

1st Quarter 2007 Earnings Supplemental Information



April 24, 2007

Safe Harbor Statement

The contents of this presentation that are not statements of historical fact are forward-looking statements and involve risks and uncertainties that are discussed in the Safe Harbor section of our earnings releases and SEC filings. Actual results may differ materially from such statements. Lexmark undertakes no obligation to update any forward-looking statements.

Strategic Progress

- Continue to make good progress evolving our business to position Lexmark for long-term growth
 - Strengthened and expanded product line focused on core technology and key growth segments – clearly visible in our product line and industry recognition
 - Restructured to improve our inkjet sales portfolio, and improved our cost and expense structure to help us partially offset new investments and price declines in the market
 - Stepped up our brand development campaign
 - Increasing our focus on driving branded hardware growth and increasing investment in demand generation
- Ongoing declines in OEM hardware sales and inkjet supplies sales continue to negatively impact our financial results

Key Points for 1Q07

- **First-quarter results in line with guidance, include strong positives and challenges**
 - Strong branded unit growth in key color laser, laser MFP, and inkjet AIO segments
 - Total branded hardware revenue grew year to year for the 4th straight quarter
 - Good business market segment growth in both core hardware and supplies revenue
 - Inkjet branded units grew with strong growth in branded AIOs
 - Challenges included weak OEM unit sales, declines in inkjet supplies sales, and fairly aggressive pricing in lasers and inkjets
- **Significantly strengthened product position in key focus segments**
 - Announced new inkjet product line which brings wireless printing to the mainstream
 - Announced new color laser and color laser MFP families
 - New color laser MFP line includes the X782e and the X940e family for business workgroups, and the X500n family for desktop users and smaller workgroups
 - New color laser printers include the C780n and the C935dn families designed for business workgroups
 - Color laser products continue to win significant industry recognition
 - New industry-specific solutions introductions leverage Lexmark's deep and proven expertise in education and healthcare
- **Increased investments impact quarterly results**
 - Continued to step up brand development and R&D investments
 - Given strength of product line, now increasing investment in demand generation

Strategic Initiatives

Strategic Initiatives

Expand
Product
Segments

Expand
Market
Segments

Develop
The
Brand

Expand Product Segments

Selected 2006/7 Announcements

Low End Mono Lasers



Color Lasers



Laser MFPs



Inkjet All-in-Ones



Develop The Brand



“75% of the leading banks, retailers and pharmacies use Lexmark to print smarter, save money and get more done.”

Expand Market Segments

Solutions /
Services

SMB

Retail

2007 Announcements

Workgroup Color Printers

C780 / C782



C935



Workgroup Color MFPs

X782e



X945e



X940e



Desktop Color MFPs

X500n



Affordable
3-in-1

X502n



Full Function
4-in-1

Inkjet Printers

Z1300



X2500



Wireless 

Z1420



X3550



X4550



2007 Color Laser Awards



X500n
X502n



C500n



C530dn



C530dn
C532n
C532dn



C770n



C770/C772 Series

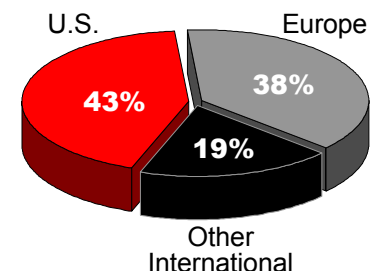


C920 Series

1st Quarter Results

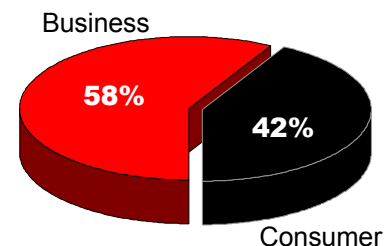
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
United States	\$ 545	\$ 574	-5%
Europe	482	465	4%
Other International	234	236	-1%
Total Revenue	\$ 1,261	\$ 1,275	-1%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Business	\$ 737	\$ 688	7%
Consumer	523	587	-11%
Total Revenue	\$ 1,261	\$ 1,275	-1%



Segment Operating Income

<i>(Dollars in millions)</i>	<u>2007</u>			<u>2006</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructure Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructure Related</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 154	\$ 0	\$ 154	\$ 147	\$ 8	\$ 155	4%	-1%
Consumer	64	-3	61	65	31	96	0%	-36%
Other ⁽²⁾	(97)	5	(92)	(92)	1	(91)	-6%	-1%
Total Operating Inc. ⁽³⁾	\$ 121	\$ 2	\$ 123	\$ 121	\$ 39	\$ 160	0%	-23%

- (1) 2007 restructuring-related amounts are comprised of restructuring-related project costs of \$6 million and a \$4 million gain on the sale of Rosyth, Scotland manufacturing facility.
- (2) \$10 million pension curtailment gain included in 2006 GAAP and Restructure Related columns on "Other" line.
- (3) Totals may not foot due to rounding.

Revenue Compared to Last Year

- **Total Revenue** of \$1.261 billion declined 1%
 - Business segment revenue of \$737 million grew 7%
 - Laser units declined 6% due to a decline in low-end mono laser shipments and weakness in OEM sales. However, laser hardware revenue grew year to year driven by strong growth in color lasers and laser MFPs
 - Laser average unit revenue (AUR) grew 11% driven mainly by an improved mix of color lasers and laser MFPs
 - Consumer segment revenue of \$523 million declined 11%
 - Inkjet units declined 10% as branded unit growth was more than offset by a significant decline in OEM printers. Branded units grew in the period with strong growth in branded AIOs
 - Inkjet AUR declined 5% year to year impacted by price declines
 - Laser and inkjet supplies revenue was about flat. Laser supplies growth was offset by a decline in inkjet supplies
 - Laser and inkjet printer revenue declined 3%. Growth in laser revenue was more than offset by a decline in inkjet revenue
 - Revenue in the U.S. declined 5%, revenue in Europe grew 4%, and Other International revenue declined 1%

Margins Compared to Last Year

- **Gross Profit Margin 33.5%**

- Includes restructuring-related project costs of \$1 million
- Excluding the restructuring-related project costs, would have been 33.7%
- 1Q06 gross profit margin was 31.7%, or 33.1% excluding restructuring-related activities and pension curtailment gain
- Non-GAAP gross profit margin increased 60 basis points principally due to a 140 basis point improvement in mix driven by less inkjet hardware offset by lower product margins

- **Operating Expense to Revenue Ratio 23.9%**

- Includes restructuring-related project costs of \$1 million
- Excluding the charges for restructuring-related project costs, would also have been 23.9%
- 1Q06 operating expense to revenue ratio was 22.2%, or 20.6% excluding restructuring-related activities and pension curtailment gain
- Non-GAAP operating expense to revenue ratio grew 330 basis points driven by increased investments in demand generation and R&D

- **Operating Income \$121 Million**

- Includes restructuring-related project costs of \$2 million
- Excluding restructuring-related project costs, would have been \$123 million
- 1Q06 operating income of \$121 million, or \$160 million excluding restructuring-related activities and pension curtailment gain
- Non-GAAP operating income declined \$37 million driven by a \$35 million decline in consumer segment operating income

- **Operating Income Margin 9.6%**

- Excluding restructuring-related project costs, would have been 9.8%
- 1Q06 operating income margin was 9.5%, or 12.6% excluding restructuring-related activities and pension curtailment gain

Taxes & EPS Compared to Last Year

- **1Q07 Effective Tax Rate 26%**

- 1Q06 effective tax rate was 32%

- **1Q07 EPS \$0.95**

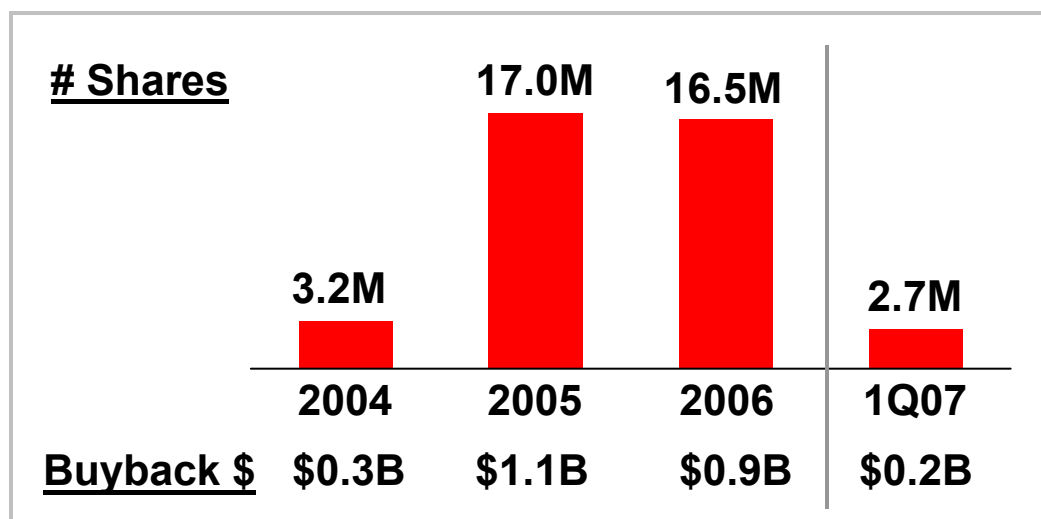
- Includes \$0.01 per share net restructuring-related project costs

- 1Q07 EPS would have been \$0.96 excluding restructuring-related project costs

- 1Q06 EPS were \$0.78, or \$1.03 excluding \$0.31 per share restructuring-related activities and \$0.06 per share pension curtailment gain

Cash Generation & Share Repurchase

- **Net cash provided by operating activities of \$87 million in 1Q07**
 - Cash and marketable securities of \$443 million at quarter end
 - Capital expenditures were \$49 million in the quarter
 - Depreciation/amortization was \$41 million in the quarter
- **Share repurchases were \$165 million during the quarter**
 - Repurchased 2.7 million shares at an average cost of \$61.06
 - Approximately \$295 million authorization remaining at quarter end



Outlook

In the 2nd quarter of 2007, the company expects:

- **Revenue** to be down year to year in the low- to mid-single digit range
- **Gross profit margin** to be down sequentially
- **Operating expenses** to be about flat sequentially
- **Operating income margin** to be down both sequentially and year to year
- **Effective tax rate** to be approximately 26.5% in 2Q07 and for full year 2007
- **Net earnings** to be down sequentially and year to year
- **EPS** of \$0.82 - \$0.92
 - \$0.05 per share for restructuring-related project costs offset by expected gains from the liquidation of our Scotland legal entity
 - EPS were \$0.74 in the 2nd quarter of 2006, or \$1.09 excluding \$0.35 per share restructuring-related charges
- **Capital expenditures and depreciation** for 2007 projected to be about \$235 million and \$150 million, respectively

Tables

- GAAP to Non-GAAP Reconciliation Table
- Restructure-Related Summary
- Unit Trends, Revenue by Product

GAAP to Non-GAAP Reconciliation Table

	<u>1Q07</u>					<u>1Q06</u>					<u>2Q06 EPS</u>	<u>2Q07 Guidance</u>
	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>Net Earnings</u>	<u>EPS</u>	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>Net Earnings</u>	<u>EPS</u>		
GAAP	\$423 33.5%	\$302 23.9%	\$121 9.6%	\$92 7.3%	\$0.95	\$404 31.7%	\$283 22.2%	\$121 9.5%	\$86 6.8%	\$0.78	\$0.74	\$0.82-\$0.92
Restructure Related (1)(2)	\$1	(\$1)	\$2	\$2	\$0.01	\$19	(\$31)	\$50	\$34	\$0.31	\$0.35	\$0.00
Pension Benefit							\$10	(\$10)	(\$7)	(\$0.06)		
Non-GAAP (3)	\$424 33.7%	\$301 23.9%	\$123 9.8%	\$94 7.5%	\$0.96	\$422 33.1%	\$262 20.6%	\$160 12.6%	\$113 8.9%	\$1.03	\$1.09	\$0.82-\$0.92

Note: Management believes that presenting these measures is useful because they enhance shareholders' understanding of how management assesses the performance of the Company's businesses. These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

- (1) 2006 restructuring-related amounts include accelerated depreciation, employee separation costs, contract termination charges, and project costs related to the execution of restructuring-related activities. 1Q06 included no restructuring-related project costs. 2Q06 included \$1 million of restructuring-related project costs.
- (2) 1Q07 restructuring-related amounts include restructuring-related project costs of \$6 million and a \$4 million gain on the sale of the Rosyth, Scotland manufacturing facility. 2Q07 includes \$0.05 for restructuring-related project costs offset by expected gains from the liquidation of our Rosyth, Scotland legal entity.
- (3) Totals may not foot due to rounding.

Restructuring-Related Summary ⁽¹⁾⁽²⁾

	<u>Gross Profit</u>	<u>Operating Expense</u>	<u>Op Inc</u>	<u>Net Earnings</u>	<u>EPS</u> ⁽⁴⁾
1Q06	(\$19)	\$31	(\$50)	(\$34)	(\$0.31)
1Q06 Pension⁽³⁾		(\$10)	\$10	\$7	\$0.06
2Q06	(\$16)	\$37	(\$53)	(\$37)	(\$0.35)
3Q06	(\$4)	\$9	(\$13)	(\$10)	(\$0.10)
4Q06	(\$3)	\$16	(\$19)	(\$14)	(\$0.14)
2006	(\$42)	\$83	(\$125)	(\$87)	(\$0.85)
1Q07	(\$1)	\$1	(\$2)	(\$2)	(\$0.01)

(1) Restructuring-related amounts include accelerated depreciation, employee separation costs, contract termination charges and project costs related to the execution of restructuring-related activities. Restructuring-related project costs included above are as follows: 2Q06 of \$1M, 3Q06 of \$3M, 4Q06 of \$10M, 2006 of \$14M, and 1Q07 of \$2M.

(2) Totals may not foot due to rounding.

(3) Pension curtailment gain.

(4) EPS calculated using tax rates as follows: 1Q06 31.6%, 2Q06 30.8%, 3Q06 28.1%, 4Q06 27.0%, 1Q07 26.7%.

Unit Trends, Revenue by Product

Unit Trends

<i>(Millions)</i>	2004	2005	2006	2005 – 2006 Change
Laser Units	1.7	2.0	2.1	+9%
Inkjet Units	18.3	18.4	14.7	-20%

Revenue by Product

<i>(Dollars in millions)</i>	2006	2005	Change
Laser & Inkjet Printers	\$ 1,663.0	\$ 1,799.4	-8%
Laser & Inkjet Supplies	3,211.6	3,117.2	+3%
Other	233.5	304.9	-23%
Total Revenue	\$ 5,108.1	\$ 5,221.5	-2%