets	$ 182,152	$ 227,502
Current Liabilities:		
Accounts payable	$ 31,830	$ 35,166
Other current liabilities	52,757	65,607
Income taxes payable	1,516	664
Total Current Liabilities	86,103	101,437
Other Long-Term Liabilities	-	721
Deferred Income Taxes	17,219	22,537
Commitments and Contingencies (Notes 4, 5 and 7)		
Stockholders' Equity:		
Common Stock, $0.03 1/3 par value - authorized 400,000,000 shares, issued 55,073,470 shares at October 2, 2005 and 55,028,902 shares at December 31, 2004	1,839	1,837
Additional paid-in capital	79,384	78,713
Less: 3,432,922 Common Stock treasury shares, at cost	(33,791)	(33,791)
Retained earnings	31,398	56,048

Total Stockholders' Equity	78,830	102,807
Total Liabilities and Stockholders' Equity	$ 182,152	$ 227,502

The accompanying notes to condensed consolidated financial statements are an

integral part of these statements.

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IOMEGA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the Quarter Ended	
	Oct. 2, 2005	Sept. 26, 2004
	(Unaudited)	
Sales	$ 55,889	$ 77,262
Cost of sales	44,890	65,413
Gross Margin	10,999	11,849
Operating Expenses:		
Selling, general and administrative	14,192	21,546
Research and development	3,330	6,899
License and patent fee income	(889)	-
Restructuring charges	6,579	2,293
Bad debt expense	356	205
Total Operating Expenses	23,568	30,943
Operating Loss	(12,569)	(19,094)
Interest income	692	361
Interest expense and other income and (expense), net	(94)	2,062
Loss Before Income Taxes	(11,971)	(16,671)
Benefit (provision) for income taxes	(354)	815
Net Loss	$ (12,325)	$ (15,856)
Net Loss Per Basic and Diluted Common Share	$ (0.24)	$ (0.31)

	========	=========
Weighted Average Common Shares Outstanding	51,627	51,565
	========	=========

The accompanying notes to condensed consolidated financial statements are an

integral part of these statements.

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IOMEGA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the Nine Months Ended	
	Oct. 2, 2005	Sept. 26, 2004
	(Unaudited)	
Sales	$ 194,555	$ 239,030
Cost of sales	153,484	188,050
Gross Margin	41,071	50,980
Operating Expenses:		
Selling, general and administrative	48,828	69,182
Research and development	11,550	20,068
License and patent fee income	(1,301)	-
Restructuring charges	6,773	2,991
Bad debt (credit) expense	64	(55)
Total Operating Expenses	65,914	92,186
Operating Loss	(24,843)	(41,206)
Interest income	1,659	1,093
Interest expense and other income and (expense), net	(1,822)	1,553
Loss Before Income Taxes	(25,006)	(38,560)
Benefit (provision) for income taxes	356	(1,954)
Net Loss	$ (24,650)	$ (40,514)
Net Loss Per Basic and Diluted Common Share	$ (0.48)	$ (0.79)
Weighted Average Common Shares Outstanding	51,617	51,540

The accompanying notes to condensed consolidated financial statements are an

integral part of these statements.

IOMEGA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine Months Ended	
	Oct. 2, 2005	Sept. 2 2004
	(Unaudited)	
Cash Flows from Operating Activities:		
Net loss	$ (24,650)	$ (40,51
Revenue and Expense Adjustments:		
Depreciation and amortization	5,681	6,65
Deferred income tax (provision) benefit	(1,280)	4,97
Loss on disposal and impairment of fixed assets	169	5,51
Stock compensation expense	559	1,00
Non-cash restructuring charges	438	42
Non-cash inventory charges	530	
Bad debt (credit) provision	64	(5
Other	36	15
Changes in Assets and Liabilities:		
Restricted cash	(261)	(5
Trade receivables	3,960	3,16
Inventories	6,673	1
Other current assets	1,768	8
Accounts payable	(3,376)	(2,68
Other current liabilities	(13,599)	(13,40
Accrued restructuring	742	(1,28
Income taxes	852	(3,76
Net cash used in operating activities	(21,694)	(39,76
Cash Flows from Investing Activities:		
Purchases of property and equipment	(970)	(9,34
Proceeds from sales of assets	745	10
Purchases of temporary investments	(35,571)	(210,42
Sales of temporary investments	27,464	238,15
Initial investment in ByteTaxi (net of $171 of cash)	(44)	
Net change in other assets and other liabilities	(678)	(82
Net cash (used in) provided by investing activities	(9,054)	17,64
Cash Flows from Financing Activities:		
Payments on long-term debt	(139)	
Proceeds from sales of Common Stock	56	15
Net cash (used in) provided by financing activities	(83)	15
Net Decrease in Total Cash and Cash Equivalents	(30,831)	(21,95
Total Cash and Cash Equivalents at Beginning of Period	103,403	122,59
Total Cash and Cash Equivalents at End of Period	$ 72,572	$ 100,63

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The accompanying notes to condensed consolidated financial statements are an

integral part of these statements.

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Significant Accounting Policies

In management s opinion, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary to present fairly our financial position as of October 2, 2005 and December 31, 2004, the results of operations for the quarter and nine month periods ended October 2, 2005 and September 26, 2004 and cash flows for the nine month periods ended October 2, 2005 and September 26, 2004.

The results of operations for the quarter and nine month periods ended October 2, 2005 are not necessarily indicative of the results to be expected for the entire year or for any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our latest Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the prior year s condensed consolidated financial statements and notes to condensed consolidated financial statements to conform to the current year s presentation. All prior year business segment information has been restated to be consistent with the current year presentation.

Inventories

Inventories include material costs and inventory related overhead costs and are recorded at the lower of cost (first-in, first-out) or market and consist of the following:

	Oct. 2, 2005	Dec. 31, 2004
	(In thousands)	
Raw materials	$ 2,126	$ 461
Finished goods	22,016	30,884
	$ 24,142	$ 31,345

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We evaluate the carrying value of inventory on a quarterly basis to determine if the carrying value is recoverable at estimated selling prices (including known future price decreases). We include product costs and direct selling expenses in its analysis of inventory realization. To the extent that estimated selling prices do not exceed such costs and expenses, valuation reserves are established against inventories through a charge to cost of sales. In addition, we generally consider inventory which is not expected to be sold within established timelines, as forecasted by our material requirements planning system, as excess and thus appropriate inventory reserves are established through a charge to cost of sales.

Net Income (Loss) Per Common Share

Basic net income (loss) per common share (Basic EPS) excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share (Diluted EPS) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(1) Significant Accounting Policies (Continued)

Diluted EPS assumes no exercise or conversion of securities that would have an anti-dilutive effect on net loss per common share. In periods where losses are recorded, common stock equivalents would decrease the loss per share and therefore are not added to the weighted average shares outstanding. Losses have been recorded for the quarters and nine month periods ending October 2, 2005 and September 26, 2004, thus there was no dilution as all outstanding options were considered anti-dilutive. For the quarter and nine month period ending September 26, 2004, all unvested restricted common shares granted under the Management Incentive Plan (MIP) were also considered anti-dilutive. For all presented periods, we had no securities that were considered dilutive.

The table below shows the number of outstanding options that had an exercise price greater than the average market price of the common shares (out of the money options) for the respective period as well as the number of MIP restricted shares that were not vested:

	For the Quarter Ended		For the Nine Months En	
	Oct. 2, 2005	Sept. 26, 2004	Oct. 2, 2005	Sept. 2004
Out of the money options	1,782,705	2,393,271	1,680,191	969,7
Unvested MIP restricted shares	-	16,713	-	16,7

Accrued Warranty

We accrue for warranty costs based on estimated warranty return rates and estimated costs to repair. We use a statistical-based model to estimate warranty accrual requirements. The statistical model, used to project future returns, is based upon a rolling monthly calculation that computes the number of units required in the warranty reserve and is based upon monthly sales, actual returns and projected return rates. Actual warranty costs are charged against the warranty reserve. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty returns and repair cost. We review the adequacy of our recorded warranty liability on a quarterly basis and record the necessary adjustments to the warranty liability.

Changes in our warranty liability during all periods presented were as follows:

	For the Quarter Ended		For the Nine Months Ended	
	Oct. 2, 2005	Sept.26, 2004	Oct. 2, 2005	Sept. 26, 2004
	(In thousands)			
Balance at beginning of period	$ 5,126	$ 5,109	$ 5,537	$ 5,225
Accruals/additions	1,703	1,346	5,073	4,181

Claims	(1,723)	(1,385)	(5,504)	(4,336)
Balance at end of period	$ 5,106	$ 5,070	$ 5,106	$ 5,070

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(1) Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123r, Share-Based Payment (SFAS 123r). SFAS 123r provides accounting guidance for stock-based payments to employees. SFAS 123r revises SFAS 123 by eliminating the choice of using the intrinsic recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and requiring all companies to use the fair value method of measuring stock compensation expense. SFAS 123r clarifies and expands SFAS 123 s guidance in several areas, including measuring fair value, classifying an award as equity or a liability, attributing compensation cost to reporting periods as well as adding several new disclosure requirements. SFAS 123r also changes the accounting for the tax effects of options, including the presentation of the tax effects on the condensed consolidated statements of cash flows. On April 14, 2005, the SEC announced that it had delayed the implementation date for calendar year-end companies to January 1, 2006. We are currently accounting for all of our stock-based compensation under the fair value method as outlined in SFAS 123 and will adopt SFAS 123r beginning in the first quarter of 2006. We have not yet evaluated the potential impacts of SFAS 123r.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 was issued in part to improve the comparability of financial reporting with International Accounting Standards. SFAS 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005 and we will adopt it at that time. The future impact to us will depend entirely on the nature of any future accounting changes.

(2) Income Taxes

For the quarter ended October 2, 2005, we recorded a net income tax provision of $0.4 million on a pre-tax loss of $12.0 million. The statutory tax benefit of $4.2 million, resulting from operating losses, was entirely offset by a tax charge to increase the valuation allowance. The net tax provision of $0.4 million was comprised primarily of foreign taxes.

For the quarter ended September 26, 2004, the Company recorded a net tax benefit of $0.8 million, on a pre-tax loss of $16.7 million. The net tax benefit for the quarter ended September 26, 2004 was comprised of a $6.5 million statutory tax benefit on the quarter s pre-tax loss and a $1.2 million benefit primarily from additional state net operating loss carryforwards (NOLs), partially offset by a $6.9 million tax provision from an increased valuation allowance primarily from changes in NOLs.

For the nine months ended October 2, 2005, we recorded an income tax benefit of $0.4 million on a pre-tax loss of $25.0 million. The statutory tax benefit of $8.8 million, resulting from operating losses, was entirely offset by tax charges to increase the valuation allowance. The net tax benefit of $0.4 million was comprised of $0.8 provision of foreign taxes primarily Swiss withholding taxes, and $1.2 million benefit of various adjustments related to deferred taxes.

For the nine months ended September 26, 2004, the Company recorded a net tax provision of $2.0 million, on a pre-tax loss of $38.6 million. The net tax provision was comprised of a $20.1 million increase in the valuation allowance resulting primarily from new foreign tax credits and loss carryforwards,

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(2) Income Taxes (Continued)

partially offset by the statutory tax benefit of $15.0 million on the pre-tax loss for the nine months ended September 26, 2004, a $1.9 million benefit resulting primarily from the release of tax accruals associated with the Company s foreign operations and a $1.2 million benefit resulting primarily from additional state NOLs. Included in the $20.1 million increase in the valuation allowance was a $7.8 million increased valuation allowance resulting from new foreign tax credits created by deemed Swiss withholding taxes on foreign earnings. The recording of the new foreign tax credits was the result of a change in the Company s intention to repatriate foreign cash to the U.S. in the form of dividends in the future.

We have evaluated the repatriation provisions of the American Jobs Creation Act of 2004 and at this time, in an effort to conserve cash, we do not anticipate utilizing this provision.

(3) Business Segment Information

We have five reportable segments, which are organized into three business categories as follows:

Business Categories	Reportable Segments
Consumer Products	1. Zip Products
	2. Consumer Storage Solutions
Business Products	3. REV Products
	4. Network Storage Systems
Other Products	5. Other Products

Consumer Products

The Zip Products segment involves the distribution and sale of Zip drives and disks to retailers, distributors, resellers and OEMs throughout the world.

Our Consumer Storage Solutions (CSS) segment involves the worldwide distribution and sale of various storage devices including: external hard disk drives (HDD), CD-RW drives, DVD rewritable drives, USB flash drives and external floppy disk drives. In some cases, we perform final assembly work of purchased components and in other cases, we purchase and resell substantially complete products.

Business Products

The REV Products segment involves the development, distribution and sale of REV products to retailers, distributors, OEMs and resellers throughout the world**.** The REV drives are removable hard disk storage systems that have a native capacity of 35 gigabytes (GB) (where 1 gigabyte equals 1 billion bytes) and up to 90GB compressed capacity. REV products began shipping in April 2004.

The Network Storage Systems (NSS) segment consists primarily of the development, distribution and sale of Network Attached Storage servers in the entry-level and low-end Network Attached Storage market.

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) Business Segment Information (Continued)

Other Products

The Other Products segment consists of license and patent fees and products that have been discontinued or are otherwise immaterial, including: Jaz and PocketZip disks, Peerless drive systems, Iomega software products such as Iomega Automatic Backup software and other miscellaneous products. The Other Products segment included the research and development of the Digital Capture Technology (DCT) development program, which was cancelled in the second half of 2004.

Product Profit Margin

We evaluate product segment performance based on product profit margin (PPM). PPM is defined as sales and other income related to a segment s operations, less both fixed and variable product costs, research and development expenses, product management expenses, specific selling and marketing expenses and depreciation and amortization related to a segment s operations. When such costs and expenses exceed sales and other income, PPM is referred to as a product loss. The accounting policies of the product segments are the same as those described in Note 1. Intersegment sales, eliminated in consolidation, are not material. The expenses attributable to general corporate activity are not allocated to the product segments. Non-allocated operating expenses include: advanced research and development, shared sales and corporate marketing expenses and general and administrative expenses.

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) Business Segment Information (Continued)

The information in the following table was derived directly from the segments internal financial information used for corporate management purposes. All 2004 amounts have been reclassified to match the 2005 Business Category and Reportable Segment presentation.

Reportable Operating Segment Information:

	For the Quarter Ended		For the Nine Months Ended	
	Oct. 2, 2005	Sept. 26, 2004	Oct. 2, 2005	Sept. 26, 2004
	(In thousands)			
Sales:				
Consumer Products:				
Zip products	$ 14,868	$ 31,880	$ 51,791	$ 108,419
Consumer Storage Solutions	27,143	30,892	96,739	98,749
Total Consumer Products	42,011	62,772	148,530	207,168
Business Products:				
REV products	10,255	10,338	33,489	17,829
Network Storage Systems	3,279	3,282	11,218	10,647
Total Business Products	13,534	13,620	44,707	28,476
Other Products	344	870	1,318	3,386
Total sales	$ 55,889	$ 77,262	$194,555	$ 239,030
PPM (Product Loss):				
Consumer Products:				
Zip products	$ 5,961	$ 12,551	$ 23,740	$ 41,393
Consumer Storage Solutions	(1,461)	(2,872)	(4,502)	(3,596)
Total Consumer Products	4,500	9,679	19,238	37,797
Business Products:				
REV products	(1,344)	(5,612)	(4,746)	(17,898)
Network Storage Systems	(322)	(27)	(588)	(521)
Total Business Products	(1,666)	(5,639)	(5,334)	(18,419)
Other Products	1,096	(6,583)	1,751	(10,870)
Total PPM (Product Loss)	3,930	(2,543)	15,655	8,508
Common Expenses:				
General corporate expenses	(9,920)	(14,258)	(33,725)	(46,723)
Restructuring charges	(6,579)	(2,293)	(6,773)	(2,991)

Interest and other income				
(expense), net	598	2,423	(163)	2,646
Loss before income taxes	$(11,971)	$(16,671)	$(25,006)	$ (38,560)

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Restructuring Charges

As of October 2, 2005, restructuring reserves existed under four different restructuring actions: the 2005 restructuring actions, the 2004 restructuring actions, the 2003 restructuring actions and the 2001 restructuring actions. For more detail related to the 2001 and 2003 restructuring actions, see our 2004 Annual Report on Form 10-K.

During the third quarter of 2005, we recorded total restructuring charges of $6.6 million of which $4.9 million related to the 2005 restructuring actions, $0.3 million related to the 2004 restructuring actions, $1.1 million related to the 2003 restructuring actions and $0.3 million related to the 2001 restructuring actions. These charges are described below under their respective caption.

2005 Restructuring Actions

During the third quarter of 2005, we recorded $4.9 million of restructuring charges for the 2005 restructuring actions. This included $3.5 million of cash charges for severance and benefits for approximately 120 personnel worldwide who were notified during the third quarter of 2005 that their positions were being eliminated, $0.7 million of cash charges for miscellaneous contract cancellations, $0.3 million of cash charges for lease termination costs and $0.4 million of non-cash charges related to excess furniture, leasehold improvements and other miscellaneous assets. All of the $4.9 million of third quarter 2005 restructuring charges were shown as restructuring expenses as a component of operating expenses. None of these restructuring charges were allocated to any of the business segments. The restructuring actions were part of an effort to align our cost structure with our expected future revenue levels.

The worldwide workforce reduction was across all business functions and levels within Iomega. Of the 120 impacted personnel worldwide, approximately 20 employees will work on a transition basis into the fourth quarter of 2005.

As of October 2, 2005, we have made $2.3 million in cumulative cash payments in the third quarter of 2005 related to the 2005 restructuring actions. The breakdown of the 2005 restructuring charges and utilization of the 2005 restructuring reserves during the quarter ended October 2, 2005 are summarized below:

2005 Restructuring Actions	Balance 07/03/05	Additions	Utilization	Balance 10/02/05
		(In thousands)		
Severance and benefits (a)	$ -	$ 3,480	$(2,233)	$ 1,247
Contract termination costs (a)	-	697	-	697
Lease termination costs (a)	-	306	(50)	256
Lease related assets (b)	-	317	(14)	303
Other miscellaneous assets (b)	-	121	(74)	47

	$ -	$ 4,921	$(2,371)	$ 2,550
Balance Sheet Breakout:				
Other current liabilities (a)	$ -	$ 4,483	$(2,283)	$ 2,200
Fixed asset reserves (b)	-	438	(88)	350
	$ -	$ 4,921	$(2,371)	$ 2,550

(a) Amounts represent primarily cash charges.

(b) Amounts represent primarily non-cash charges.

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Restructuring Charges (Continued)

At October 2, 2005, the remaining severance and benefits were related to employees who were still on transition. Lease payments are being made on a continuous monthly basis, and of these facilities, the last lease expires in July 2008. We are trying to sublease these facilities. The majority of the lease related assets are anticipated to be utilized by the tenant who subleases the facility. The remaining assets are anticipated to be disposed of by the first half of 2006. The majority of the contract cancellation payments will be made in the first quarter of 2006 with the remainder being made on continuous payments over the remaining life of the contract which is less than 2 years.

2004 Restructuring Actions

During the third quarter of 2005, we recorded an additional $0.3 million of restructuring charges for the 2004 restructuring actions primarily related to lease cancellations. These charges were a result of it taking longer than expected to sublease vacated facilities. During 2004, we recorded $3.7 million of restructuring charges for the 2004 restructuring actions. This included $2.6 million of cash charges for severance and benefits for 141 personnel worldwide who were notified during 2004 that their positions were being eliminated (there were no charges related to the 17 temporary employees whose positions were eliminated), $0.7 million of cash charges for lease termination costs and $0.4 million of non-cash charges related to excess furniture. All of the $3.7 million of restructuring charges recorded during 2004 were shown as restructuring expenses as a component of operating expenses. None of these restructuring charges were allocated to any of the business segments. The restructuring actions were part of an effort to align our cost structure with our expected future revenue levels at that time.

The worldwide workforce reduction was across all business functions and across all levels of Iomega. Of the 141 impacted personnel worldwide that were notified during 2004, 15 employees worked on a transition basis into the first and/or second quarters of 2005. Three of these employees were rehired full-time which decreased the final headcount reduction to 138 employees.

The total separation payments or liability for the 138 impacted employees were $2.8 million.

The total charges for the 2004 restructuring actions were $4.2 million. As of October 2, 2005, we have made $3.4 million in cumulative cash payments related to the 2004 restructuring actions, of which $1.1 million was disbursed during the first quarter of 2005, $0.3 million was disbursed during the second quarter of 2005 and $0.2 million was disbursed during the third quarter of 2005.

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Restructuring Charges (Continued)

Utilization of and other activity related to the 2004 restructuring reserves during the quarter ended October 2, 2005 are summarized below:

2004 Restructuring Actions	Balance 07/03/05	Utilized	Additions	Balance 10/02/05
		(In thousands)		
Severance and benefits (a)	$ 11	$ (58)	$ 46	$ (1)
Lease termination costs (a)	284	(123)	268	429
Furniture (b)	202	(19)	-	183
	$ 497	$(200)	$ 314	$ 611
Balance Sheet Breakout:				
Other current liabilities (a)	$ 295	$(181)	$ 314	$ 428
Fixed asset reserves (b)	202	(19)	-	183
	$ 497	$(200)	$ 314	$ 611

(a) Amounts represent primarily cash charges.
(b) Amounts represent primarily non-cash charges.

Utilization of and other activity relating to the 2004 restructuring charges during the nine months ended October 2, 2005 are summarized below:

2004 Restructuring Actions	Balance 12/31/04	Utilized	Additions	(Reversals)	Balance 10/02/0
			(In thousands)		
Severance and benefits (a)	$ 766	$(1,010)	$ 306	$ (63)	$ (1)
Lease termination costs (a)	725	(564)	268	-	429
Furniture (b)	346	(163)	-	-	183
	$ 1,837	$(1,737)	$ 574	$ (63)	$ 611
Balance Sheet Breakout:					
Other current liabilities (a)	$ 1,491	$(1,574)	$ 574	$ (63)	$ 428
Fixed asset reserves (b)	346	(163)	-	-	183
	$ 1,837	$(1,737)	$ 574	$ (63)	$ 611

======	=======	=====	=====	=====

(a) Amounts represent primarily cash charges.
(b) Amounts represent primarily non-cash charges.

Lease payments are being made on a continuous monthly basis, and of these facilities, the last lease expires in 2008. We are trying to sublease these facilities. We anticipate disposing of the excess furniture by the end of the first quarter of 2006.

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Restructuring Charges (Continued)

2001 and 2003 Restructuring Actions

During the third quarter of 2005, we recorded an additional $1.4 million in restructuring charges primarily related to the 2003 restructuring actions for leases due to our inability to sublease the facility as a result of the market conditions in Roy, Utah.

During the first quarter of 2004, we recorded an additional $0.5 million in restructuring charges related to the 2001 restructuring actions for our Ireland facility due to our inability to sublease the facility, at that time, as a result of the market conditions in Ireland.

During the first quarter of 2004, we also recorded $0.3 million of restructuring charges related to the ratable recognition of the severance and benefits costs to be paid to the employees who remained in transition into 2004 under the 2003 restructuring actions. However, during the first quarter of 2004, we also released $0.3 million of estimated outplacement liabilities as employee usage of outplacement resources was less than originally estimated.

During the second quarter of 2004, we recorded an additional $0.2 million of restructuring charges related to the ratable recognition of the severance and benefits costs to be paid to employees who remained in transition into 2004 under the 2003 restructuring actions.

Cash disbursements of $0.5 million were made in each of the first three quarters of 2005 for a total of $1.5 million in 2005 related to the 2001 and 2003 restructuring actions. As of October 2, 2005, approximately $2.8 million remains to be paid in cash for these two restructuring actions.

Utilization of and other activity related to the 2001 and 2003 restructuring charges during the quarter ended October 2, 2005 are summarized below:

2001 and 2003 Restructuring Actions	Balance 07/03/05	Utilized	Additions	Bala 10/0
		(In thousands)		
Severance and benefits (a)	$ 2	$ -	$ -	$
Lease termination costs (a)	1,947	(497)	1,351	2,8
Leasehold improvements and furniture (b)	231	(18)	-	2

	$ 2,180	$ (515)	$ 1,351	$ 3,0
Balance Sheet Breakout:				
Other current liabilities (a)	$ 1,949	$ (497)	$ 1,351	$ 2,8
Fixed asset reserves (b)	231	(18)	-	2
	$ 2,180	$ (515)	$ 1,351	$ 3,0

(a) Amounts represent primarily cash charges.

(b) Amounts represent primarily non-cash charges.

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IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) Restructuring Charges (Continued)

Utilization of and other activity relating to the 2001 and 2003 restructuring charges during the nine months ended October 2, 2005 are summarized below:

2001 and 2003 Restructuring Actions	Balance 12/31/04	Utilized	Additions	(Reversals
		(In thousands)		
Severance and benefits (a)	$ 2	$ -	$ -	$ -
Lease termination costs (a)	2,945	(1,493)	1,351	(2)
Furniture (b)	360	(147)	-	-
	$ 3,307	$(1,640)	$ 1,351	$ (2)
Balance Sheet Breakout:				
Other current liabilities (a)	$ 2,947	$(1,493)	$ 1,351	$ (2)
Fixed asset reserves (b)	360	(147)	-	
	$ 3,307	$(1,640)	$ 1,351	$ (2)

(a) Amounts represent primarily cash charges.

(b) Amounts represent primarily non-cash charges.

Lease payments are being made on a continuous monthly basis, and of these facilities, the last lease expires in 2009. We are trying to sublease these facilities. The remaining leasehold improvements are associated with subleased facilities and cannot be disposed of until the related subleases expire. The last sublease will expire in March 2006. We anticipate completing the disposal of the furniture by the end of the first quarter of 2006.

(5) Commitments and Contingencies

Litigation

There are no material legal proceedings to which we are a party. We are involved in lawsuits and claims generally incidental to our business, none of which are expected to have a material impact on our results of operations, business or financial condition.

(6) Other Matters

Other Intangible Assets

At October 2, 2005, we had $1.2 million in net intangible assets, all of which are subject to amortization. Our intangible assets include a licensing agreement and intellectual property. Intangible assets are amortized using the straight-line method over the estimated useful life of the asset, subject to periodic review for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. There have been no indicators of impairment from the time the impairment evaluation was performed in the first quarter of 2005 to October 2, 2005. Amortization expense was $0.5 million for both the quarters ended October 2, 2005 and September 26, 2004. Amortization expense was $1.6 million for the nine months ended October 2, 2005 and $1.5 million for the nine months ended September 26, 2004. Amortization expense for each of the next five

IOMEGA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) Other Matters (Continued)

fiscal years is anticipated to be approximately $0.4 million for the remainder of 2005, $0.7 million in 2006, $0.1 million in 2007 and zero thereafter. As of October 2, 2005, the weighted average useful life of our intangible assets is approximately less than a year.

The following table presents the other intangible assets and associated accumulated amortization for all periods presented:

	Oct. 2, 2005	Dec. 31, 2004
	(In thousands)	
Other Intangible Assets:		
Gross value (1)	$ 12,157	$ 11,791
Accumulated amortization	(10,910)	(9,343)
Net intangible assets	$ 1,247	$ 2,448

(1) The intangible asset gross value increased $0.4 million in the first quarter of 2005 due to the consolidation of intellectual property related to our investment in ByteTaxi in January 2005.

(7) Subsequent Event

Following the quarter ended October 2, 2005, the Company reached an agreement to sell its investment in ByteTaxi, Inc. Specifically, on October 28, 2005, Iomega, ByteTaxi, Inc., and certain major shareholders of ByteTaxi, Inc. entered into a Termination Agreement, under which Iomega would receive a total of $2.9 million (payable as described below) in return for the sale of Iomega s equity ownership of ByteTaxi, Inc. and termination of Iomega s distribution rights to FolderShare software. This Agreement was part of a larger series of transactions whereby Microsoft Corporation purchased all of the stock of ByteTaxi, Inc. Iomega received a cash payment of $2.4 million on October 28, 2005 and the remaining funds (approximately $0.5 million) are to be paid during the fourth quarter of 2006, subject to the satisfaction of certain escrow and indemnity terms.

IOMEGA CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS:

Overview

We design and market products that help customers protect, secure, capture and share their valuable digital information. Our reportable segments are based primarily on the nature of our products and consist of Zip Products, Consumer Storage Solutions (CSS), REV Products, Network Storage Systems (NSS) and Other Products.

The Zip Products segment involves the distribution and sale of Zip drives and disks to retailers, distributors, resellers and OEMs throughout the world. The Consumer Storage Solutions segment involves the worldwide distribution and sale of various storage devices including: external hard disk drives (HDD), CD-RW drives, DVD rewritable drives, USB flash drives and external floppy disk drives. The REV Products segment involves the development, distribution and sale of REV products to retailers, distributors, OEMs and resellers throughout the world**.** The REV drives are removable hard disk storage systems that have a native capacity of 35 gigabytes (GB) (where 1 gigabyte equals 1 billion bytes) and up to 90GB compressed capacity. The NSS segment consists primarily of the development, distribution and sale of network attached storage servers in the entry-level and low-end network attached storage market. The Other Products segment consists of license and patent fees and products that have been discontinued or are otherwise immaterial, including: Jaz and PocketZip disks, Peerless drive systems, Iomega software products such as Iomega Automatic Backup software and other miscellaneous products.

Since 1996, the Zip Product segment has been the largest contributor to our product profit margin (PPM). As the Zip business has approached the end of its product life cycle, we have been trying to find other profitable sources of revenue to replace the declining high gross margin Zip business. In recent years, we have invested significant efforts and dollars on the development of REV products, which were launched in the second quarter of 2004. The REV Products segment has yet to be profitable at the PPM level due primarily to development costs for next generation REV products, significant marketing expenses to generate market awareness and under-absorbed fixed overhead expenses at the current sales volumes.

In other efforts to replace the declining Zip business, we have launched and attempted to expand our Consumer Storage Solutions and NSS businesses. Sales of the Consumer Storage Solutions business segment now exceed Zip product sales. However, our Consumer Storage Solutions segment has not generated significant gross margins and is not profitable. The NSS business has also incurred losses during each year of its existence including the quarter and the nine months ended October 2, 2005.

As part of an ongoing effort to return to profitability, the Company announced restructuring actions in July of 2005 which were substantially completed during the third quarter of 2005. The restructuring actions are part of an effort to align our cost structure with our expected future revenue levels. The Company anticipates $38 million to $42 million annual savings as a result of these actions. The Company is focused on growing its REV product sales through system integrator programs to generate awareness, server OEM transactions, and adoption in targeted vertical markets such as the professional audio/video market. Additionally, our REV product strategy is to diversify the product assortment in the market and to introduce new REV products of varying capacities. Finally, the Company is focusing on a critical goal of improving HDD gross margins through channel mix, product mix and cost reductions. Management believes that it must make significant progress in these three areas in order to achieve its goal to return the Company to profitability. While Management is focused on this goal, there can be no assurance that the Company will be able to achieve its goal.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Application of Critical Accounting Policies

Areas where significant judgments occur include, but are not limited to: revenue recognition, price protection and rebate reserves, inventory valuation reserves, tax valuation allowances and impairment of goodwill and other intangible assets. Actual results could differ materially from these estimates. For a more detailed explanation of the judgments included in these areas, refer to our Annual Report on Form 10-K for the year ended December 31, 2004. Our critical accounting policies have not changed materially since December 31, 2004.

Seasonality

Our Consumer Storage Solutions business is typically strongest during the fourth quarter. Our European sales are typically weakest during the third quarter due to summer holidays. There can be no assurance that any historic sales patterns will continue and, as a result, sales for any prior quarter are not necessarily indicative of the sales to be expected in any future quarter.

Results of Operations

Our net loss for the quarter ended October 2, 2005 was $12.3 million, or $(0.24) per share, compared with a net loss of $15.9 million, or $(0.31) per share, for the quarter ended September 26, 2004.

Our net loss for the nine months ended October 2, 2005 was $24.7 million, or $(0.48) per share, compared with a net loss of $40.5 million, or $(0.79) per share, for the nine months ended September 26, 2004.

Sales

As shown in the table below, total sales for the quarter ended October 2, 2005 declined primarily due to lower Zip product sales, and lower Consumer Storage Solutions sales.

	For the Quarter Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			

Sales:				
Consumer Products:				
Zip Products	$ 14,868	$ 31,880	$(17,012)	(53)%
Consumer Storage Solutions	27,143	30,892	(3,749)	(12)
Total Consumer Products	42,011	62,772	(20,761)	(33)
Business Products:				
REV Products	10,255	10,338	(83)	(1)
Network Storage Systems	3,279	3,282	(3)	-
Total Business Products	13,534	13,620	(86)	(1)
Other Products	344	870	(526)	(60)
Total sales	$ 55,889	$ 77,262	$(21,373)	(28)%

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Sales (Continued)

Zip product sales continued their expected decline for the quarter ended October 2, 2005, both in terms of units and sales dollars. The $3.7 million lower Consumer Storage Solutions sales resulted from $6.6 million of higher HDD product sales entirely offset by $6.7 million of lower Optical, $3.2 million of lower USB flash drive and $0.5 million of lower floppy external drive sales. Other Products sales decreased due to lower sales of discontinued products.

Our sales by region for the quarters ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Quarter Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
Sales Dollars:				
Americas (includes Latin America)	$ 30,131	$ 42,406	$(12,275)	(29)%
Europe	21,247	28,699	(7,452)	(26)
Asia Pacific	4,511	6,157	(1,646)	(27)
Total	$ 55,889	$ 77,262	$(21,373)	(28)%
Percent of Total Sales:				
Americas (includes Latin America)	54%	55%		
Europe	38	37		
Asia Pacific	8	8		
Total	100%	100%		

The decrease in sales dollars in the Americas was primarily due to lower Zip product sales, partially offset by higher Consumer Storage Solutions. The decrease in sales dollars in Europe was primarily due to lower Zip product sales and lower Consumer Storage Solutions product sales. The decrease in sales dollars in the Asia Pacific region was primarily due to lower Zip and Consumer Storage Solutions product sales, slightly offset by higher REV and NSS product sales.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Sales (Continued)

As shown in the table below, total sales for the nine months ended October 2, 2005 declined primarily due to lower Zip product sales, partially offset by higher sales of REV products which began shipping in April 2004.

	For the Nine Months Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
Sales:				
Consumer Products:				
Zip Products	$ 51,791	$108,419	$(56,628)	(52)%
Consumer Storage Solutions	96,739	98,749	(2,010)	(2)
Total Consumer Products	148,530	207,168	(58,638)	(28)
Business Products:				
REV Products	33,489	17,829	15,660	88
Network Storage Systems	11,218	10,647	571	5
Total Business Products	44,707	28,476	16,231	57
Other Products	1,318	3,386	(2,068)	(61)
Total sales	$194,555	$239,030	$(44,475)	(19)%

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Sales (Continued)

Zip product sales continued their expected decline for the nine months ended October 2, 2005, both in terms of units and sales dollars. The $2.0 million lower Consumer Storage Solutions product sales were comprised of $21.0 million of lower Optical, $4.8 million of lower USB flash drive, $1.0 million of lower floppy external drive sales and partially offset by $24.8 million of higher HDD product sales. REV products began shipping in April 2004 and sales increased during 2005 as REV products were available for sale for a longer period of time during 2005 than in 2004. The higher NSS sales resulted primarily from new products launched in the second half of 2004. The lower Other Products sales resulted from lower sales of discontinued products.

Our sales by region for the nine months ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Nine Months Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
Sales Dollars:				
Americas (includes Latin America)	$ 96,823	$128,761	$(31,938)	(25)%
Europe	83,550	91,560	(8,010)	(9)
Asia Pacific	14,182	18,709	(4,527)	(24)
Total	$194,555	$239,030	$(44,475)	(19)%
Percent of Total Sales:				
Americas (includes Latin America)	50%	54%		
Europe	43	38		
Asia Pacific	7	8		
Total	100%	100%		

The decrease in sales dollars in the Americas was primarily due to lower Zip product sales, partially offset by higher REV product sales. The decrease in sales dollars in Europe was primarily from lower Zip product sales and Consumer Storage Solutions, partially offset by higher REV product sales. The decrease in sales dollars in the Asia Pacific region was primarily due to lower Zip, partially offset by higher REV product sales.

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IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANLAYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross Margin

Our gross margin details for the quarters ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Quarter Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
Total Gross Margin (dollars)	$ 10,999	$ 11,849	$ (850)	(7)%
Total Gross Margin (%)	20%	15%		

Total gross margin dollars in the quarter ended October 2, 2005 decreased primarily from lower Zip product sales. The gross margin percentage in 2004 was lower due to the $4.6 million charge in 2004 due to impairment and other charges related to the DCT program.

The Zip product gross margin percentage remained relatively flat in both the quarters ended October 2, 2005 and September 26, 2004. Total Zip product gross margin dollars decreased due to lower Zip product sales.

Consumer Storage Solutions product gross margins slightly increased in terms of dollars and percentages during the quarter ended October 2, 2005, primarily due to an increase in USB and floppy drive gross margins, partially offset by lower HDD drive product gross margins. As part of the third quarter 2005 restructuring actions, we have started eliminating unprofitable SKUs in the optical and flash drive product lines. All Consumer Storage Solutions products faced competitive pricing pressures during the quarter ended October 2, 2005 and we anticipate continued competitive pricing pressures on these products.

REV product gross margins improved on both a dollar and percentage basis during the quarter ended October 2, 2005. The improvement was primarily due to the fact that manufacturing start-up costs were incurred during the quarter ended September 26, 2004, but were not incurred during the quarter ended October 2, 2005.

Our gross margin details for the nine months ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Nine Months Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
Total Gross Margin (dollars)	$ 41,071	$ 50,980	$(9,909)	(19)%
Total Gross Margin (%)	21%	21%		

Total gross margin dollars for the nine months ended October 2, 2005 decreased primarily due to lower Zip product sales.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Gross Margin (Continued)

Zip product gross margin dollars decreased for the nine months ended October 2, 2005 when compared to the nine months ended September 26, 2004, primarily as a result of lower Zip product sales. The Zip gross margin percentage increased from 44% in the third quarter 2004 to 50% in the third quarter 2005, due to lower overhead costs.

For the nine months ended October 2, 2005, the Consumer Storage Solutions product gross margins dollars and percentage decreased when compared to the same nine month period in 2004. The lower Consumer Storage Solutions margin dollars and percentage was largely due to competition and pricing pressure.

Future gross margin percentages will depend on a wide variety of factors, including those discussed in the section entitled, Factors Affecting Future Operating Results. We can provide no assurance that we will be able to improve gross margins in any subsequent quarter or year.

Product Segment PPM

We evaluate product segment performance based on product profit margin (PPM). PPM is defined as sales and other income related to a segment s operations, less both fixed and variable product costs, research and development expenses, product management expenses, specific selling and marketing expenses and depreciation and amortization related to a segment s operations. When such costs and expenses exceed sales and other income, PPM is referred to as a product loss. The accounting policies of the product segments are the same as those described in Note 1. Intersegment sales, eliminated in consolidation, are not material. The expenses attributable to general corporate activity are not allocated to the product segments. Non-allocated operating expenses include: advanced research and development, shared sales and corporate marketing expenses and general and administrative expenses.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Product Segment PPM (Continued)

Our PPM, product loss and common expenses details for the quarters ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Quarter Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
PPM (Product Loss):				
Consumer Products:				
Zip Products	$ 5,961	$ 12,551	$ (6,590)	(53)%
Consumer Storage Solutions	(1,461)	(2,872)	1,411	49
Total Consumer Products	4,500	9,679	(5,179)	(54)
Business Products:				
REV Products	(1,344)	(5,612)	4,268	76
Network Storage Systems	(322)	(27)	(295)	(1,093)
Total Business Products	(1,666)	(5,639)	3,973	70
Other Products	1,096	(6,583)	7,679	117
Total PPM	$ 3,930	$ (2,543)	$ 6,473	255
Common Expenses:				
General corporate expenses	$ 9,920	$ 14,258	$ (4,338)	(30)%

The decrease in Zip PPM resulted primarily from lower sales. Zip PPM as a percentage of Zip product sales increased slightly to 40% for the quarter ended October 2, 2005 compared to 39% for the quarter ended September 26, 2004, primarily from lower sales and marketing expenses. We anticipate future volatility and declines in Zip PPM as the segment reaches the end of its life cycle.

The Consumer Storage Solutions product loss as a percentage of Consumer Storage Solutions product sales improved to a negative 5% for the quarter ended October 2, 2005 from a negative 9% of product sales for the quarter ended September 26, 2004. The lower product loss resulted primarily from lower sales and marketing expenses.

The REV product loss as a percentage of REV product sales improved to a negative 13% for the quarter ended October 2, 2005 compared to a negative 54% for the quarter ended September 26, 2004. The REV product loss for the quarter ended October 2, 2005 resulted primarily from development costs for next generation REV products and under-absorbed fixed overhead expenses at current volumes. The REV product loss for the quarter ended September 26, 2004 reflected manufacturing start-up costs and high levels of marketing expenses to generate market awareness as sales began in April 2004

NSS had a product loss for the quarter ended October 2, 2005 of $0.3 million compared to near break-even for the quarter ended September 26, 2004. The product loss for the quarter ended October 2, 2005 resulted primarily from higher marketing spending.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Product Segment PPM (Continued)

Other Products PPM improved for the quarter ended October 2, 2005 compared to the quarter ended September 26, 2004 primarily due to a lack of DCT costs as a result of the cancellation of the DCT development program in the second half of 2004. The third quarter of 2004 included $4.6 million of impairment and other charges related to the wind-down of the DCT program.

The decrease in general corporate expenses for the quarter ended October 2, 2005 compared to the quarter ended September 26, 2004 reflected lower costs resulting primarily from the restructuring plans implemented in 2004 and 2005. As a percentage of sales, general corporate expenses were slightly lower for the quarter ended October 2, 2005 compared to the quarter ended September 26, 2004.

Our PPM, product loss and common expenses details for the nine months ended October 2, 2005 and September 26, 2004 are shown in the table below:

	For the Nine Months Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Change
	(In thousands, except %)			
PPM (Product Loss):				
Consumer Products:				
Zip Products	$ 23,740	$ 41,393	$(17,653)	(43)%
Consumer Storage Solutions	(4,502)	(3,596)	(906)	(25)
Total Consumer Products	19,238	37,797	(18,559)	(49)
Business Products:				
REV Products	(4,746)	(17,898)	13,152	73
Network Storage Systems	(588)	(521)	(67)	(13)
Total Business Products	(5,334)	(18,419)	13,085	71
Other Products	1,751	(10,870)	12,621	116
Total PPM	$ 15,655	$ 8,508	$ 7,147	84
Common Expenses:				
General corporate expenses	$ 33,725	$ 46,723	$(12,998)	28%

The decrease in Zip PPM resulted primarily from lower sales, partially offset by higher gross margin percentages as described above. Zip PPM as a percentage of Zip product sales increased to 46% for the nine months ended October 2, 2005 from 38% for the nine months ended September 26, 2004, primarily from the higher gross margin percentages described above and from lower sales and marketing expenses.

The Consumer Storage Solutions product loss as a percentage of Consumer Storage Solutions product sales declined slightly to a negative 5% for the nine months ended October 2, 2005 from a negative of 4% of product sales for the nine months ended September 26, 2004. The nine months ended October 2, 2005 included a $1.5 million benefit from a change in estimated copyright royalty accruals in Europe. The increased product loss percentage resulted primarily from lower gross margins, both in terms of dollars and percentage (as described above) and higher research and development expenses, partially offset by lower sales and marketing expenses.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Product Segment PPM (Continued)

The REV product loss as a percentage of REV product sales was a negative 14% for the nine months ended October 2, 2005 compared to a negative 100% for the nine months ended September 26, 2004. The REV product loss for the nine months ended October 2, 2005 resulted primarily from development costs for next generation REV products, marketing spending to improve REV product awareness and under-absorbed fixed overhead expenses at current volumes. The REV product loss for the nine months ended September 26, 2004 reflected research and development expenses for the completion of the REV products, manufacturing start-up costs and high levels of marketing expenses to generate market awareness as sales began in April 2004. Sales and marketing expenses decreased $4.5 million for the nine months ended October 2, 2005, compared to the nine months ended September 26, 2004.

The NSS product loss as a percentage of NSS product sales was a negative 5% for both the nine months ended October 2, 2005, and the nine months ended September 26, 2004.

Other Products PPM improved for the nine months ended October 2, 2005 compared to the nine months ended September 26, 2004, primarily due to a lack of DCT costs as a result of the cancellation of the DCT development program in the second half of 2004. Other products product loss, during the nine months ended September 26, 2004, included $4.6 million of impairment and other charges to wind-down the DCT program.

The decrease in general corporate expenses for the nine months ended October 2, 2005 compared to the nine months ended September 26, 2004 reflected lower costs resulting primarily from the restructuring plans implemented in 2004 and the third quarter of 2005. As a percentage of sales, general corporate expenses decreased to 17% of sales for the nine months ended October 2, 2005 compared to 20% for the nine months ended September 26, 2004.

Operating Expenses

The table below shows the details of and changes in operating expenses for the quarters ended October 2, 2005 and September 26, 2004.

	For the Quarter Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Cha
	(In thousands, except %)			
Operating Expenses:				
Selling, general and administrative	$ 14,192	$ 21,546	$ (7,354)	(3
Research and development	3,330	6,899	(3,569)	(5
License and patent fee income	(889)	-	(889)	

Restructuring charges	6,579	2,293	4,286	18
Bad debt expense	356	205	151	7
Total Operating Expenses	$ 23,568	$ 30,943	$ (7,375)	(2

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IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Expenses (Continued)

The table below shows the details of and changes in operating expenses for the nine months ended October 2, 2005 and September 26, 2004.

	For the Nine Months Ended			
	Oct. 2, 2005	Sept. 26, 2004	$ Change	% Cha
	(In thousands, except %)			
Operating Expenses:				
Selling, general and administrative	$ 48,828	$ 69,182	$(20,354)	(2
Research and development	11,550	20,068	(8,518)	(4
License and patent fee income	(1,301)	-	(1,301)	
Restructuring charges	6,773	2,991	3,782	12
Bad debt (credit) income	64	(55)	119	(21
Total Operating Expenses	$ 65,914	$ 92,186	$(26,272)	(2

Selling, General and Administrative Expenses

The decrease in selling, general and administrative expenses for the quarter and nine months ended October 2, 2005 compared to the same periods ended September 26, 2004 reflected lower costs resulting primarily from implementing the 2004 and 2005 restructuring plans. Selling, general and administrative expenses decreased as a percentage of sales to 25% for the quarter ended October 2, 2005, compared to 28% for the quarter ended September 26, 2004. Selling, general and administrative expenses decreased as a percentage of sales to 25% for the nine months ended October 2, 2005, compared to 29% for the nine months ended September 26, 2004.

Research and Development Expenses

Lower research and development expenses for the quarter and nine months ended October 2, 2005 reflected the cancellation of the DCT development program in the second half of 2004 and cost savings from the 2004 and 2005 restructuring actions, partially offset by higher Consumer Storage Solutions research and development activities, primarily on HDD. As a result, research and development expenses decreased as a percentage of sales to 6% for the quarter ended October 2, 2005, compared to 9% for the quarter ended September 26, 2004 and decreased to 6% for the nine months ended October 2, 2005, compared to 8% for the nine months ended September 26, 2004.

License and Patent Fee Income

For the quarter ended October 2, 2005, license and patent fee income of $0.9 million was recognized from an intellectual property license agreement entered into in the second quarter of 2004.

For the nine months ended October 2, 2005, license and patent fee income totaling $1.3 million was recognized from two intellectual property license agreements, one entered into in the second quarter of 2004 and the other entered into in the second quarter of 2005.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Operating Expenses (Continued)

Bad Debt Expense

For the quarter ended October 2, 2005, bad debt expense of $0.4 million increased by $0.2 million compared to bad debt expense of $0.2 million for the quarter ended September 26, 2004 resulting from specific reserves taken on customers with whom the Company has discontinued business.

For the nine months ended October 2, 2005, bad debt expense of $0.1 million increased by $0.2 million, compared to a bad debt credit of $0.1 for the nine months ended September 26, 2004.

Restructuring Charges

During the third quarter of 2005, we recorded total restructuring charges of $6.6 million of which $4.9 million related to the 2005 restructuring actions, $0.3 million related to the 2004 restructuring actions, and $1.4 million related to the 2003 restructuring actions and the 2001 restructuring actions. These charges are described below.

The 2005 restructuring charges of $4.9 million were related to and included $3.5 million of cash charges for severance and benefits for approximately 120 personnel worldwide who were notified during the third quarter of 2005 that their positions were being eliminated, $0.7 million of cash charges for miscellaneous contract cancellations, $0.3 million of cash charges for lease termination costs and $0.4 million of non-cash charges related to excess furniture, leasehold improvements and other miscellaneous assets. The 2004 restructuring actions were charged an additional $0.3 million of restructuring charges primarily related to lease cancellations. The 2001 and 2003 restructuring action charges totaled $1.4 million primarily related to the 2003 restructuring actions for leases due to our inability to sublease the facility as a result of the market conditions in Roy, Utah.

During the second quarter of 2005, we had a net release of less than $0.1 million related to excess severance and benefits from the 2004 restructuring actions.

During the first quarter of 2005, we recorded restructuring charges of $0.2 million related to the ratable recognition of severance and benefits for those employees that remained on transition under the 2004 restructuring actions.

During the third quarter of 2004, we recorded pre-tax restructuring charges of $2.3 million. These charges included $2.1 million for the 2004 restructuring actions and $0.2 million for the 2001 restructuring actions. The $0.2 million was related to lease expenses and the facilities vacated in 2001 as part of the restructuring actions initiated during 2001, which we were unable to sublease until the fourth quarter of 2004.

During the second quarter of 2004, the Company recorded pre-tax restructuring charges of $0.2 million related to the ratable recognition of severance for those employees that were on transition during the second quarter of 2004 under the 2003 restructuring actions.

During the first quarter of 2004, we recorded restructuring pre-tax charges of $0.5 million related to lease expenses for facilities vacated in 2001 as part of the restructuring actions initiated during 2001, which we were unable to sublease until late 2004. See Note 4, Restructuring Charges of the notes to condensed consolidated financial statements for more detail on the restructuring reserve activity.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Interest Income

Interest income of $0.7 million in the third quarter of 2005 increased by $0.3 million from $0.4 million in the third quarter of 2004. Interest income of $1.7 million for the first nine months of 2005 increased by $0.6 million from $1.1 million in the first nine months of 2004. The increase for the third quarter and nine month periods resulted primarily from higher interest rates.

Interest Expense and Other Income and (Expense), Net

Interest expense and other income and (expense), net, was an expense of $0.1 million for the quarter ended October 2, 2005 compared to $2.1 million for the quarter ended September 26, 2004. The decrease of $2.0 million resulted primarily from the release of $1.8 million of various accruals in the third quarter of 2004 for a European subsidiary for which operations ceased in 1999 and from lower foreign currency gains of $0.4 million.

Interest expense and other income and (expense), net, was an expense of $1.8 million for the nine months ended October 2, 2005 compared to income of $1.6 million for the nine months ended September 26, 2004. The decrease of $3.4 million resulted primarily from the release of various accruals in 2004 for a European subsidiary for which operations ceased in 1999 and from higher foreign currency losses of $1.2 million.

Income Taxes

For the quarter ended October 2, 2005, we recorded a net income tax provision of $0.4 million on a pre-tax loss of $12.0 million. The statutory tax benefit of $4.2 million, resulting from operating losses, was entirely offset by a tax charge to increase the valuation allowance. The net tax provision of $0.4 million was comprised primarily of foreign taxes.

For the quarter ended September 26, 2004, the Company recorded a net tax benefit of $0.8 million, on a pre-tax loss of $16.7 million. The net tax benefit for the quarter ended September 26, 2004 was comprised of a $6.5 million statutory tax benefit on the quarter s pre-tax loss and a $1.2 million benefit primarily from additional state net operating loss carryforwards (NOLs), partially offset by a $6.9 million tax provision from an increased valuation allowance primarily from changes in NOLs.

For the nine months ended October 2, 2005, we recorded an income tax benefit of $0.4 million on a pre-tax loss of $25.0 million. The statutory tax benefit of $8.8 million, resulting from operating losses, was entirely offset by tax charges to increase the valuation allowance. The net tax benefit of $0.4 million was comprised of $0.8 provision of foreign taxes primarily Swiss withholding taxes, and $1.2 million benefit of various adjustments related to deferred taxes.

For the nine months ended September 26, 2004, the Company recorded a net tax provision of $2.0 million, on a pre-tax loss of $38.6 million. The net tax provision was comprised of a $20.1 million increase in the valuation allowance resulting primarily from new foreign tax credits and loss carryforwards, partially offset by the statutory tax benefit of $15.0 million on the pre-tax loss for the nine months ended September 26, 2004, a $1.9 million benefit resulting primarily from the release of tax accruals associated with the Company s foreign operations and a $1.2 million benefit resulting primarily from additional state NOLs. Included in the $20.1 million increase in the valuation allowance was a $7.8 million increased valuation allowance resulting from

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Income Taxes (Continued)

new foreign tax credits created by deemed Swiss withholding taxes on foreign earnings. The recording of the new foreign tax credits was the result of a change in the Company s intention to repatriate foreign cash to the U.S. in the form of dividends in the future.

We have evaluated the repatriation provisions of the American Jobs Creation Act of 2004 and at this time, in an effort to conserve cash, we do not anticipate utilizing this provision.

Liquidity and Capital Resources

Detail of our total cash, cash equivalents and temporary investments is shown in the table below:

	Oct. 2, 2005	Dec. 31, 2004	$ Change	% Change
	(In thousands, except %)			
Total cash, cash equivalents, and temporary investments for the U.S. entity(1)	$ 7,484	$ 14,307	$(6,823)	(48)%
Total cash, cash equivalents and temporary investments for non-U.S. entities (2)	$ 90,883	106,502	(15,619)	(15)
Total consolidated cash, cash equivalents and temporary investments	$ 98,367	$120,809	$(22,442)	(19)
Working capital	$ 73,887	$ 98,236	$(24,349)	(25)%

(1) Of the $7.5 million in total cash and cash equivalents for the U.S. entity at October 2, 2005, we do not have access to less than $0.2 million which is from ByteTaxi. We began consolidating our investment in ByteTaxi in January 2005.

(2) Of the $90.9 million in total cash, cash equivalents and temporary investments for non-U.S. entities, $0.3 million was restricted at October 2, 2005. None of the Company s total cash, cash equivalents and temporary investments were restricted at December 31, 2004.

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IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources (Continued)

On average, we anticipate incurring taxes of approximately 5% or less on cash balances repatriated to the U.S. For the nine months ended October 2, 2005, cash used by operations amounted to $21.7 million. The primary uses of cash from operations for the nine months ended October 2, 2005 was from the $24.7 million of operating losses; $5.4 million for restructuring disbursements; $1.5 million for the payment of annual and other management bonus plans and changes in current assets and current liabilities as described below.

Trade receivables decreased in the nine months ended October 2, 2005, due to lower overall sales. Days sales outstanding (DSO) in receivables increased from 31 days at December 31, 2004 to 43 days at October 2, 2005. DSO increased primarily due to the timing of sales resulting from the back-to-school promotions that increased receivables towards the end of third quarter 2005. Inventories decreased during the nine months ended October 2, 2005 primarily due to lower material receipts and improved materials management through the implementation of the regional assembly process.

Other current liabilities decreased $12.9 million primarily from: (1) $3.7 million of lower accrued payroll, vacation and bonus accruals due to the payment of annual and other management bonus plans in January 2005 that were accrued at December 31, 2004, and fewer employees at October 2, 2005; (2) $3.1 million of lower marketing and advertising accruals reflecting the lower marketing and advertising activity as part of our cost cutting efforts; (3) $2.1 million of lower margin on deferred sales as the estimated amount of excess channel inventory decreased; and (4) $2.1 million of lower accrued royalties primarily from a $1.5 million non-recurring benefit from a change in estimated accrued copyright royalties in Europe. Accounts payable decreased due to lower purchases reflecting the lower sales volumes and the increased efforts to reduce inventories as well as an increased effort to reduce operating costs.

Our goal is to reverse the negative cash flows from operations through the implementation of the 2005 restructuring actions and other cost reductions, continued focus on cash flow management, improving REV product sales and margins, improving the financial results of the Consumer Storage Solutions business, in particular HDD, profitably growing the NSS business and managing the Zip Products business for cash flow. However, we can give no assurance that we will be successful in achieving any of these goals.

We believe that our balance of total unrestricted cash, cash equivalents and temporary investments will be sufficient to fund anticipated working capital requirements, funding of restructuring actions, capital expenditures and cash required for other activities for at least one year. However, cash flow from future operations, investing activities and the precise amount and timing of our future financing needs cannot be determined. Future cash flow will depend on a number of factors, including management s ability to achieve the goals set forth in the preceding paragraph and those factors set forth in the section labeled Factors Affecting Future Operating Results. Should we be unable to meet our cash needs from our current balance of total unrestricted cash, cash equivalents and temporary investments and future cash flows from operations, we would most likely incur additional restructuring charges to adjust our expenditures to a level that our cash flows could support and /or seek financing from other sources.

Our current balance of total unrestricted cash, cash equivalents and temporary investments is our sole source of liquidity. Given our history of sales declines and losses, there is no assurance that, if needed, we would be able to obtain financing from external sources or obtain a competitive interest rate.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Other Matters

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123r, Share-Based Payment (SFAS 123r). SFAS 123r provides accounting guidance for stock-based payments to employees. SFAS 123r revises SFAS 123 by eliminating the choice of using the intrinsic recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and requiring all companies to use the fair value method of measuring stock compensation expense. SFAS 123r clarifies and expands SFAS 123 s guidance in several areas, including measuring fair value, classifying an award as equity or a liability, attributing compensation cost to reporting periods as well as adding several new disclosure requirements. SFAS 123r also changes the accounting for the tax effects of options, including the presentation of the tax effects on the condensed consolidated statements of cash flows. On April 14, 2005, the SEC announced that it had delayed the implementation date for calendar year-end companies to January 1, 2006. We are currently accounting for all of our stock-based compensation under the fair value method as outlined in SFAS 123 and will adopt SFAS 123r beginning in the first quarter of 2006. We have not yet evaluated the potential impacts of SFAS 123r.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 was issued in part to improve the comparability of financial reporting with International Accounting Standards. SFAS 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005 and we will adopt it at that time. The future impact to us will depend entirely on the nature of any future accounting changes.

Subsequent Events

Following the quarter ended October 2, 2005, the Company reached an agreement to sell its investment in ByteTaxi, Inc. Specifically, on October 28, 2005, Iomega, ByteTaxi, Inc., and certain major shareholders of ByteTaxi, Inc. entered into a Termination Agreement, under which Iomega would receive a total of $2.9 million (payable as described below) in return for the sale of Iomega s equity ownership of ByteTaxi, Inc. and termination of Iomega s distribution rights to FolderShare software. This Agreement was part of a larger series of transactions whereby Microsoft Corporation purchased all of the stock of ByteTaxi, Inc. Iomega received $2.4 million on October 28, 2005 and the remaining funds (approximately $0.5 million) are to be paid during the fourth quarter of 2006, subject to the satisfaction of certain escrow and indemnity terms.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results

Demand for our Products and Operating Efficiencies

Our future operating results will depend upon our ability to operate profitably in an industry characterized by intense competition, rapid technological advances, and low margins. This, in turn, will depend on a number of factors, including:

- Worldwide market conditions and demand for digital storage products;
- Our ability to replace rapidly declining Zip revenues and profits with revenues and profits from other products, particularly our REV products;
- Our ability to generate significant sales and PPM from REV products, which may require considerable
- OEM adoption of REV products;
- Our ability to significantly improve HDD gross margins;
- Our success in meeting targeted availability dates for new and enhanced products;
- Our ability to develop and commercialize new intellectual property and to protect existing intellectual property;
- Our ability to maintain profitable relationships with our distributors, retailers, and other resellers;
- Our ability to maintain an appropriate cost structure and achieve the cost savings goals of the 2005 restructuring plan;
- Our ability to attract and retain competent, motivated employees;
- Our ability to comply with applicable legal requirements throughout the world; and
- Our ability to successfully manage litigation, including enforcing our rights, protecting our interests, and defending claims made against us.

These factors are difficult to manage, satisfy, and influence. In spite of considerable efforts, we have been unable to operate profitably on an annual basis since 2002, and we cannot provide any assurance that we will be able to operate profitably in the future.

Zip Drives and Disks

Zip products have accounted for the vast majority of our sales and PPM since 1997, and have provided our only meaningful source of PPM for the past several years. However, Zip product sales have declined consistently and significantly on a year-over-year basis since peaking in 1999. These declines are expected to continue through the end of the Zip product lifecycle due to general obsolescence of Zip technology and the emergence of alternate storage solutions. Given this continuing decline, we can offer no assurance that we will be able to maintain profitable operations on our Zip business in any subsequent quarter or year. Further, we will not be viable unless we generate significant PPM from products other than Zip products. We have been unable to do this for several years and can provide no assurance that we will be able to do so in the future.

As Zip product segment sales and profits continue to decline, the risk increases that the $11.7 million of goodwill associated with the Zip product segment will become impaired and that impairment charges will become necessary. We anticipate that the Zip goodwill may start to become impaired in late 2005 or early 2006.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results (Continued)

REV Products

We continue to believe that in the current environment, our REV product line (launched in April 2004) represents the most realistic opportunity to develop a PPM stream which could at least partially offset the rapidly declining Zip PPM. Our introduction of REV products entails numerous risks relating to factors such as the following:

- Inability to create product awareness or lack of market acceptance;
- Failure to maintain acceptable arrangements with product suppliers, particularly in light of lower than anticipated volumes;
- Failure to achieve significant OEM adoption of the products;
- Unforeseen manufacturing, technical, supplier, or quality-related delays, issues, or concerns;
- Intense competition from competing technologies; and
- Risks that third parties may assert intellectual property claims against REV products.

It is unlikely that we will be able to operate profitably unless and until REV products generate significant revenue, including OEM adoption and positive PPM. We can offer no assurance that we will be able to successfully resolve any of the preceding challenges or that we will be able to generate significant PPM from our REV business.

Consumer Storage Solutions

Through the second quarter of 2005, our Consumer Storage Solutions segment was comprised of optical (CD-RW and DVD rewritable) drives, external hard drives, USB flash drives, and external floppy drives. After managing down current inventories on certain unprofitable optical and flash drive products, we intend to primarily focus our future efforts in this segment on external hard-disk drive related products.

Virtually all of our Consumer Storage products are commodity-type products which are functionally equivalent to many other widely available products. These competing products are marketed by both name-brand manufacturers and generic competitors. Moreover, besides our trademarks, we own minimal intellectual property relating to our consumer products. Consequently, this segment is characterized by intense competition, the frequent introduction of new products and upgrades for existing products, supply fluctuations, and frequent end user price reductions. In order to successfully compete, we must accurately forecast demand, closely monitor inventory levels, secure quality products, meet aggressive product price and performance targets, create market demand for our brand, and hold sufficient, but not excess, inventory. Historically, we have failed to accomplish these objectives and this business has never achieved full year profitability.

We intend to continue our efforts with respect to our Consumer Storage Solutions segment, with a particular focus on HDD products. However, in light of the preceding challenges, we can offer no assurance that we will achieve sustainable profitability on this segment.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results (Continued)

Network Storage Systems

We focus on the entry-level and low-end Network Attached Storage markets, where we attempt to leverage our small- to medium-sized business customer base and channel customers, including existing resellers already focused on these customers. Notwithstanding this leverage of existing channels, this business has never achieved full year profitability and we can offer no assurance that we will achieve sustainable profitability on this segment.

Development and Introduction of New Products and New Revenue Streams

We believe that we must continually either develop or acquire the right to profitably sell new products in order to remain viable in the data storage industry. However, our efforts in this regard have frequently been unsuccessful. Since 1999, we have developed and/or acquired the right to market a variety of new products, but we have been unable to maintain consistent materially profitable operations on any of them.

We are spending significant resources attempting to develop new products, including next-generation REV products. We may spend additional resources attempting to acquire the rights to new technologies, to fund development of such technologies, or to otherwise differentiate existing products. We can provide no assurance that any of these expenditures will yield profits.

Restructuring, Other Cost Reduction Activities and Retention of Key Personnel

As discussed in Note 4 of the notes to condensed consolidated financial statements, in the third quarter of 2005, we announced a significant restructuring plan in conjunction with our ongoing goals to simplify our business, align our cost structure with expected revenue streams and return to profitability. We face risks of losing key institutional knowledge and internal controls as a result of workforce reductions and changes within the executive management team. In addition, our ability to retain key employees may be adversely affected as a result of the recent restructuring activities, our recent financial performance, increased workloads resulting from the restructuring, and recent improvements in the U.S. and European economies. Moreover, our decision to wind down activities in various product lines may result in excess inventory, the inability to sell existing inventory, or may adversely affect our relationships with resellers. Any of these events could have a material adverse impact upon our business. We can offer no assurance that we will achieve projected cost savings or return to profitability as a result of our restructuring efforts, or that we will be able to retain key management, employees, and know-how.

Internal Control Reporting Compliance Efforts

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in each annual report a report on internal control over financial reporting.

For the year ended December 31, 2004, we reported a material weakness in internal control related to control weaknesses at our distribution and logistics service provider. We believe that we remediated this control weakness during the second quarter of 2005 through the implementation and testing of various internal compensating controls.

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IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results (Continued)

However, we are at risk that any future failure of our own internal controls or the internal control at any of our outsourcing partners could result in additional reported material weaknesses. The 2005 restructuring actions and reduced headcount (see Note 4 of the notes to condensed consolidated financial statements) increased the risk of a process breakdown and possible internal control deficiencies. In addition, we are currently recruiting for a new Chief Financial Officer; Thomas Liguori resigned, effective November 11, 2005, and Thomas D. Kampfer (who has served as Interim Chief Financial Officer for Iomega in the past) will again act as Interim CFO following Mr. Liguori s departure. Although we continue to invest resources in Section 404 compliance activities, we can provide no assurance that we will be successful in these efforts to avoid reporting a future material weakness of internal control. Any such reported material weakness could have a material impact on our market capitalization, financial statements or have other adverse consequences.

Product Manufacturing and Procurement

We have fully outsourced all manufacturing and have no direct control over the manufacturing processes of our products. This lack of control may increase quality or reliability risks and could limit our ability to quickly increase or decrease production rates.

Zip and REV products are each manufactured by single manufacturers, which creates risks of disruption in the event of labor, quality or other problems at the Zip or REV product manufacturers. In addition, product manufacturing costs may increase if we fail to achieve anticipated volumes. There can be no assurance that we will be able to successfully manage these risks.

Outsourced Distribution and Logistics

Because we have outsourced our distribution and logistics centers, we rely upon the computer systems, business processes, and internal controls of our distribution and logistics services providers. These systems may develop communication, compatibility, control or reliability problems. In addition, we face risks of operational interruptions, missed or delayed shipments, unexpected price increases and inventory management risks. Since the first quarter 2004 transition to the current distribution and logistics service providers, we have experienced operational disruptions and have reported a material weakness in internal control over financial reporting due to some of these factors. We hope to realize cost savings and operational efficiencies as a result of outsourcing distribution and logistics services, but can provide no assurance that we will do so.

Reporting of Channel Inventory and Product Sales by Channel Partners

We defer recognition of sales on estimated excess inventory in the distribution, retail and catalog channels. For this purpose, excess inventory is the amount of inventory that exceeds the channels four-week requirements as estimated by management. We rely on reports from our distributors and resellers to make these estimations. Although we have processes and systems checks in place to help reasonably ensure the accuracy of the reports, we cannot guarantee that the third-party data, as reported, will be accurate.

IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results (Continued)

Company Operations, Component Supplies and Inventory

In light of our declining revenues and recent operating losses, it is becoming increasingly difficult to negotiate or maintain favorable pricing, supply, business, or credit terms with our vendors, suppliers, and service providers; in some cases existing vendors, suppliers and service providers have begun imposing more stringent terms or even eliminating credit altogether. We anticipate continued challenges in this area for the foreseeable future.

Although we have fully outsourced our manufacturing, we have retained responsibility for the supply of certain key components. It can be difficult to obtain a sufficient supply of key components on a timely and cost effective basis. Many components that we use are available only from single source or from a limited number of suppliers and are purchased without guaranteed supply arrangements. Should REV product volumes fail to ramp significantly, we may experience component cost increases and other component availability challenges. As suppliers upgrade their components, they regularly end of life older components. As the Company becomes aware of an end of life situation, we attempt to make purchases to cover all future requirements or find a suitable substitute component. In such cases, we may not be successful in obtaining sufficient numbers of components or in finding a substitute. In summary, we can offer no assurance that we will be able to obtain a sufficient supply of components on a timely and cost effective basis. Our failure to do so would lead to a material adverse impact on our business.

Purchase orders for components or finished products are based on forecasted future sales requirements. It is difficult to estimate future product demand for new products or products with declining sales. Further, our customers frequently adjust their ordering patterns in response to factors such as inventory on hand, new product introductions; seasonal fluctuations; promotions; market demand; and other factors. As a result, our estimates, when inaccurate, can result in excess purchase commitments. We have recorded significant charges in the past relating to excess purchase commitments and inventory reserves and these charges can adversely impact our financial results. We may be required to take similar charges attributable to forecasting inaccuracies in the future.

Intellectual Property Risks

Patent, copyright, trademark or other intellectual property infringement claims have been and may continue to be asserted against us at any time. Such claims could have a number of adverse consequences, including an injunction against current or future product shipments, liability for damages and royalties, indemnification obligations and significant legal expenses. We try to protect our intellectual property rights through a variety of means, including seeking and obtaining patents, trademarks and copyrights, and through license, nondisclosure and other agreements. Any failure or inability to adequately protect our intellectual property rights could have material adverse consequences.

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IOMEGA CORPORATION AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Factors Affecting Future Operating Results (Continued)

Legal Risks

We have entered into multiple agreements, including license, service, supply, resale, distribution, development and other agreements in multiple jurisdictions throughout the world. We are also subject to an array of regulatory and compliance requirements, including foreign legal requirements and a complex worldwide tax structure. In addition, we employ several hundred individuals throughout the world. Although we attempt to fulfill all of our obligations, enforce all of our rights, and comply with all applicable laws and regulations under these agreements and relationships, we can offer no assurance that we will be able to do so. We have been sued and may be sued under numerous legal theories, including breach of contract, tort, products liability, intellectual property infringement, and other theories. Such litigation, regardless of outcome, may have an adverse effect upon our profitability or public perception. In addition, although we seek to manage the credit granted to our customers, certain trade receivable balances from one or more customers could become uncollectible; this could adversely affect our financial results.

Other Risk Factors

We are subject to risks associated with general economic conditions and consumer confidence. Any disruption in consumer confidence or general economic conditions including those caused by acts of war, terrorism or other factors could affect our operating results. Significant portions of our sales are generated in Europe and Asia. We invoice the majority of our European customers in Euros and invoice our remaining customers in U.S. dollars. Fluctuations in the value of foreign currencies relative to the U.S. dollar that are not sufficiently hedged by international customers invoiced in U.S. dollars could result in lower sales and have an adverse effect on future operating results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

For quantitative and qualitative disclosures about market risk affecting Iomega, see Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which is incorporated herein by reference. Our exposure to market risk has not changed materially since December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES:

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of October 2, 2005. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and formsDisclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, include its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company s disclosure controls and procedures as of October 2, 2005, our chief executive officer and chief

IOMEGA CORPORATION AND SUBSIDIARIES

CONTROLS AND PROCEDURES (Continued)

financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

As part of the third quarter 2005 restructuring actions (see Note 4 of the notes to condensed consolidated financial statements), we significantly reduced worldwide headcount, including within the finance function, thereby necessitating that fewer people perform the required finance and accounting functions; and outsourced our tax department to a major independent accounting firm, in particular, the calculation of the quarterly tax provision. Based on the evaluation of the Company s disclosure controls and procedures as of October 2, 2005, we are not aware of any material adverse impacts on our internal control over financial reporting as a result of these changes.

No other changes, in our internal control, over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the third quarter ended October 2, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications of our chief executive officer and chief financial officer attached as Exhibits 31.9 and 31.10 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

IOMEGA CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS:

We did not sell any equity securities during the quarter ended October 2, 2005 that were not registered under the Securities Act of 1933.

During the quarter ended October 2, 2005, we did not repurchase any shares of our Common Stock. As of October 2, 2005, approximately $122.3 million remained available for future repurchases under the $150 million stock repurchase plan authorized by our Board of Directors on September 28, 2000. The repurchase plan does not have a fixed termination date.

ITEM 6. EXHIBITS:

The exhibits listed on the Exhibit Index filed as a part of this Quarterly Report on Form 10-Q are incorporated herein by reference.

IOMEGA CORPORATION AND SUBSIDIARIES
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IOMEGA CORPORATION
(Registrant)

Dated: November 10, 2005	/s/ Werner T. Heid Werner T. Heid President and Chief Executive Officer
Dated: November 10, 2005	/s/ Thomas Liguori Thomas Liguori Vice President, Finance and Chief Financial Officer (Principal financial and accounting officer)

IOMEGA CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description
10.31	Executive Agreement, signed October 18, 2005, between Iomega and Anna Aguirre.
10.32	Executive Agreement, signed October 20, 2005, between Iomega and Ulrike Tegtmeier.
31.9	Section 302 certification letter from Werner T. Heid, President and Chief Executive Officer.
31.10	Section 302 certification letter from Thomas Liguori, Vice President, Finance and Chief Financial Officer.
32.7	Section 906 certification letter from Werner T. Heid, President and Chief Executive Officer.
32.8	Section 906 certification letter from Thomas Liguori, Vice President, Finance and Chief Financial Officer.