

IOMEGA CORP
Form 10-Q
August 09, 2007

**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 JULY 1, 2007

OR

**[] 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

jurisdiction

(State or other

(IRS employer identification number)

of incorporation or organization)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 31, 2007.

Common Stock, par value \$0.03

1/3

55,319,520

(Title of each class)

(Number of shares)

**IOMEGA CORPORATION AND SUBSIDIARIES
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**IOMEGA CORPORATION AND SUBSIDIARIES
NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as “may,” “will,” “could,” “project,” “believe,” “anticipate,” “expect,” “estimate,” “continue,” “potential,” “contingency(ies),” “plans,” “forecasts,” “forecasted,” “we generally,” “reserves,” “objectives” and the like, or the use of future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. These forward-looking statements include, but are not limited to, statements concerning:

- Our goals for 2007, which are: (1) to continue to grow and deliver sustained profitability; (2) to further increase the size of our HDD business; (3) to continue to penetrate the high-growth NAS market; (4) to ramp REV[®] 70GB products and push for broad market adoption; (5) to grow our managed services business domestically and abroad; and (6) to continue to evaluate new opportunities where we can leverage our brand and channel assets.
 - Our goal of increasing cash flow from operations;
- Our goal to achieve 2007 full year profitability and positive cash flow from operations through containing operating expense spending, HDD sales growth and maintaining or improving the gross margins and growing REV product sales;
 - References to the ongoing efforts to complete our transition to a new distribution and logistics supplier;
- References to our fourth quarter being seasonally strong, or our summer months being seasonally slow in Europe due to holidays;
 - Expected future taxes including taxes on repatriation of cash from Europe to the U.S.;
 - References to expected volatility, expected term and value of stock options;
 - The Section below entitled “Risk Factors”, including all discussions therein concerning things that could happen to Iomega[®], its products, employees, profits or other aspects of the business in the future;
 - All references to our focus or intended focus for our sales efforts;
- The belief that our balance of cash, cash equivalents and temporary investments, together with cash flows from future operations, 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.

There are numerous factors that could cause actual events or our actual 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” and “Quantitative and Qualitative Disclosures About Market Risk” included in Items 2 and 2 of Part I and “Risk Factors” included in Item 1A of Part II of this Quarterly Report on Form 10-Q. In addition, any forward-looking statements represent our estimates only as of the day this Quarterly Report was first filed with the SEC and undue reliance should not be placed on these statements. We specifically disclaim any obligation to update forward-looking statements, even if our estimates change.

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IOMEGA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	July 1, 2007	Dec. 31, 2006
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 70,274	\$ 56,617
Restricted cash	88	88
Temporary investments	4,766	11,443
Trade receivables, less allowance for doubtful accounts of \$955 at July 1, 2007 and \$1,535 at December 31, 2006	21,402	30,418
Inventories	41,530	42,593
Deferred income taxes	2,247	2,747
Other current assets	2,385	3,401
Total Current Assets	142,692	147,307
Property and Equipment, at Cost		
Property and Equipment, at Cost	75,846	84,845
Accumulated Depreciation	(70,685)	(78,292)
Net Property and Equipment	5,161	6,553
Goodwill		
Goodwill	9,818	12,451
Other Intangibles, Net		
Other Intangibles, Net	925	1,043
Other Assets		
Other Assets	17	60
Total Assets	\$ 158,613	\$ 167,414
Current Liabilities:		
Accounts payable	\$ 30,888	\$ 35,105
Other current liabilities	22,350	32,475
Income taxes payable	1,646	454
Total Current Liabilities	54,884	68,034
Deferred Income Taxes		
Deferred Income Taxes	8,048	9,573
Other Liabilities		
Other Liabilities	2,842	-
Commitments and Contingencies (Notes 4 and 5)		
Stockholders' Equity:		
Common Stock, \$0.03 1/3 par value - authorized 400,000,000 shares, issued 55,317,270 shares at July 1, 2007 and 55,307,770 shares at December 31, 2006	1,847	1,846
Additional paid-in capital	60,426	59,635
Less: 575,200 Common Stock treasury shares, at cost, at July 1, 2007 and December 31, 2006	(5,662)	(5,662)
Retained earnings	36,228	33,988
Total Stockholders' Equity	92,839	89,807
Total Liabilities and Stockholders' Equity	\$ 158,613	\$ 167,414

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 Three Months Ended	
	July 1, 2007	July 2, 2006
	(Unaudited)	
Sales	\$ 59,319	\$ 40,652
Cost of sales	47,180	33,859
Gross Margin	12,139	6,793
Operating Expenses:		
Selling, general and administrative	10,397	10,510
Research and development	1,784	2,475
Restructuring charges (reversals)	(44)	4,291
Goodwill impairment charge	1,253	2,341
License and patent fee income	(102)	(1,085)
Bad debt credit	(102)	(153)
Total Operating Expenses	13,186	18,379
Operating loss	(1,047)	(11,586)
Interest income	605	776
Interest expense and other income (expense), net	307	(386)
Loss before income taxes	(135)	(11,196)
Benefit for income taxes	1,226	797
Net Income (Loss)	\$ 1,091	\$ (10,399)
Net Income (Loss) Per Basic Share	\$ 0.02	\$ (0.20)
Net Income (Loss) Per Diluted Common Share	\$ 0.02	\$ (0.20)
Weighted Average Common Shares Outstanding	54,737	51,658
Weighted Average Common Shares Outstanding - Assuming Dilution	55,148	51,658

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 Six Months Ended	
	July 1, 2007	July 2, 2006
	(Unaudited)	
Sales	\$ 135,303	\$ 99,733
Cost of sales	108,861	81,139
Gross Margin	26,442	18,594
Operating Expenses:		
Selling, general and administrative	20,781	23,092
Research and development	3,523	5,042
Restructuring charges (reversals)	(82)	4,569
Goodwill impairment charges	2,963	5,422
License and patent fee income	(452)	(1,085)
Bad debt credits	(366)	(275)
Total Operating Expenses	26,367	36,765
Operating income (loss)	75	(18,171)
Interest income	1,274	1,539
Interest expense and other income (expense), net	(107)	(135)
Income (loss) before income taxes	1,242	(16,767)
Benefit for income taxes	998	2,199
Net Income (Loss)	\$ 2,240	\$ (14,568)
Net Income (Loss) Per Basic Share	\$ 0.04	\$ (0.28)
Net Income (Loss) Per Diluted Common Share	\$ 0.04	\$ (0.28)
Weighted Average Common Shares Outstanding	54,735	51,653
Weighted Average Common Shares Outstanding - Assuming Dilution	55,054	51,653

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 CASH FLOWS
(In thousands)

	For the Six Months Ended	
	July 1, 2007	July 2, 2006
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income (loss)	\$ 2,240	\$ (14,568)
Adjustments to Reconcile Net Income (Loss) to Cash Flows from Operations:		
Depreciation and amortization	1,687	2,675
Deferred income tax provision (benefit)	(1,025)	(2,122)
Tax contingency net releases	(1,481)	-
Stock-related compensation expense	555	171
Goodwill impairment charges	2,963	5,422
Non-cash inventory write-offs (reversals)	582	(742)
Bad debt credits	(366)	(275)
Other	(36)	(372)
Changes in Assets and Liabilities:		
Restricted cash	-	169
Trade receivables	9,382	14,397
Inventories	481	(1,154)
Other current assets	1,016	279
Accounts payable	(4,217)	(18,226)
Other current liabilities	(4,142)	(4,372)
Accrued restructuring	(1,660)	1,156
Income taxes	1,192	(599)
Net cash provided by (used in) operating activities	7,171	(18,161)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(279)	(403)
Proceeds from sales of assets	56	82
Purchases of temporary investments	(6,795)	(11,280)
Sales of temporary investments	13,554	17,420
Additional payments associated with CSCI, Inc. acquisition	(120)	-
Net change in other assets and other liabilities	43	7
Net cash provided by investing activities	6,459	5,826
Cash Flows from Financing Activities:		
Proceeds from sales of Common Stock	27	34
Net cash provided by financing activities	27	34
Net Increase (Decrease) in Total Cash and Cash Equivalents	13,657	(12,301)
Total Cash and Cash Equivalents at Beginning of Period	56,617	70,943
Total Cash and Cash Equivalents at End of Period	\$ 70,274	\$ 58,642
Non-Cash Investing and Financing Activities:		

Adjustment of CSCI, Inc. acquisition	\$	210	\$	-
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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) Operations and 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 July 1, 2007 and December 31, 2006, the results of operations for the quarter and six months ended July 1, 2007 and July 2, 2006 and cash flows for the six months ended July 1, 2007 and July 2, 2006.

The results of operations for the quarter and six months ended July 1, 2007 are not necessarily indicative of the results to be expected for the entire year or for any future period.

The accompanying 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 period's condensed consolidated financial statements and notes to condensed consolidated financial statements to conform to the current period's 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:

	July 1, 2007	Dec. 31, 2006
	(In thousands)	
Raw materials	\$ 1,645	\$ 1,891
Finished goods	39,885	40,702
	\$ 41,530	\$ 42,593

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 our 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 that 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.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(1) Operations and Significant Accounting Policies (Continued)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 Diluted EPS assumes no exercise or conversion of securities that would have an anti-dilutive effect on net income 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 quarter ended July 2, 2006, thus there was no dilution, as all outstanding options were considered anti-dilutive.

The following is a reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for all periods presented.

	Net Income (Loss) (Numerator)	Shares (Denominator)	Per Share Amount
(In thousands, except per share data)			
For the Three Months Ended:			
July 1, 2007:			
Basic EPS	\$ 1,091	54,737	\$ 0.02
Effect of options	-	411	-
Diluted EPS	\$ 1,091	55,148	\$ 0.02
July 2, 2006:			
Basic EPS	\$ (10,399)	51,658	\$ (0.20)
Effect of options	-	-	-
Diluted EPS	\$ (10,399)	51,658	\$ (0.20)
For the Six Months Ended:			
July 1, 2007:			
Basic EPS	\$ 2,240	54,735	\$ 0.04
Effect of options	-	319	-
Diluted EPS	\$ 2,240	55,054	\$ 0.04
July 2, 2006:			
Basic EPS	\$ (14,568)	51,653	\$ (0.28)
Effect of options	-	-	-
Diluted EPS	\$ (14,568)	51,653	\$ (0.28)

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(1) Operations and Significant Accounting Policies (Continued)Net Income (Loss) Per Common Share (Continued)

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. The average market price of our Common Stock was \$4.11 for the three months ended July 1, 2007 and \$3.22 for the three months ended July 2, 2006. The average market price of our Common Stock was \$3.92 for the six months ended July 1, 2007 and \$2.98 for the six months ended July 2, 2006.

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Out of the money options	846,892	1,180,621	848,392	1,507,955

Stock Compensation Expense

Prior to January 1, 2006, we accounted for our share-based employee compensation plans under the measurement and recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Effective January 1, 2006, we adopted SFAS No. 123r, "Share-Based Payment", ("SFAS 123r") using the modified prospective transition method. Because we elected to use the modified prospective transition method, results for prior periods have not been restated.

Our condensed consolidated statements of operations included \$0.3 million of compensation expense related to stock-based compensation plans for the three months ended July 1, 2007 and \$0.2 million for the three months ended July 2, 2006.

Our condensed consolidated statements of operations included \$0.6 million of compensation expense related to stock-based compensation plans for the six months ended July 1, 2007 and \$0.2 million for the six months ended July 2, 2006.

During the first quarter of 2006, we reduced our stock based compensation by \$0.1 million due to a change in the estimated forfeiture rate as required by SFAS 123r.

Valuation and Amortization. We use the Black-Scholes option-pricing model to estimate the fair value of each option grant on the date of grant or modification. We amortize the fair value on an accelerated method for recognizing stock compensation expense over the vesting period of the option.

Expected Term. The expected term is the period of time that granted options are expected to be outstanding. We estimate the expected term based on historical patterns of option exercises, which we believe reflect future exercise behavior. We examined patterns in our historical data in order to ascertain if there were any discernable patterns of

exercises for demographic characteristics (such as geographic, job level, plan and significantly out of the money exercise prices). Due to the current level of stock prices, we have excluded historical data that was significantly out of the money in determining our expected term.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(1) Operations and Significant Accounting Policies (Continued)Stock Compensation Expense (Continued)

Expected Volatility. We calculate volatility by using the historical stock prices going back over the estimated life of the option.

Risk-Free Interest Rate. We base the risk-free interest rate used in the Black-Scholes option-valuation model on the market yield in effect at the time of option grant provided from the Federal Reserve Board's Statistical Releases and Historical Publications from the Treasury constant maturities rates for the equivalent remaining terms.

Dividends. We have no plans to pay cash dividends in the future. Therefore, we use an expected dividend yield of zero in the Black-Scholes option-valuation model.

Forfeitures. SFAS 123r requires us to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. In calculating the forfeiture rates we have excluded options that were significantly out of the money, primarily because they relate to older, fully vested awards.

We used the following assumptions to estimate the fair value of options granted for the three months ended July 1, 2007 and July 2, 2006:

Assumption	For the Three Months Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)			
Average expected term (in years)	3.9	3.9	3.9	3.9
Expected stock price volatility	39 %	55 %	39 %	59 %
Risk-free interest rate (range)	4.6-4.9%	4.5-5.1%	4.5-4.9 %	4.3-5.1 %
Expected dividends	Zero	Zero	Zero	Zero

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(1) Operations and Significant Accounting Policies (Continued)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 Three Months Ended		For the Six Months Ended	
	July , 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)			
Balance at beginning of period	\$ 5,099	\$ 4,455	\$ 4,576	\$ 4,973
Accruals/additions	1,276	942	3,272	1,637
Claims	(1,386)	(1,320)	(2,859)	(2,533)
Balance at end of period	\$ 4,989	\$ 4,077	\$ 4,989	\$ 4,077

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(1) Operations and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In September of 2006, the FASB issued SFAS Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This statement provides enhanced guidance for using fair value to measure assets and liabilities. This statement also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect our adoption of this new standard to have a material impact on our financial position, results of operations or cash flows.

In February of 2007, the FASB issued SFAS Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 on our financial results.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(2) Income Taxes

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, we had \$8.2 million of unrecognized tax benefits, \$4.0 million of which would affect our effective tax rate if recognized. Consistent with the provisions of FIN 48, we reclassified \$4.0 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

At April 1, 2007, we had \$5.9 million of unrecognized tax benefits, \$4.0 million of which would affect our effective tax rate if recognized.

As a result of the expiration of the statute of limitations on certain foreign income tax returns without notification of review by the taxing authorities during the second quarter of 2007, as described below, the total amount of unrecognized tax benefits was reduced by \$1.4 million. At July 1, 2007, we have \$4.5 million of unrecognized tax benefits, \$2.6 million of which would affect our effective tax rate if recognized.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of the date of adoption of FIN 48, we had accrued \$0.3 million for the payment of interest and penalties relating to unrecognized tax benefits. This amount was increased during the first quarter of 2007 by \$0.1 million for additional accruals of interest and penalties and reduced during the second quarter of 2007 by \$0.2 million for the release of accruals related to the expiration of the statute of limitations on certain foreign income tax returns without notification of review by the taxing authorities. As of July 1, 2007, we have approximately \$0.2 million of accrued interest related to uncertain tax positions, which was also reclassified from current to non-current liabilities upon adoption of FIN 48.

The tax years 2002-2006 remain open to examination by the major taxing jurisdictions to which we are subject. We are no longer subject to examination by the Internal Revenue Service ("IRS") for periods prior to 2002, although carryforward attributes that were generated prior to 2002 may still be adjusted upon examination by the IRS if they either have been or will be used in a future period. Various state income tax returns are under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial statements.

For the quarter ended July 1, 2007, we recorded a net income tax benefit of \$1.2 million on a pre-tax loss of \$0.1 million. This net tax benefit was primarily comprised of a \$1.6 million release of a contingency reserve related to a foreign tax exposure for which the statute of limitations expired in the second quarter of 2007 and a \$0.5 million release of a deferred tax liability resulting from the goodwill impairment charge recorded during the quarter, partially offset by taxes provided on foreign earnings and capital taxes.

For the quarter ended July 2, 2006, we recorded an income tax benefit of \$0.8 million on a pre-tax loss of \$11.2 million. This tax benefit was primarily comprised of a release of a deferred tax liability resulting from the goodwill impairment charge.

For the six months ended July 1, 2007, we recorded a net income tax benefit of \$1.0 million on pre-tax income of \$1.2 million. This net tax benefit was primarily comprised of a \$1.6 million release of a contingency reserve related to a foreign tax exposure for which the statute of limitations expired in the second quarter of 2007 and releases of \$1.2 million of deferred tax liabilities resulting from the goodwill impairment charges recognized, partially offset by taxes

provided on foreign earnings and capital taxes.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(2) Income Taxes (Continued)

For the six months ended July 2, 2006, we recorded an income tax benefit of \$2.2 million on a pre-tax loss of \$16.8 million. This tax benefit was primarily comprised of a release of a deferred tax liability resulting from the goodwill impairment charges recognized, minor adjustments to the estimated foreign income taxes due to the filing of actual tax returns and the accrual of foreign income and capital taxes.

(3) Business Segment Information

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

Business Categories	Reportable Segments
Consumer Products	1. Consumer Storage Solutions 2. Zip Products
Business Products	3. REV Products 4. Network Storage Systems 5. Services
Other Products	6. Other Products

Consumer Products

Our Consumer Products category is comprised of the Consumer Storage Solutions (“CSS”) segment and the Zip Products segment.

Our CSS segment involves the worldwide distribution and sale of various storage devices including external hard disk drives (“HDD”), CD-RW drives, DVD rewritable drives and external floppy disk drives. During the second half of 2005, we began to focus this segment primarily on HDD products.

The Zip Products segment involves the distribution and sale of Zip drives and disks to retailers, distributors, resellers and OEMs. We have ceased selling Zip drives to distributors or resellers in the European Union (“EU”) as of July 1, 2006, in the wake of the Restriction of Hazardous Substances (“RoHS”) lead free initiative. Sales of Zip disks continue worldwide, including the European Union.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(3) Business Segment Information (Continued)

Business Products

Our Business Products category is comprised of the REV Products, the Network Storage Systems (“NSS”) and the Services segments.

Our REV Products segment involves the development, distribution and sale of REV products to retailers, distributors, OEMs and resellers throughout the world. The first generation REV drives, which began shipping in April of 2004, are removable hard disk storage systems with a native capacity of 35 gigabytes (“GB” – where 1 gigabyte equals 1 billion bytes) and up to 90GB per disk of compressed capacity. We began shipping the next generation REV 70GB products in July of 2006. The REV 70GB Backup Drive doubles the capacity of our first generation REV products, resulting in 70GB of native capacity and up to 140GB of compressed capacity per disk.

Our NSS segment consists primarily of the development, distribution and sale of Network Attached Storage servers and the Network HDD drives (which were previously reported under the CSS segment in the Consumer Products category) in the entry-level and low-end Network Attached Storage market.

Our Services segment consists of the operations of CSCI, Inc. (“CSCI”), including OfficeScreen[®] solutions and system integration, and Iomega services such as iStorage[™]. We acquired CSCI in August of 2006; CSCI’s OfficeScreen managed security services include managing firewalls, VPNs and providing remote access for small businesses. The Iomega services were previously reflected in the Other Products segment.

Other Products

Our Other Products segment consists of license and patent fee income (when not assigned to specific products) and products that have been discontinued or are otherwise immaterial, including Jaz, Iomega software products such as Iomega Automatic Backup software and other miscellaneous products. iStorage and other services that were previously reflected in this segment have been reclassified to the Services segment under the Business Products category.

Product Operating Income (Loss)

Product operating income is defined as sales and other income related to a segment’s operations, less both fixed and variable product costs, and direct and allocated operating expenses. Operating expenses are charged to the product segments on a direct method or as a percentage of sales. When such costs and expenses exceed sales and other income, this is referred to as a product operating 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. Non-allocated operating expenses include restructuring charges and certain extraordinary expenses.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(3) Business Segment Information (Continued)

The information in the following table was derived directly from our internal segments' financial information used for corporate management purposes. All prior period amounts have been reclassified to reflect the Network HDD drives and Services classification changes.

Reportable Operating Segment Information:

	For the Quarter Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)			
Sales:				
Consumer Products:				
Consumer Storage Solutions	\$ 40,088	\$ 20,150	\$ 92,577	\$ 51,682
Zip Products	3,763	7,793	9,281	19,436
Total Consumer Products	43,851	27,943	101,858	71,118
Business Products:				
REV Products	9,203	8,889	20,407	19,668
Network Storage Systems	4,816	3,395	9,554	8,251
Services	1,353	146	3,245	261
Total Business Products	15,372	12,430	33,206	28,180
Other Products	96	279	239	435
Total Sales	\$ 59,319	\$ 40,652	\$ 135,303	\$ 99,733
Product Operating Income (Loss):				
Consumer Products:				
Consumer Storage Solutions	\$ 50	\$ (4,723)	\$ 404	\$ (9,922)
Zip Products	225	48	580	1,107
Total Consumer Products	275	(4,675)	984	(8,815)
Business Products:				
REV Products	(274)	(3,759)	30	(5,375)
Network Storage Systems	(764)	33	(355)	420
Services	(535)	125	(1,055)	227
Total Business Products	(1,573)	(3,601)	(1,380)	(4,728)
Other Products	207	981	389	936
Non-restructuring charge	-	-	-	(995)
Restructuring (charges) reversals	44	(4,291)	82	(4,569)
Total Operating Income (Loss)	\$ (1,047)	\$ (11,586)	\$ 75	\$ (18,171)

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IOMEGA CORPORATION AND SUBSIDIARIES
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(4) Restructuring Charges/Reversals

We currently have restructuring reserves under three different restructuring actions: the 2006 restructuring actions, the 2005 restructuring actions and the 2004 restructuring actions. The following table summarizes the reserve balances related to each of these restructuring actions:

	July 1,	Dec. 31,
	2007	2006
	(In thousands)	
Other Current Liabilities:		
Third Quarter 2001 restructuring actions	\$ -	\$ 1,366
2003 restructuring actions	-	6
2004 restructuring actions	111	77
2005 restructuring actions	84	219
2006 restructuring actions	18	205
Total	\$ 213	\$ 1,873
Fixed Asset Reserves:		
2003 restructuring actions	\$ -	\$ 114
2005 restructuring actions	64	131
Total	\$ 64	\$ 245

During both the first and second quarters of 2007, we recorded a net restructuring release of less than \$0.1 million.

During the second quarter of 2006, we recorded net restructuring charges of \$4.3 million of which \$1.5 million related to the 2001 restructuring actions; a \$0.1 million release related to the 2004 restructuring actions and \$2.9 million related to the 2006 restructuring actions.

During the first quarter of 2006, we recorded restructuring charges of \$0.3 million related to the 2006 restructuring actions.

These charges are described below under their respective caption.

2006 Restructuring Actions

During 2006, we recorded \$3.0 million of net restructuring charges for the 2006 restructuring actions. These charges included \$2.7 million of cash charges for severance and benefits for approximately 90 personnel worldwide who were notified during the first and second quarters of 2006 that their positions were being eliminated, \$0.2 million of cash charges for miscellaneous contract and lease cancellations and \$0.1 million of non-cash charges related to excess furniture, leasehold improvements and other miscellaneous assets. The \$3.0 million was shown as restructuring expenses as a component of operating expenses. None of these restructuring charges was allocated to any of our business segments. The restructuring actions were part of an effort to align our cost structure with our expected future revenue levels and to reorganize our Company from a focus on autonomous geographic regions and products to a simplified functional organization.

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(4) Restructuring Charges/Reversals (Continued)2006 Restructuring Actions (Continued)

The worldwide workforce reduction was across all business functions and levels within Iomega. Of the 90 impacted personnel worldwide, approximately 20 employees were on transition into the third quarter of 2006, primarily in Europe due to legal notice requirements.

During the first quarter of 2007, we recorded a restructuring benefit of less than \$0.1 million related to severance and benefits because of lower than expected benefits.

During the second quarter of 2007, we recorded a restructuring benefit of less than \$0.1 million related to international facilities. Due to recent organization changes, we began utilizing a portion of the floor space that we had subleased to another company. As of July 1, 2007, we have made \$2.7 million in cumulative cash payments related to the 2006 restructuring charges.

Remaining restructuring reserves of less than \$0.1 million are included in our accrued restructuring charges at July 1, 2007. Utilization of and other activity related to the 2006 restructuring reserves during the quarter ended July 1, 2007 are summarized below:

	Balance 4/1/07	Reversals	Utilized		Foreign Currency Changes	Balance 7/1/07
			Cash	Non-Cash		
			(In thousands)			
2006 Restructuring Actions:						
Severance and benefits (a)	\$ 1	\$ (1)	\$ -	\$ -	\$ -	\$ -
Lease termination costs (a)	44	(19)	(19)	-	-	6
Miscellaneous liabilities (a)	13	(1)	-	-	-	12
	\$ 58	\$ (21)	\$ (19)	\$ -	\$ -	\$ 18
Balance Sheet Breakout:						
Accrued restructuring charges (a)	\$ 58	\$ (21)	\$ (19)	\$ -	\$ -	\$ 18

(a) Amounts represent primarily cash charges.

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IOMEGA CORPORATION AND SUBSIDIARIES
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(4) Restructuring Charges/Reversals (Continued)2006 Restructuring Actions (Continued)

Utilization of and other activity related to the 2006 restructuring reserves during the six months ended July 1, 2007 are summarized below:

	Balance 12/31/06	Reversals	Utilized		Foreign Currency Changes	Balance 7/1/07
			Cash	Non-Cash		
	(In thousands)					
2006 Restructuring Actions:						
Severance and benefits (a)	\$ 133	\$ (39)	\$ (95)	\$ -	\$ 1	\$ -
Lease termination costs (a)	58	(19)	(33)	-	-	6
Miscellaneous liabilities (a)	14	(1)	(1)	-	-	12
	\$ 205	\$ (59)	\$ (129)	\$ -	\$ 1	\$ 18
Balance Sheet Breakout:						
Accrued restructuring charges (a)	\$ 205	\$ (59)	\$ (129)	\$ -	\$ 1	\$ 18

(a) Amounts represent primarily cash charges.

2005 Restructuring Actions

During 2005, we recorded \$5.7 million of restructuring charges for the 2005 restructuring actions. These charges included \$4.0 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, \$0.5 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 \$5.7 million was shown as restructuring expenses as a component of operating expenses. None of these restructuring charges was allocated to any of our 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 worked on a transition basis into the fourth quarter of 2005 and January of 2006.

During 2006, we recorded \$0.2 million of restructuring charges for the 2005 restructuring actions for lease cancellation due to our inability to sublease a facility in Texas. This was more than offset by a \$0.3 million release of restructuring reserves associated with miscellaneous contract obligations due to negotiating lower settlement amounts and excess severance and benefits.

During the first quarter of 2007, we recorded a restructuring benefit of \$0.1 million due to higher than expected sublease income.

We have made \$5.0 million in cumulative cash payments related to the 2005 restructuring actions, of which less than \$0.1 million was disbursed during the first quarter of 2007 and \$0.1 million was disbursed during the second quarter of 2007.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(4) Restructuring Charges/Reversals (Continued)2005 Restructuring Actions (Continued)

Remaining restructuring reserves of less than \$0.1 million are included in our accrued restructuring charges and less than \$0.1 million are included in our fixed asset reserves at July 1, 2007. Utilization of and other activity related to the 2005 restructuring reserves during the three months ended July 1, 2007 are summarized below:

	Balance 4/1/07	Reversals	Utilized		Balance 7/1/07
			Cash	Non-Cash	
	(In thousands)				
2005 Restructuring Actions:					
Lease termination costs (a)	\$ 132	\$ -	\$ (48)	\$ -	\$ 84
Lease related assets (b)	93	-	-	(29)	64
	\$ 225	\$ -	\$ (48)	\$ (29)	\$ 148

Balance Sheet Breakout:

Accrued restructuring charges (a)	\$ 132	\$ -	\$ (48)	\$ -	\$ 84
Fixed asset reserves (b)	93	-	-	(29)	64
	\$ 225	\$ -	\$ (48)	\$ (29)	\$ 148

Amounts represent primarily cash charges.

(a)

(b) Amounts represent primarily non-cash charges.

Utilization of and other activity related to the 2005 restructuring reserves during the six months ended July 1, 2007 are summarized below:

	Balance 12/31/06	Reversals	Utilized		Balance 7/1/07
			Cash	Non-Cash	
	(In thousands)				
2005 Restructuring Actions:					
Lease termination costs (a)	\$ 219	\$ (81)	\$ (54)	\$ -	\$ 84
Lease related assets (b)	131	-	-	(67)	64
	\$ 350	\$ (81)	\$ (54)	\$ (67)	\$ 148

Balance Sheet Breakout:

Accrued restructuring charges (a)	\$ 219	\$ (81)	\$ (54)	\$ -	\$ 84
Fixed asset reserves (b)	131	-	-	(67)	64
	\$ 350	\$ (81)	\$ (54)	\$ (67)	\$ 148

Amounts represent primarily cash charges.

(a)

(b) Amounts represent primarily non-cash charges.

At July 1, 2007, lease payments are being made on a continuous monthly basis, and of these facilities, the last lease expires in July of 2008. We have entered into a sublease agreement on the leased facility that expires in 2008. The lease related assets are being utilized by the tenant who is subleasing the facility.

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IOMEGA CORPORATION AND SUBSIDIARIES
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(4) Restructuring Charges/Reversals (Continued)

2004 Restructuring Actions

During 2004, we recorded \$3.7 million of restructuring charges for the 2004 restructuring actions, including \$2.6 million of cash charges for severance and benefits for 108 regular and temporary personnel worldwide (approximately 19% of our worldwide workforce) who were notified by September 26, 2004 that their positions were being 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 was allocated to any of the business segments.

In conjunction with the DCT license agreement signed during the fourth quarter of 2004, we notified an additional 9 employees that their positions were being eliminated. Severance and benefits charges for these 9 employees were included in the \$2.6 million above. Another 24 employees were hired by the licensee of the DCT technology. This additional reduction in force of 33 employees brought the total reduction of employees to 141 positions or approximately 25% of our worldwide workforce as of September 26, 2004.

Of the \$2.6 million in severance and benefits charges for the 117 regular and temporary personnel, \$1.9 million was for 103 employees located in North America, \$0.4 million was for 9 employees located in Asia and \$0.3 million was for 5 employees located in Europe. The worldwide workforce reduction was across all business functions and across all levels of Iomega. Of the 117 individuals worldwide, 14 employees worked on a transition basis into the first quarter of 2005 and one additional employee worked into the second quarter of 2005. Transition pay was not a part of the restructuring charges but rather was reported in normal operations as incurred. Separation pay was based on years of service and job level and included health insurance continuance payments. Separation payments, for most employees, were made after the last day of employment and after separation agreements had been signed by the employees except for those where continuous payments were legally required and for two other employees. The \$2.6 million in severance and benefits costs recognized during 2004 included the costs associated with those employees whose positions were eliminated during 2004 and the ratable recognition of the severance and benefits costs paid to those employees who were on transition beyond the minimum retention period (60 days) as defined by SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146").

As part of the 2004 restructuring actions, we recorded a \$0.4 million non-cash charge related to excess furniture that was no longer being utilized because of our downsizing. None of these charges was allocated to any of the business product segments. All but the \$0.4 million of excess furniture charges was paid in cash.

During 2006, we recorded \$0.2 million of restructuring releases for the 2004 restructuring actions, including \$0.1 million for lease termination costs and \$0.1 million for furniture due to higher than estimated sales proceeds.

During the first quarter of 2007, we recorded an additional \$0.1 million for lease termination costs related to increases in landlord maintenance costs.

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IOMEGA CORPORATION AND SUBSIDIARIES
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(4) Restructuring Charges/Reversals (Continued)2004 Restructuring Actions (Continued)

During the second quarter of 2007, we released less than \$0.1 million associated with lease termination costs for a building which lease expired and the facility was turned back to the landlord.

As of July 1, 2007, we have made \$3.7 million in cumulative cash payments related to the 2004 restructuring actions, of which less than \$0.1 million was disbursed during 2007.

Remaining restructuring reserves of \$0.1 million are included in our accrued restructuring charges as of July 1, 2007. Utilization of and other activity related to the 2004 restructuring reserves during the three months ended July 1, 2007 are summarized below:

	Balance 4/1/07	Additions	Reversals	Utilized Cash	Non-Cash	Balance 7/1/07
(In thousands)						
2004 Restructuring Actions:						
Lease termination costs (a)	\$ 165	\$ -	\$ (6)	\$ (48)	\$ -	\$ 111
Balance Sheet Breakout:						
Accrued restructuring charges (a)	\$ 165	\$ -	\$ (6)	\$ (48)	\$ -	\$ 111

(a) Amounts represent cash charges.

Utilization of and other activity relating to the 2004 restructuring charges during the six months ended July 1, 2007 are summarized below:

	Balance 12/31/07	Additions	Reversals	Utilized Cash	Non-Cash	Balance 7/1/07
(In thousands)						
2004 Restructuring Actions:						
Lease termination costs (a)	\$ 77	\$ 88	\$ (6)	\$ (48)	\$ -	\$ 111
Balance Sheet Breakout:						
Accrued restructuring charges (a)	\$ 77	\$ 88	\$ (6)	\$ (48)	\$ -	\$ 111

(a) Amounts represent cash charges.

Lease payments are being made on a continuous monthly basis, and the lease expires in 2008. The facility has been subleased.

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(4) Restructuring Charges/Reversals (Continued)2003 Restructuring Actions

The \$14.5 million of charges for the 2003 restructuring actions included \$6.5 million for severance and benefits for 198 regular and temporary personnel worldwide, or approximately 25% of our worldwide workforce, \$3.0 million to exit contractual obligations, \$2.6 million to reimburse a strategic supplier for its restructuring expenses, \$1.8 million for lease termination costs and \$0.6 million related to excess furniture.

Of the \$14.5 million recorded for the 2003 restructuring actions, \$5.0 million was charged to cost of sales with the remaining \$9.5 million being shown as restructuring expenses as a component of operating expenses. The \$5.0 million charged to cost of sales included \$2.6 million to reimburse a strategic supplier for its restructuring expenses and \$2.4 million to exit a third-party Zip disk manufacturing agreement. This \$5.0 million was charged to the Zip Products segment and the remaining \$9.5 million was not allocated to any of the business segments.

Of the 198 individuals worldwide whose positions were identified for elimination in the third quarter of 2003, 42 employees worked on a transition basis into the fourth quarter of 2003, 7 employees worked on a transition basis into the first quarter of 2004, 4 employees worked on a transition basis into the second quarter of 2004 and 3 employees worked on a transition basis into the third quarter of 2004. The total amount of separation payments or liability for the 198 employees notified during 2003 was \$6.7 million.

During 2004, we recorded \$0.5 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. 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 2005, we recorded an additional \$1.1 million in restructuring charges related to the 2003 restructuring actions due to our inability to sublease a facility because of market conditions in Roy, Utah.

During the second quarter of 2007, we released less than \$0.1 million associated with lease termination costs for a building which lease expired and the facility was turned back to the landlord.

Remaining restructuring reserves of less than \$0.1 million are included in our accrued restructuring charges at July 1, 2007. Utilization of the 2003 restructuring reserves during the three months ended July 1, 2007 is summarized below:

	Balance 4/1/07	Utilized			Balance 7/1/07
		Cash	Non-Cash	Reversals	
		(In thousands)			
2003 Restructuring Actions:					
Lease termination costs (a)	\$ 5	\$ -	\$ -	\$ (5)	\$ -
Balance Sheet Breakout:					
Accrued restructuring charges (a)	\$ 5	\$ -	\$ -	\$ (5)	\$ -

(a) Amounts represent primarily cash charges.

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IOMEGA CORPORATION AND SUBSIDIARIES
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(4) Restructuring Charges/Reversals (Continued)2003 Restructuring Actions (Continued)

Utilization of the 2003 restructuring reserves during the six months ended July 1, 2007 is summarized below:

	Balance 12/31/06		Utilized Cash	Non-Cash	Reversals	Balance 7/1/07
(In thousands)						
2003 Restructuring Actions:						
Lease termination costs (a)	\$ 6	\$	(1)	\$	-	\$ (5)
Furniture (b)	114		-	(114)		-
	\$ 120	\$	(1)	\$ (114)	\$	(5) \$ -
Balance Sheet Breakout:						
Accrued restructuring charges (a)	\$ 6	\$	(1)	\$	-	\$ (5)
Fixed asset reserves (b)	114		-	(114)		-
	\$ 120	\$	(1)	\$ (114)	\$	(5) \$ -

(a) Amounts represent primarily cash charges.

(b) Amounts represent primarily non-cash charges.

Third Quarter 2001 Restructuring Actions

During the third quarter of 2001, we recorded restructuring charges of \$33.3 million. In the fourth quarter of 2001, we recorded a net reversal of \$0.2 million with respect to the third quarter 2001 restructuring actions. The \$33.3 million of restructuring charges recorded in the third quarter of 2001 included \$17.4 million associated with exiting lease facilities - of which \$9.8 million related to leasehold improvements, furniture and information technology asset write-downs and \$7.6 million was associated with lease termination costs - and \$15.9 million related to the reduction of 1,234 regular and temporary personnel worldwide, or approximately 37% of our worldwide workforce.

During 2004, we recorded an additional \$0.7 million in restructuring charges for our Ireland facility due to continuing depressed real estate market conditions in Ireland. We were able to sublease this facility in the fourth quarter of 2004.

During 2005, we recorded an additional \$0.3 million for U.S. lease termination costs because of us not being able to locate a subtenant as originally anticipated.

During 2006, we recorded an additional net \$0.9 million for U.S. lease termination costs because of us not being able to locate a subtenant in the timeframe originally anticipated. In January of 2007, we finalized an agreement to assist a company to purchase the building we were leasing and they have released us from our remaining lease obligations. This resulted in an overall \$0.6 million cash savings.

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(4) Restructuring Charges/Reversals (Continued)Third Quarter 2001 Restructuring Actions (Continued)

Remaining restructuring reserves of less than \$0.1 million are included in our accrued restructuring charges as of July 1, 2007. Utilization of the Third Quarter 2001 restructuring reserves during the three months ended July 1, 2007 is summarized below:

	Balance 4/1/07		Utilized				Balance 7/1/07
			Cash	Non-Cash	Reversals		
			(In thousands)				
Third Quarter 2001 Restructuring Actions:							
Lease cancellations (a)	\$ 12	\$	-	\$	-	\$ (12)	\$ -
Balance Sheet Breakout:							
Accrued restructuring charges (a)	\$ 12	\$	-	\$	-	\$ (12)	\$ -

(a) Amounts represent primarily cash charges.

Utilization of the Third Quarter 2001 restructuring reserves during the six months ended July 1, 2007 is summarized below:

	Balance 12/31/06		Utilized				Balance 7/1/07
			Cash	Non-Cash	Reversals		
			(In thousands)				
Third Quarter 2001 Restructuring Actions:							
Lease cancellations (a)	\$ 1,366	\$	(1,354)	\$	-	\$ (12)	\$ -
Balance Sheet Breakout:							
Accrued restructuring charges (a)	\$ 1,366	\$	(1,354)	\$	-	\$ (12)	\$ -

(a) Amounts represent primarily cash charges.

(5) Commitments and ContingenciesLitigation

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.

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IOMEGA CORPORATION AND SUBSIDIARIES
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(Unaudited)

(6) Stockholders' Equity

Share-Based Compensation Plans

Stock Option Plans

We had a 1997 Stock Incentive Plan (the "1997 Plan"). Our 1997 Plan provided for the grant of incentive stock options ("ISOs") intended to qualify under Section 422 of the Internal Revenue Code, nonstatutory stock options ("NSOs") and restricted stock awards. The 1997 Plan expired in January of 2007 and no other options have been granted under this plan after its expiration date; however, all outstanding, un-expired options under the 1997 Plan remain in effect.

We had a 1995 Director Stock Option Plan (the "1995 Director Plan"), and a 2005 Director Stock Option Plan (the "2005 Director Plan"). The 1995 Director Plan expired on July 25, 2005 and no further options have been granted under this plan after its expiration date; however, all outstanding, un-expired options under the 1995 Director Plan remain in effect. The 2005 Director Plan was terminated on May 23, 2007 as a result for the shareholder approval of the new 2007 Stock Option Plan described below and no further options have been granted under this plan after its termination date; however, all outstanding, un-expired options under the 2005 Director Plan remain in effect.

We have a 2007 Stock Option Plan (the "2007 Plan"). Our 2007 Plan was approved by the Shareholders on May 23, 2007, following an earlier Board vote to recommend this Plan. The 2007 Plan provides for the grant of various awards including incentive stock options (as defined in Section 422 of the Internal Revenue Code) or nonqualified options, restricted shares, performance awards, and other stock based awards, as determined at the time of grant. Under the 2007 Plan, we can grant options or awards for up to 5,500,000 shares of Common Stock to our employees, officers, directors, consultants and advisors. The exercise price for all options granted under the plan will be the closing price of our Common Stock on the date of grant. Each option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement. The duration of options awarded under this plan cannot exceed ten years from the date of grant, except as may be required under laws of other countries. The Board may award restricted shares of our Common Stock, which shares may be subject to risk of forfeiture or restrictions as may be imposed by the Board. The total of all shares subject to awards other than stock options may not exceed 33% of the authorized shares under the 2007 Plan.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(6) Stockholders' Equity (Continued)Stock Option Activity and Weighted Average Prices

The following table presents the aggregate options granted, exercised and forfeited under all stock option plans at July 1, 2007 and their respective weighted average exercise prices:

	Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	3,060	\$ 3.90
Granted	161	4.14
Exercised	(11)	2.73
Forfeited / Cancelled / Expired	(56)	5.32
Outstanding at July 1, 2007	3,154	3.89
Options exercisable at July 1, 2007	1,233	5.11

(7) Other MattersOther Intangible Assets

At July 1, 2007, we had \$0.9 million in net intangible assets, all of which are subject to amortization. Our intangible assets include the OfficeScreen trade name and technology, and customer and vendor relationships obtained through the CSCI acquisition. Intangible assets are amortized using the straight-line method, our best estimate of the pattern of economic benefit, 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. Amortization expense was less than \$0.1 million for quarter ended July 1, 2007 and \$0.2 million for the six months ended July 1, 2007. Amortization expense for each of the next five fiscal years is anticipated to be \$0.1 million for the remainder of 2007, approximately \$0.2 million each year from 2008 through 2010, \$0.1 million in 2011 and \$0.1 million thereafter. At July 1, 2007, the weighted average useful life of our intangible assets was approximately 5.2 years.

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

	July 1, 2007	Dec. 31, 2006
	(In thousands)	
Other Intangible Assets:		
Gross value	\$ 1,127	\$ 1,127
Accumulated amortization	(202)	(84)
Net intangible assets	\$ 925	\$ 1,043

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IOMEGA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(7) Other Matters(Continued)

Goodwill Impairment

We have performed the interim impairment test due to indications of impairment as required under FASB Statement No. 142, "Goodwill and Other Intangible Assets" and have determined that our goodwill, associated with the Zip product line, was impaired at July 1, 2007. This test compares our Zip specific assets to the estimated future, discounted cash flows to determine if these cash flows will cover the assets. The estimated discounted, future cash flows were not adequate to cover the carrying value of Zip goodwill as of July 1, 2007. As a result, impairment charges of \$1.3 million and \$3.0 million were recorded as a separate component of operating expenses for the quarter and six months ended July 1, 2007. There is no remaining goodwill related to Zip specific products as of July 1, 2007, as the assets have now been fully written off.

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IOMEGA CORPORATION AND SUBSIDIARIES

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS:**

Overview

We design and market products and provide services that help our customers store and protect their valuable digital information. Our six reportable segments are based primarily on the nature of our products and include Consumer Storage Solutions ("CSS") Products, Zip Products, REV® Products, Network Storage Systems ("NSS") Products, Services and Other Products.

The CSS Products segment involves the worldwide distribution and sale of various storage devices including external hard disk drives ("HDD"), CD-RW drives, DVD rewritable drives and external floppy disk drives. The Zip Products segment involves the distribution and sale of Zip drives and disks to retailers, distributors and resellers. We have ceased selling Zip drives to distributors or resellers in the European Union ("EU") as of July 1, 2006, in the wake of the Restriction of Hazardous Substances ("RoHS") lead free initiative. Sales of Zip disks are continuing worldwide, including the EU. The REV Products segment involves the development, distribution and sale of REV products to retailers, distributors, OEMs and resellers throughout the world. The NSS Products segment consists primarily of the development, distribution and sale of network attached storage servers and Network HDD drives (previously included in the CSS Products segment) in the entry-level and low-end network attached storage market. The Services segment consists of the operations of CSCI, Inc. ("CSCI"), including OfficeScreen® solutions, systems integration and Iomega services such as iStorage™ (previously included in the Other Products segment). We acquired CSCI in August of 2006. CSCI's OfficeScreen managed security services include managing firewalls, virtual private networks ("VPNs") and providing remote access for small businesses. The Other Products segment consists of license and patent fee income (not assigned to specific products) and products that have been discontinued or are otherwise immaterial, including Jaz® disks and software products such as Iomega Automatic Backup software and other miscellaneous products.

From 1996 through 2006, the Zip Products segment was the largest contributor to our product operating income. As the Zip business has approached the end of its product lifecycle, we have been trying to find other profitable sources of revenue to replace the declining high gross margin Zip revenue. In recent years, we have invested significant efforts and dollars on the development of the first and second generation REV products, which were launched in the second quarter of 2004 and July of 2006, respectively. Sales of REV products have exceeded Zip product sales for the past several quarters; however, REV products have been unprofitable every quarter until 2007 where the product line was slightly profitable the first half of 2007.

In other efforts to replace the declining Zip business, we have launched and attempted to expand our CSS and NSS businesses. CSS business segment product sales (primarily HDD) significantly exceed Zip product sales. Our CSS business segment achieved operating profitability of \$2.3 million in the fourth quarter of 2006 and made a small profit in the first two quarters of 2007. The fourth quarter of 2006 was the first profitable quarter for CSS ever. The NSS segment product sales have also been steadily increasing with moderate profits in most periods. We are continuing to develop our NAS product line, targeting the home office and small and mid-size business segments. Towards the end of the first quarter of 2007, we began shipping the StorCenter™ Pro NAS 150d product.

We announced a restructuring plan on April 27, 2006, which was implemented in the second and third quarters of 2006. The restructuring plan was part of an effort to reduce costs and simplify our organizational structure. In addition, in 2006, we released new HDD products and made changes to our HDD product supply chain to reduce the cost of these products to allow us to be more competitive in the market place. Primarily as a result of the above actions, at July 1, 2007, we have recorded our fourth consecutive quarter of net income and third consecutive quarter

of year-over-year revenue growth. The revenue growth is primarily a result of the HDD business which remains extremely competitive.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Overview (Continued)

Our goals for 2007 remain: (1) to continue to grow and deliver sustained profitability; (2) to further increase the size of our HDD business; (3) to continue to penetrate the high-growth NAS market; (4) to ramp REV 70GB products and push for broad market adoption; (5) to grow our managed services business domestically and abroad and (6) to continue to evaluate new opportunities where we can leverage our brand and channel assets. Notwithstanding our recent accomplishments, there can be no assurance that we will achieve these goals.

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. 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, 2006. Our critical accounting policies have not changed materially since December 31, 2006.

Seasonality

Our CSS business is typically strongest during the fourth quarter. Our European sales, which comprise approximately two-thirds of our total sales, are typically weakest during the summer months due to 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 periods.

Results of Operations

Our net income for the quarter ended July 1, 2007 was \$1.1 million, or \$0.02 per diluted share, compared with a net loss of \$10.4 million, or (\$0.20) per share, for the quarter ended July 2, 2006.

Our net income for the six months ended July 1, 2007 was \$2.2 million, or \$0.04 per diluted share, compared with a net loss of \$14.6 million, or (\$0.28) per share, for the six months ended July 2, 2006.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Sales

As shown in the table below, total sales for the quarter ended July 1, 2007 increased 46% over the same period in the prior year primarily due to the introduction and market acceptance of our new HDD products, partially offset by the expected decrease in Zip product sales. All prior period amounts have been reclassified to reflect the classification change of Iomega services from Other Products to the Services segment under the Business Products category.

	For the Three Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
	(In thousands, except %)			
Sales:				
Consumer Products:				
Consumer Storage Solutions	\$ 40,088	\$ 20,150	\$ 19,938	99%
Zip Products	3,763	7,793	(4,030)	(52)
Total Consumer Products	43,851	27,943	15,908	57
Business Products:				
REV Products	9,203	8,889	314	4
Network Storage Systems	4,816	3,395	1,421	42
Services	1,353	146	1,207	827
Total Business Products	15,372	12,430	2,942	24
Other Products	96	279	(183)	(66)
Total Sales	\$ 59,319	\$ 40,652	\$ 18,667	46%

The \$19.9 million higher CSS sales resulted from \$21.6 million of higher HDD drives, partially offset by \$0.9 million of lower Optical product, \$0.7 million of lower Mini USB flash drive and \$0.1 million of lower floppy external drive sales. The sales decreases for Optical, Mini USB flash and floppy external drives were primarily as a result of our third quarter 2005 decision to discontinue certain unprofitable SKUs in these product lines and to focus our efforts on HDD products. Zip product sales continued their expected decline for the quarter ended July 1, 2007, in terms of both units and sales dollars.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Sales (Continued)

Our sales by region for the three months ended July 1, 2007 and July 2, 2006 are shown in the table below:

	For the Three Months Ended		\$ Change	% Change
	July 1, 2007	July 2, 2006		
	(In thousands, except %)			
Sales Dollars:				
Europe	\$ 38,389	\$ 19,957	\$ 18,432	92%
Americas (includes Latin America)	18,110	17,678	432	2
Asia Pacific	2,820	3,017	(197)	(7)
Total	\$ 59,319	\$ 40,652	\$ 18,667	46%
Percent of Total Sales:				
Europe	65%	49%		
Americas (includes Latin America)	30	44		
Asia Pacific	5	7		
Total	100%	100%		

The increase in sales dollars in Europe was primarily due to higher CSS (HDD), NSS and REV product sales, partially offset by lower Zip product sales. Sales dollars in the Americas and Asia Pacific region remained relatively flat period over period. The sales growth in Europe has been primarily due to the introduction of lower cost, competitive HDD products in 2006 and strong retail distribution throughout Europe. The Americas retail environment is more challenging than the environment we face in Europe and is generally promotional and discount driven. We currently focus on gross margin generation and other sales channels where we believe we can profitably sell our products and intend to continue this focus in the future. As a result of our focus on profitable sales, we have constrained our Americas retail sales and expect that trend to continue.

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**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 six months ended July 1, 2007 increased over the prior year primarily due to the introduction and market acceptance of our new HDD products, partially offset by the expected decrease in Zip product sales. All prior period amounts have been reclassified to reflect the classification changes of the Network HDD drive from the CSS to NSS segment and Iomega Services from Other Products to the Services segment under the Business Products category.

	For the Six Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
(In thousands, except %)				
Sales:				
Consumer Products:				
Consumer Storage Solutions	\$ 92,577	\$ 51,682	\$ 40,895	79%
Zip Products	9,281	19,436	(10,155)	(52)
Total Consumer Products	101,858	71,118	30,740	43
Business Products:				
REV Products	20,407	19,668	739	4
Network Storage Systems	9,554	8,251	1,303	16
Services	3,245	261	2,984	1143
Total Business Products	33,206	28,180	5,026	18
Other Products	239	435	(196)	(45)
Total Sales	\$ 135,303	\$ 99,733	\$ 35,570	36%

The \$40.9 million higher CSS sales resulted from \$45.6 million of higher HDD drives, partially offset by \$2.3 million of lower Mini USB flash drive sales, \$1.9 million of lower Optical product sales, and \$0.5 million of lower floppy external drive sales. The sales decreases for Mini USB flash, Optical and floppy external drives were primarily as a result of our third quarter 2005 decision to discontinue certain unprofitable SKUs in these product lines and to focus our efforts on HDD products. Zip product sales continued their expected decline for the six months ended July 1, 2007, in terms of both units and sales dollars.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Sales (Continued)

Our sales by region for the six months ended July 1, 2007 and July 2, 2006 are shown in the table below:

	For the Six Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
(In thousands, except %)				
Sales Dollars:				
Europe	\$ 89,802	\$ 49,015	\$ 40,787	83%
Americas (includes Latin America)	40,109	44,045	(3,936)	(9)
Asia Pacific	5,392	6,673	(1,281)	(19)
Total	\$ 135,303	\$ 99,733	\$ 35,570	36%
Percent of Total Sales:				
Europe	66%	49%		
Americas (includes Latin America)	30	44		
Asia Pacific	4	7		
Total	100%	100%		

The increase in sales dollars in Europe was primarily due to higher CSS (HDD) and NSS product sales, partially offset by lower Zip product sales. The decrease in sales dollars in the Americas was primarily due to lower Zip and CSS (Optical and Mini USB flash drive) product sales, partially offset by an increase in Services as a result of the CSCI acquisition. The decrease in sales dollars in the Asia Pacific region was primarily due to lower CSS, NSS and Zip product sales. The sales growth in Europe has been primarily due to the introduction of lower cost, competitive HDD products and strong retail distribution throughout Europe. The Americas retail environment is more challenging than the environment we face in Europe and is generally promotional and discount driven. We currently focus on gross margin generation and other sales channels where we believe we can profitably sell our products and intend to continue this focus in the future. As a result of our focus on profitable sales, we have constrained our Americas retail sales and expect that trend to continue.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Gross Margin

Our gross margin details for the three months ended July 1, 2007 and July 2, 2006 are shown in the table below:

	For the Three Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
	(In thousands, except %)			
Total Gross Margin (dollars)	\$ 12,139	\$ 6,793	\$ 5,346	79%
Total Gross Margin (%)	20.5%	16.7%		

The increase in the gross margin percentage was primarily due to new lower cost external HDD products, supply chain improvements, taking non-restructuring inventory and supplier claim charges associated with the implementation of RoHS (the European lead free initiative) in the second quarter of 2006, and other cost reductions, partially offset by an expected decline in Zip revenue. The increase in gross margin dollars is due to higher revenues and the improved gross margin percentage.

The CSS product gross margins increased in terms of dollars and percentage for the quarter ended July 1, 2007 as compared to the quarter ended July 2, 2006, primarily due to the release of new HDD products, higher sales and improvements in material costs and lower variable overhead costs, resulting from the supply chain improvements.

The Zip product gross margin decreased in terms of dollars for the quarter ended July 1, 2007 as compared to the quarter ended July 2, 2006 due to lower revenue. Total Zip product gross margin percentage increased primarily due to a higher mix of Zip disks.

The REV product gross margins increased in terms of dollars and percentage for the quarter ended July 1, 2007, compared to the quarter ended July 2, 2006. The improvement was a result of the release of the REV 70GB Backup Drive and lower variable and fixed overhead spending in the first and second quarters of 2007.

The NSS product gross margins decreased in terms of dollars and percentage for the quarter ended July 1, 2007, compared to the quarter ended July 2, 2006 due to charges associated with the launch of the StorCenter Pro NAS 1500 product, combined with a higher mix of product sales with lower gross margins.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Gross Margin (Continued)

Our gross margin details for the six months ended July 1, 2007 and July 2, 2006 are shown in the table below:

	For the Six Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
	(In thousands, except %)			
Total Gross Margin (dollars)	\$ 26,442	\$ 18,594	\$ 7,848	42%
Total Gross Margin (%)	19.5%	18.6%		

The increase in the gross margin percentage was primarily due to new lower cost external HDD products, supply chain improvements, taking non-restructuring inventory and supplier claim charges associated with the implementation of RoHS (the European lead free initiative) in the second quarter of 2006 and other cost reductions, partially offset by an expected decline in Zip revenue.

The CSS product gross margins increased in terms of dollars and percentage for the six months ended July 1, 2007 as compared to the six months ended July 2, 2006, primarily due to the release of new HDD products, higher sales and improvements in material costs and lower variable overhead costs, resulting from the supply chain improvements.

The Zip product gross margin decreased in terms of dollars for the six months ended July 1, 2007 as compared to the six months ended July 2, 2006 due to the expected decline in revenues as well as charges associated with the end of life.

The REV product gross margins increased in terms of dollars and percentage for the six months ended July 1, 2007, compared to the six months ended July 2, 2006. The improvement was a result of the release of the REV 70GB Backup Drive and lower fixed overhead spending in the first and second quarters of 2007.

The NSS product gross margins percentage decreased for the six months ended July 1, 2007, compared to the six months ended July 2, 2006 due to charges associated with the launch of the StorCenter Pro NAS 150d product, combined with a higher mix of product sales with lower gross margins. NSS gross margin dollars for the six month period remained constant.

Future gross margin percentages will depend on a wide variety of factors, including those discussed in the section entitled, "Risk Factors" in Item 1A of Part II in this Form 10-Q filing. We can provide no assurance that we will be able to improve or maintain gross margins in any subsequent quarter or year.

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IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Product Segment Operating Income (Loss)

Product operating income is defined as sales and other income related to a segment's operations, less both fixed and variable product costs, and direct and allocated operating expenses. Operating expenses are charged to the product segments on a direct basis or as a percentage of sales. When such costs and expenses exceed sales and other income, this is referred to as a product operating 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. Non-allocated operating expenses include restructuring charges and certain extraordinary costs.

The information in the following table was derived directly from our internal segments' financial information used for corporate management purposes. All prior period amounts have been reclassified to reflect the Services classification change.

	For the Three Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
(In thousands, except %)				
Product Operating Income (Loss):				
Consumer Products:				
Consumer Storage Solutions	\$ 50	\$ (4,723)	\$ 4,773	101%
Zip Products	225	48	177	369
Total Consumer Products	275	(4,675)	4,950	106
Business Products:				
REV Products	(274)	(3,759)	3,485	93
Network Storage Systems	(764)	33	(797)	(2,415)
Services	(535)	125	(660)	(528)
Total Business Products	(1,573)	(3,601)	2,028	56
Other Products	207	981	(774)	(79)
Restructuring (charges) reversals	44	(4,291)	4,335	101
Total Operating Income (Loss)	\$ (1,047)	\$ (11,586)	\$ 10,539	91%

The CSS product operating income as a percentage of CSS product sales improved to 0.1% for the quarter ended July 1, 2007 from a negative 23% product operating loss for the quarter ended July 2, 2006. The CSS product segment operating income resulted primarily from improved gross margins from the HDD supply chain improvements, lower operating expenses and other cost reductions.

Zip product operating income as a percentage of Zip product sales increased to 6% for the quarter ended July 1, 2007 from 0.6% for the quarter ended July 2, 2006 due to lower operating expenses in 2007 and a larger impairment charge taken in the second quarter of 2006. We anticipate future volatility in Zip product operating income as the segment reaches the end of its life cycle. There is no remaining goodwill related to the Zip product line on the balance sheet at July 1, 2007, as the last impairment charges were taken in the second quarter of 2007.

The REV product operating loss as a percentage of REV product sales improved to a negative 3% for the quarter ended July 1, 2007 compared to a negative 42% for the quarter ended July 2, 2006. The lower REV product operating loss for the quarter ended July 1, 2007 resulted primarily from lower research and development expenses, lower selling and marketing expenses and improved gross margins.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Product Segment Operating Income (Loss) (Continued)

The NSS product operating loss as a percentage of NSS product sales decreased to a negative 16% for the quarter ended July 1, 2007 as compared to a positive 1% for the quarter ended July 2, 2006. The NSS product operating loss for the quarter ended July 1, 2007 resulted primarily from charges associated with the launch of the StorCenter Pro NAS 150d product, combined with a higher mix of product sales with lower gross margins.

The Services operating loss was primarily a result of continued start-up and marketing costs associated with our new managed Services business.

Other Products product operating income decreased for the quarter ended July 1, 2007 compared to the quarter ended July 2, 2006, primarily as a result of lower license fee and patent income, which is not expected to be consistent from quarter to quarter.

The information in the following table was derived directly from our internal segments' financial information used for corporate management purposes. All prior period amounts have been reclassified to reflect the Network HDD drives and Services classification changes.

	For the Six Months Ended			
	July 1,	July 2,	\$	%
	2007	2006	Change	Change
	(In thousands, except %)			
Product Operating Income (Loss):				
Consumer Products:				
Consumer Storage Solutions	\$ 404	\$ (9,922)	\$ 10,326	104%
Zip Products	580	1,107	(527)	(48)
Total Consumer Products	984	(8,815)	9,799	111
Business Products:				
REV Products	30	(5,375)	5,405	101
Network Storage Systems	(355)	420	(775)	(185)
Services	(1,055)	227	(1,282)	(565)
Total Business Products	(1,380)	(4,728)	3,348	71
Other Products	389	936	(547)	(58)
Non-Restructuring Charges	-	(995)	995	100
Restructuring (charges) reversals	82	(4,569)	4,651	102
Total Operating Income (Loss)	\$ 75	\$ (18,171)	\$ 18,246	100%

The CSS product operating income as a percentage of CSS product sales improved to 0.4% for the six months ended July 1, 2007 from a negative 19% product operating loss for the six months ended July 2, 2006. The CSS product segment operating income resulted primarily from improved gross margins from the HDD supply chain improvements and lower operating expenses.

Zip product operating income as a percentage of Zip product sales remained relatively flat for the six months ended July 1, 2007, as compared to the six months ended July 2, 2006.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Product Segment Operating Income (Loss) (Continued)

The REV product operating income as a percentage of REV product sales improved to 0.1% for the six months ended July 1, 2007 compared to a negative 27% for the six months ended July 2, 2006. The REV product operating income for the six months ended July 1, 2007 resulted primarily from lower research and development expenses, lower selling and marketing expenses and improved gross margins.

The NSS product operating loss as a percentage of NSS product sales decreased to a negative 4% for the six months ended July 1, 2007 as compared to a positive 5% for the six months ended July 2, 2006. The NSS product operating loss for the quarter ended July 1, 2007 resulted primarily from charges associated with the launch of the StorCenter Pro NAS 150d product, combined with a higher mix of product sales with lower gross margins.

The Services operating loss was primarily a result of continued start-up and marketing costs associated with our new managed Services business.

Other Products product operating income decreased for the six months ended July 1, 2007 compared to the six months ended July 2, 2006, primarily as a result of lower license fee and patent income.

Operating Expenses

The table below shows the details of and the changes in operating expenses for the three months ended July 1, 2007 and July 2, 2006.

	For the Three Months Ended			
	July 1,	July 2,	\$	%
	2007	2006	Change	Change
	(In thousands, except %)			
Operating Expenses:				
Selling, general and administrative	\$ 10,397	\$ 10,510	\$ (113)	(1)%
Research and development	1,784	2,475	(691)	(28)
Restructuring charges (reversals)	(44)	4,291	(4,335)	(101)
Goodwill impairment charge	1,253	2,341	(1,088)	(46)
License and patent fee income	(102)	(1,085)	983	91
Bad debt credit	(102)	(153)	51	33
Total Operating Expenses	\$ 13,186	\$ 18,379	\$ (5,193)	(28)%

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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 the changes in operating expenses for the six months ended July 1, 2007 and July 2, 2006.

	For the Six Months Ended			
	July 1, 2007	July 2, 2006	\$ Change	% Change
	(In thousands, except %)			
Operating Expenses:				
Selling, general and administrative	\$ 20,781	\$ 23,092	\$ (2,311)	(10)%
Research and development	3,523	5,042	(1,519)	(30)
Restructuring charges (reversals)	(82)	4,569	(4,651)	(102)
Goodwill impairment charge	2,963	5,422	(2,459)	(45)
License and patent fee income	(452)	(1,085)	633	58
Bad debt credit	(366)	(275)	(91)	(33)
Total Operating Expenses	\$ 26,367	\$ 36,765	\$ (10,398)	(28)%

Selling, General and Administrative Expenses

Selling, general and administrative expenses remained relatively flat for the quarter ended July 1, 2007 compared to the quarter ended July 2, 2006, in part due to higher than normal payments to third parties for services, offset by the results of the 2006 restructuring and other cost reduction efforts. Selling, general and administrative expenses decreased as a percentage of sales to 18% for the quarter ended July 1, 2007, compared to 26% for the quarter ended July 2, 2006.

The decrease in selling, general and administrative expenses for the six months ended July 1, 2007 compared to the six months ended July 2, 2006 reflected lower costs resulting primarily from the 2006 restructuring actions and other cost reductions. Selling, general and administrative expenses decreased as a percentage of sales to 15% for the quarter ended July 1, 2007, compared to 23% for the quarter ended July 2, 2006.

Research and Development Expenses

Lower research and development expenses for the quarter ended July 1, 2007 compared to the quarter ended July 2, 2006 reflected lower development expenses on REV and HDD products. Research and development expenses decreased as a percentage of sales to 3% for the quarter ended July 1, 2007 compared to 6% for the quarter ended July 2, 2006 as a result of higher revenue and overall lower product development costs described above.

Lower research and development expenses for the six months ended July 1, 2007 compared to the six months ended July 2, 2006 reflected lower development expenses on HDD and REV products. Research and development expenses decreased as a percentage of sales to 3% for the six months ended July 1, 2007 compared to 5% for the six months ended July 2, 2006 as a result of higher revenue and the lower REV product development costs described above.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Operating Expenses (Continued)

Goodwill Impairment Charges

For the quarter ended July 1, 2007, operating expenses included a non-cash impairment charge for \$1.3 million relating to Zip goodwill as compared to \$2.3 million for the quarter ended July 2, 2006.

For the six months ended July 1, 2007, operating expenses included a non-cash impairment charge for \$3.0 million relating to Zip goodwill as compared to \$5.4 million for the six months ended July 2, 2006.

These charges were recorded as a result of quarterly impairment tests due to declining Zip sales, profits and estimated future cash flows as Zip products reach the end of their lifecycle. There is no remaining goodwill related to the Zip product line as of July 1, 2007.

License and Patent Fee Income

For the quarter ended July 1, 2007, license and patent fee income of \$0.1 million was recognized for the sale of certain patents as compared to \$1.1 million for the quarter ended July 2, 2006.

For the six months ended July 1, 2007, license and patent fee income of \$0.5 million was recognized for the sale of certain patents as compared to \$1.1 million for the six months ended July 2, 2006.

Bad Debt Credit

For the quarter ended July 1, 2007, we had a bad debt credit of \$0.1 million compared a \$0.2 million bad debt credit for the quarter ended July 2, 2006.

For the six months ended July 1, 2007, we had a bad debt credit of \$0.4 million compared a \$0.3 million bad debt credit for the six months ended July 2, 2006.

Restructuring Charges

During the first quarter of 2007, we recorded a net restructuring release of less than \$0.1 million.

During the second quarter of 2007, we recorded a net restructuring release of less than \$0.1 million.

During the first quarter of 2006, we recorded restructuring charges of \$0.3 million for severance and benefits associated with the termination of management employees as we began reorganizing our Company from a focus on autonomous geographic regions and products to a simplified functional organization. This reorganization resulted in the elimination of some management positions and material changes in responsibilities in other management positions.

During the second quarter of 2006, we recorded net restructuring charges of \$4.3 million of which \$1.5 million related to the 2001 restructuring actions; a \$0.1 million release related to the 2004 restructuring actions and \$2.9 million related to the 2006 restructuring actions.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Interest Income

Interest income was \$0.6 million for the quarter ended July 1, 2007, compared to \$0.8 million for the quarter ended July 2, 2006. The decrease was a result of lower average cash balances, partially offset by higher interest rates.

Interest income decreased to \$1.3 million for the six months ended July 1, 2007 as compared to \$1.5 million for the six months ended July 2, 2006. The decrease was a result of lower average cash balances, partially offset by higher interest rates.

Interest Expense and Other Income (Expense), Net

Interest expense and other income (expense), net was a net other income of \$0.3 million for the quarter ended July 1, 2007 compared to a net other expense of \$0.4 million for the quarter ended July 2, 2006. The net other income for the second quarter of 2007 resulted primarily from foreign currency gains. In the second quarter of 2006, we wrote off \$0.5 million for an uncollectible VAT receivable from an old European customer.

Interest expense and other income (expense), remained relatively flat at a net other expense of \$0.1 million for the six months ended July 1, 2007 as compared to the six months ended July 2, 2006.

Income Taxes

For the quarter ended July 1, 2007, we recorded a net income tax benefit of \$1.2 million on pre-tax loss of \$0.1 million. This net tax benefit was primarily comprised of a \$1.6 million release of a contingency reserve related to a foreign tax exposure for which the statute of limitations expired in the second quarter of 2007 and a \$0.5 million release of a deferred tax liability resulting from the goodwill impairment charge recorded during the quarter, partially offset by taxes provided on foreign earnings and capital taxes.

For the quarter ended July 2, 2006, we recorded an income tax benefit of \$0.8 million on a pre-tax loss of \$11.2 million. This tax benefit was primarily comprised of a release of a deferred tax liability resulting from the goodwill impairment charge recognized.

For the six months ended July 1, 2007, we recorded a net income tax benefit of \$1.0 million on pre-tax income of \$1.2 million. This tax benefit was primarily comprised of a \$1.6 million release of a contingency reserve related to a foreign tax exposure for which the statute of limitations expired in the second quarter of 2007 and releases of \$1.2 million of deferred tax liabilities resulting from the goodwill impairment charges recognized, partially offset by taxes provided on foreign earnings and capital taxes.

For the six months ended July 2, 2006, we recorded an income tax benefit of \$2.2 million on a pre-tax loss of \$16.8 million. This tax benefit was primarily comprised of a release of a deferred tax liability resulting from the goodwill impairment charges recognized, minor adjustments to the estimated foreign income taxes due to the filing of actual tax returns and the accrual of foreign income and capital taxes.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, we had \$8.2 million of unrecognized tax benefits, \$4.0 million of which would affect our effective tax rate if

recognized. Consistent with the provisions of FIN 48, we reclassified \$4.0 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Income Taxes (Continued)

At April 1, 2007, we had \$5.9 million of unrecognized tax benefits, \$4.0 million of which would affect our effective tax rate if recognized.

As a result of the expiration of the statute of limitations on certain foreign income tax returns without notification of review by the taxing authorities during the second quarter of 2007, as described below, the total amount of unrecognized tax benefits was reduced by \$1.4 million. At July 1, 2007, we have \$4.5 million of unrecognized tax benefits, \$2.6 million of which would affect our effective tax rate if recognized.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of the date of adoption of FIN 48, we had accrued \$0.3 million for the payment of interest and penalties relating to unrecognized tax benefits. This amount was increased during the first quarter of 2007 by \$0.1 million for additional accruals of interest and penalties and reduced during the second quarter of 2007 by \$0.2 million for the release of accruals related to the expiration of the statute of limitations on certain foreign income tax returns without notification of review by the taxing authorities. As of July 1, 2007, we have approximately \$0.2 million of accrued interest related to uncertain tax positions, which was also reclassified from current to non-current liabilities upon adoption of FIN 48.

The tax years 2002-2006 remain open to examination by the major taxing jurisdictions to which we are subject. We are no longer subject to examination by the Internal Revenue Service ("IRS") for periods prior to

2002, although carryforward attributes that were generated prior to 2002 may still be adjusted upon examination by the IRS if they either have been or will be used in a future period. Various state income tax returns are also under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial statements.

Liquidity and Capital Resources

Details of our total cash, cash equivalents and temporary investments are shown in the table below:

	July 1,	Dec. 31,		
	2007	2006	\$	%
	(In thousands, except %)			
Total cash, cash equivalents and temporary investments for the U.S. entity	\$ 4,024	\$ 2,653	\$ 1,371	52%
Total cash, cash equivalents and temporary investments for non-U.S. entities ⁽¹⁾	71,104	65,495	5,609	9
Total consolidated cash, cash equivalents and temporary investments	\$ 75,128	\$ 68,148	\$ 6,980	10
Working capital	\$ 87,808	\$ 79,273	\$ 8,535	11%

(1) Of the \$71.1 million in total cash, cash equivalents and temporary investments for non-U.S. entities, \$0.1 million was restricted at July 1, 2007. At December 31, 2006, \$0.1 million of the non-U.S. entity cash was restricted.

On average, we anticipate incurring taxes of approximately 5% or less on cash balances repatriated to the U.S.

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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)

For the six months ended July 1, 2007, cash provided by operations amounted to \$7.2 million. The primary sources of cash from operations for the six months ended July 1, 2007 were collections from receivables and net income.

Trade receivables decreased in the six months ended July 1, 2007, due to lower sales in the second quarter due to the seasonally strong fourth quarter. Days sales outstanding ("DSO") in receivables decreased from 36 days at December 31, 2006 to 32 days at July 1, 2007. DSO decreased primarily due to the timing of sales within the respective periods. Inventories decreased slightly during the six months ended July 1, 2007 primarily in the HDD product line.

Our goal is to continue to increase cash flows from operations by improving the financial results of the CSS business, in particular HDD and improving REV product sales and margins. Although we have made significant progress on all of these initiatives, we can give no assurance that this progress is sustainable in the long term.

We believe that our current balance of total unrestricted cash, cash equivalents and temporary investments will be sufficient to fund anticipated working capital requirements, capital expenditures and cash required for other activities for at least one year. We do not believe that our cash balances would be adequate to fund a material acquisition. In that situation, we would need to borrow cash or fund the acquisition through a stock offering. Additionally, 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 herein and those factors set forth in the section labeled "Risk Factors" in Item 1A of Part II in this Form 10-Q. 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. There is no assurance that, if needed, we would be able to obtain financing from external sources or obtain a competitive interest rate.

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**IOMEGA CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Other Matters

In September of 2006, the FASB issued SFAS Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This statement provides enhanced guidance for using fair value to measure assets and liabilities. This statement also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect our adoption of this new standard to have a material impact on our financial position, results of operations or cash flows.

In February of 2007, the FASB issued SFAS Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 on our financial results.

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IOMEGA CORPORATION AND SUBSIDIARIES

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, 2006, which is incorporated herein by reference. Our exposure to market risk has not changed materially since December 31, 2006.

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 July 1, 2007. 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 July 1, 2007, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

During the second quarter of 2007, we changed to a new distribution and logistics supplier globally. As a result, we began relying on their systems and processes for receiving, configuring, tracking and shipping of inventory. We have performed a variety of reconciliations and put various processes in place in an attempt to ensure that financial data has been correctly reflected in the financial statements. We are not currently aware of any material adverse impacts on our internal controls over financial reporting as a result of this change. There has been no other change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 1, 2007 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 31.5 and 31.6 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.

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**IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Demand for Our Products and Services and Operating Efficiencies

Our future operating results will depend upon our ability to develop or acquire new products or services and 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:

- Our ability to improve and/or sustain satisfactory HDD gross margins;
- Our ability to generate significant sales and profit margin from REV[®] and NAS products and OfficeScreen[®] services;
- Our ability to replace declining Zip revenues and profits with revenues and profits from other products and services;
 - Worldwide market conditions and demand for digital storage products;
 - 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;
 - Our ability to attract and retain competent, motivated employees;
 - Our ability to comply with applicable legal requirements throughout the world;
- Our ability to avoid disruptions to our ongoing business as we evaluate strategic investments, including the evaluation of new opportunities related to services for small- and medium-sized businesses;
 - Access to HDD products from suppliers at a competitive price and in sufficient quantities;
- Our ability to utilize reliable outsource partners for certain critical functions at prices that keep us competitive 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. Although we have recorded net income in the past four quarters, 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 sustain profits in the future.

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**IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)**

Risk Factors (Continued)

Zip Drives and Disks

Zip® products have accounted for the majority of our product operating income from 1996 through 2006 and have provided our only meaningful source of product operating income 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 the 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 the future. Further, we will not be viable unless we generate significant product operating income from products other than Zip products. We can provide no assurance that we will be able to do so in the future. In addition, as a result of the end of the lifecycle for Zip, we expect to incur various claims for excess and obsolete inventory and may incur higher per-unit charges on small volumes of purchases or other costs associated with waning sales of this product line. Further, retail distributors who have featured Iomega products because of their desire to sell our proprietary Zip products may reduce or end purchases of non-Zip products as Zip sales become less important in attracting customers into their businesses.

REV Products

Future results of our REV products entail numerous risks relating to factors such as:

- Inability to create product awareness or lack of market acceptance of the REV 70GB Backup Drive;
- 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;
 - Intense competition;
- Manufacturing, technical, supplier, or quality-related delays, issues or concerns, including the loss of any key supplier or failure of any key supplier to deliver high quality products on time;
- The potential for further delays or other failures of our OEM partner in the broadcast industry, Thomson N.A., to introduce expected products utilizing REV drives and disks in 2007;
 - Potential declines in demand for REV 35GB products because of the launch of REV 70GB products;
- The potential for cost overruns, schedule misses or performance issues with next generation REV products as we develop additional REV products and
 - Risks that third parties may assert intellectual property claims against REV products.

Consumer Storage Solutions Products

CSS products and primarily HDD products have accounted for the majority of our revenue over the past year. Additionally, with the introduction of the new HDD products in the second half of 2006, HDD has become an even larger portion of our revenue and is absorbing a large amount of our fixed overhead and operating expenses. As a result, the impact of competition in this segment can have a larger impact on our financial results than in the past.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)

Risk Factors (Continued)

Consumer Storage Solutions Products (Continued)

Virtually all of our CSS products are commodity-type products, which are similar to many other widely available products. These competing products are marketed by both name-brand manufacturers and generic competitors and we source hard drives from the same companies we compete with. Hard drive manufacturers, who are suppliers and also competitors, have an inherent cost advantage and therefore can undercut Iomega's pricing in the market at any time. Moreover, besides our trademarks, we own limited intellectual property relating to many of our CSS 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 compete successfully, 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. In light of these challenges, we can offer no assurance that we will achieve sustainable profitability on this segment.

Further, in their own effort to seek the highest margin possible, large retail customers seek levels of promotional funds or other consideration and benefits that may not be consistent with our profit goals; lower retail sales or higher selling expenses therefore can result from positions taken by large retailers. In the highly competitive U.S. retail channel, there could be swings in demand for our CSS products, and we could be faced with difficult decisions about whether to grant costly concessions such as product returns or stock rotation, at any time.

U.S. Sales

Selling HDD products into retail channels in the U.S. has been an increasing challenge for us. During 2007, CompUSA has closed a substantial number of their stores, reducing certain volume opportunities for Iomega. Further, it appears that some companies with their own manufacturing capabilities are increasing competition and lowering prices aggressively. We have generally believed that a certain volume of retail sales is beneficial to maintain brand awareness; however, our retail HDD volume in the U.S. has been decreasing over the past few quarters. We can give no assurances regarding our future success in selling HDD products in retail channels in the U.S. Additionally, as Zip products approach the end of their life, there is a risk that our distribution or retail customers elect to discontinue selling Zip products earlier than anticipated due to lower volumes.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)

Risk Factors (Continued)

Development and Introduction of New Products and Services and New Revenue Streams

We believe that we must continually either develop or acquire the right to profitably sell new products or services 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 most have not delivered consistent, material profits.

We are spending significant resources attempting to develop new products. We may spend additional resources attempting to acquire the rights to new technologies or services, 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.

Our acquisition of CSCI, Inc. introduces management and various personnel to new challenges, including the need to incorporate a private company into our public company processes and controls; the need for us to simultaneously launch additional sales of this newly acquired service while hiring and scaling up support for offering OfficeScreen services to more and more customers. Historically, CSCI, Inc. did not have the same extent of process controls as a public company, and that company environment is in the midst of a period of change, from ownership by two founders to ownership and integration by a public company. Changing the management and tracking of information could result in disruption or loss of past checks and balances. Further, selling security and/or firewall services will require new contracts and the wide distribution of a service that is a new offering from us and potentially a new service for future customers. Another one of our goals is to expand the managed service business internationally, introducing risks related to learning new regulatory schemes and laws that may not have applied to our traditional hardware business. These efforts all involve execution, market risk and competition, as well as implementation of new business processes and systems (e.g., managing monthly billing rather than up front payments for hardware; managing ongoing services to accounts with ever-changing IT environments; adapting to deal with changing security threats or viruses over time; etc.) and there is no assurance that we will be successful in this new endeavor.

Restructuring, Other Cost Reduction Activities and Retention of Key Personnel

We have initiated various restructuring actions in the past in conjunction with our desire to reduce costs, operate efficiently and maintain lean staffing levels. Other restructuring actions may be necessary in the future. Our ability to retain key employees or our success at maintaining institutional knowledge and consistent application of controls, may be adversely affected because of past or any future restructuring activities or any regrettable turnover of personnel.

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.

We are always at risk that any future failure of our own controls or the controls at any of our outsourcing partners could result in reported material weaknesses. Responsibility for the finance function for Europe has changed hands internally as we have restructured over the past year. In general, we have somewhat more risk and a newer, smaller compliance team in Europe, but our greatest growth in revenue has been in Europe in recent quarters. We have many employees performing tasks they have not performed in the past, which could result in errors or lost knowledge. In

addition, our new managed security services subsidiary will require development of new process controls, associated with integrating a small private company into our Company.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)

Risk Factors (Continued)

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 in internal control over financial reporting.

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.

Outsourced Distribution and Logistics

Because we have outsourced our distribution and logistics operations, we rely upon the computer systems, business processes and internal controls of our distribution and logistics services provider. 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. In the second quarter of 2007, in an effort to further reduce operating costs, we changed our global distribution and logistics supplier. Transitioning a highly integrated, critical relationship may cause disruption, incremental costs during the transition, interruptions to shipments, increased manual processes, risk of accounting or information technology issues or other business risks.

Reporting of Channel Inventory and Product Sales by Channel Partners

We defer recognition of sales on estimated excess inventory in the distribution, retail and DMR (direct merchandising retailers) channels. For this purpose, excess inventory is the amount of inventory that exceeds the channel's four-week requirement 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.

Concentration of Credit Risk

We market our products primarily through computer product distributors, retailers and OEMs. Accordingly, as we grant credit to our customers, a substantial portion of outstanding trade receivables are due from computer product distributors, certain large retailers and OEMs. If any one or a group of these customers' receivable balances should be deemed uncollectible, it would have a material adverse effect on our results of operations and financial condition. As we sell fewer products through the retail channel, we have less leverage with such retailers and increased exposure to payment delays or other collection issues with retailers.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)

Risk Factors (Continued)

Company Operations, Component Supplies and Inventory

It is difficult to negotiate or maintain favorable pricing, supply, business or credit terms with our vendors, suppliers and service providers. We anticipate continued challenges in this area for the foreseeable future. Zip and REV products, as well as certain key components, are each manufactured by single manufacturers, which creates risks of disruption in the event of labor, quality or other problems at Zip or REV product manufacturers or certain key component 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.

Company Operations, Component Supplies and Inventory (Continued)

As suppliers upgrade their components, they regularly “end of life” older components. As we become aware of an end of life situation, we attempt to make purchases to cover all estimated 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 particular, Zip products are quickly approaching the end of their lifecycle and we have experienced supplier charges and excess inventory components. Although we cannot quantify the charges, we anticipate future charges related to Zip end of life. 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 or insufficient purchase commitments. We have recorded significant charges in the past relating to excess purchase commitments and inventory reserves and these charges can adversely affect 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. As we increase our revenue, it is possible that the volume of such assertions may increase, based upon our increased visibility, range of products, or attractiveness as a potential target for licensing fees. Such intellectual property claims could have a number of adverse consequences, including an injunction against current or future product shipments, liability for damages and/or 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
PART II – OTHER INFORMATION (Continued)**

Risk Factors (Continued)

International Operations

Our International operations are currently accounting for more than two-thirds of our revenue. Additionally, we have a relatively small administrative staff to support these operations. Much of the support is coming from Corporate in the U.S. International laws and rules can be very complicated and there is a risk that we will not meet all of the legal, tax and other requirements which could result in penalties or other actions.

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 people throughout the world. Although we attempt to fulfill all of our obligations, enforce all of our rights appropriately and comply with all applicable laws and regulations under these agreements and relationships, our organization is complex and errors may occur. We have been sued and may be sued, under numerous legal theories, including breach of contract, tort, product liability, intellectual property infringement and other theories. Such litigation, regardless of the outcome, may have an adverse effect upon our profitability or public perception.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION (Continued)

Risk Factors (Continued)

Uncertain Tax Positions

We adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (“FIN 48”) as of January 1, 2007, as required. In 2007 and subsequent periods, the income tax assets and liabilities we recognize for uncertain tax positions, if any, will be adjusted when the related income tax liabilities are paid, the income tax positions are settled with the taxing authorities, the related statutes of limitations expire or under other circumstances as provided in FIN 48. Our assessment of uncertain tax positions requires that we make estimates and judgments about the application of tax laws, the expected resolution of uncertain tax positions and other matters. In the event that uncertain tax positions are resolved for amounts different than our estimates, or the related statutes of limitations expire without our being assessed additional income taxes, we will be required to adjust the amounts of the related assets and liabilities in the period in which such events occur. Such adjustments may have a material impact on our income tax provision and our results of operations.

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, natural disasters affecting key suppliers or key facilities, terrorism or other factors could affect our operating results. Significant portions of our sales are generated in Europe and, to a lesser extent, Asia. We invoice the majority of our European customers in Euros and invoice most of 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. Our management is giving serious attention to possible strategic opportunities to build the business and find synergistic products or services. Potential strategic transactions always involve a heightened risk of legal claims, disruption and unexpected costs, even failed explorations of transactions can result in spikes in costs for advisors, and even successful transactions can lead to unexpected costs.

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IOMEGA CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

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

During the quarter ended July 1, 2007, we did not repurchase any shares of our Common Stock. As of July 1, 2007, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

The Company's 2007 Annual Meeting of Stockholders was held on May 23, 2007. The stockholders elected the following eight directors to hold office for a period of one year.

The following table indicates the votes received for each proposal voted on, each of which was approved by our stockholders.

Proposal	For	Against/Withheld	Abstain	Broker Non-Votes
1. Election of eight directors, each for a term of one year				
Robert P. Berkowitz	43,114,654	5,293,525	-	-
Reynolds C. Bish	47,870,796	537,383	-	-
Bruce B. Darling	42,220,669	6,187,510	-	-
Stephen N. David	42,224,691	6,183,488	-	-
Margaret L. Hardin	43,118,614	5,289,565	-	-
Jonathan S. Huberman	47,873,894	534,285	-	-
Daniel R. Maurer	43,121,932	5,286,247	-	-
John E. Nolan	42,218,494	6,189,685	-	-
2. To approve the 2007 Stock Incentive Plan	30,185,282	1,209,080	225,917	16,787,904
3. To ratify the selection of BDO Seidman LLP as independent accountants	48,022,209	279,287	106,685	-

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.

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**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: August 9, 2007
Vice Chairman and Chief Executive Officer

/s/ Jonathan S. Huberman
Jonathan S. Huberman

Dated: August 9, 2007
Vice President of Finance and
Chief Financial Officer(Principal financial and
accounting officer)

/s/ Preston Romm
Preston Romm

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**IOMEGA CORPORATION AND SUBSIDIARIES
EXHIBIT INDEX**

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

<u>Exhibit No.</u>	<u>Description</u>
<u>31.5</u>	Section 302 certification letter from Jonathan S. Huberman, Vice Chairman and Chief Executive Officer.
<u>31.6</u>	Section 302 certification letter from Preston Romm, Vice President of Finance and Chief Financial Officer.
<u>32.5</u>	Section 906 certification letter from Jonathan S. Huberman, Vice Chairman and Chief Executive Officer.
<u>32.6</u>	Section 906 certification letter from Preston Romm, Vice President of Finance and Chief Financial Officer.
10.26	(1) 2007 Stock Incentive Plan

(1) Incorporated herein by reference to the Exhibit A of Iomega's Proxy Statement for the 2006 Annual Meeting of Stockholders (File No. 1-12333).