

2nd Quarter 2006 Earnings Supplemental Information



July 25, 2006

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.

2nd Quarter 2006

Revenue by Geography

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 531.1	\$ 568.7	-7%
Europe	450.2	450.9	0%
Other International	247.7	263.5	-6%
<u>Total revenue</u>	<u>\$ 1,229.0</u>	<u>\$ 1,283.1</u>	<u>-4%</u>

Segment Revenue

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 713.2	\$ 707.9	1%
Consumer	515.8	575.2	-10%
<u>Total revenue</u>	<u>\$ 1,229.0</u>	<u>\$ 1,283.1</u>	<u>-4%</u>

Segment Operating Income ⁽¹⁾

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business ⁽¹⁾	\$ 148.8	\$ 187.3	-21%
Consumer ⁽¹⁾	68.5	79.0	-13%
Other ⁽¹⁾⁽²⁾	(113.7)	(90.8)	-25%
<u>Total operating income ⁽¹⁾⁽²⁾</u>	<u>\$ 103.6</u>	<u>\$ 175.5</u>	<u>-41%</u>

(1) 2Q 2006 operating income includes the impact of restructuring related expenses as follows:

Business segment excluding \$14 million of charges would have been \$163 million, down 13% YTY.

Consumer segment excluding \$19 million of charges would have been \$88 million, up 11% YTY.

Other segment excluding \$20 million of charges would have been (\$94) million, down 3% YTY.

Total operating income excluding \$53 million of charges would have been \$157 million, down 11% YTY.

(2) All FAS123R expense shown in "Other." 2006 "Other" operating income, and total operating income figures above include \$10 million resulting from the adoption of FAS123R.

1st Half 2006

Revenue by Geography

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 1,104.8	\$ 1,192.4	-7%
Europe	915.6	962.9	-5%
<u>Other International</u>	<u>483.9</u>	<u>485.4</u>	<u>0%</u>
<u>Total revenue</u>	<u>\$ 2,504.3</u>	<u>\$ 2,640.7</u>	<u>-5%</u>

Segment Revenue

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 1,401.6	\$ 1,435.0	-2%
<u>Consumer</u>	<u>1,102.7</u>	<u>1,205.7</u>	<u>-9%</u>
<u>Total revenue</u>	<u>\$ 2,504.3</u>	<u>\$ 2,640.7</u>	<u>-5%</u>

Segment Operating Income ⁽¹⁾

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business ⁽¹⁾	\$ 296.3	\$ 364.8	-19%
Consumer ⁽¹⁾	133.3	157.9	-16%
<u>Other ⁽¹⁾⁽²⁾</u>	<u>(205.5)</u>	<u>(185.5)</u>	<u>-11%</u>
<u>Total operating income ⁽¹⁾⁽²⁾</u>	<u>\$ 224.1</u>	<u>\$ 337.2</u>	<u>-34%</u>

(1) 1st half 2006 operating income includes the net impact of restructuring expenses and pension curtailment benefit as follows:

Business segment excluding \$22 million of net charges would have been \$318 million, down 13% YTY.

Consumer segment excluding \$50 million of net charges would have been \$184 million, up 16% YTY.

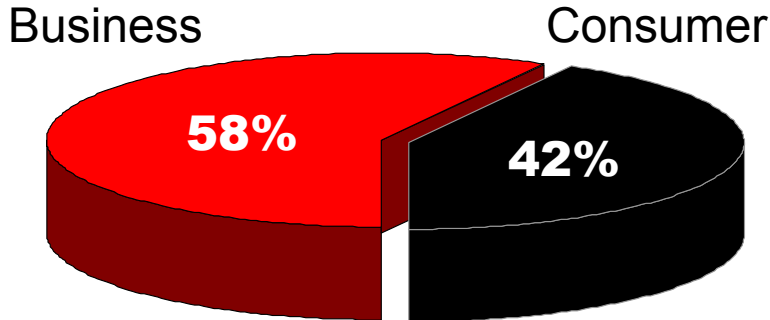
Other segment excluding \$21 million of net charges would have been (\$186) million, about flat YTY.

Total operating income excluding \$93 million of net charges would have been \$317 million, down 6% YTY.

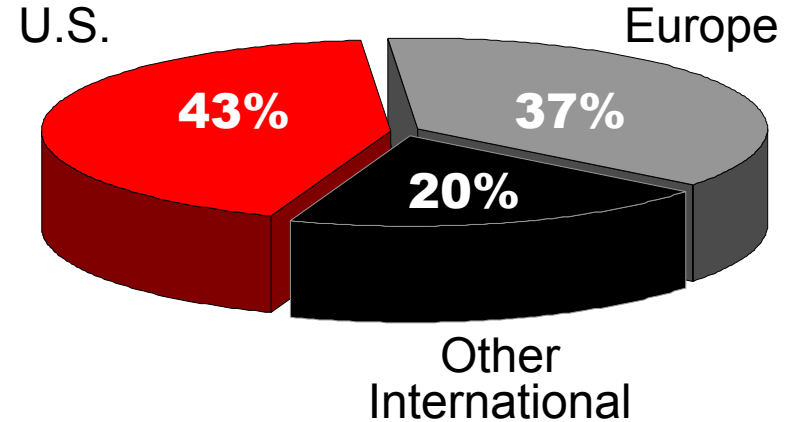
(2) All FAS123R expense shown in "Other." 2006 "Other" operating income, and total operating income figures above include \$20 million resulting from the adoption FAS123R.

2006 Revenue

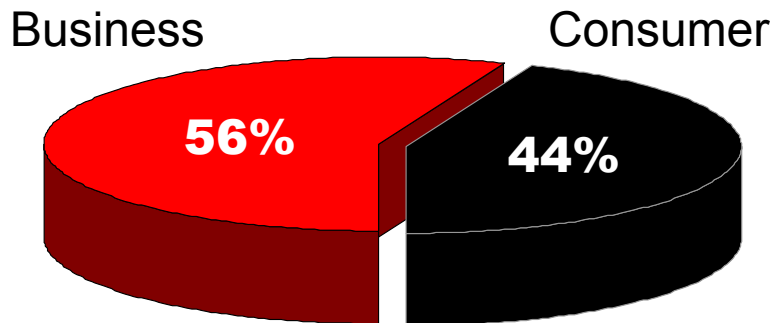
2Q by Segment



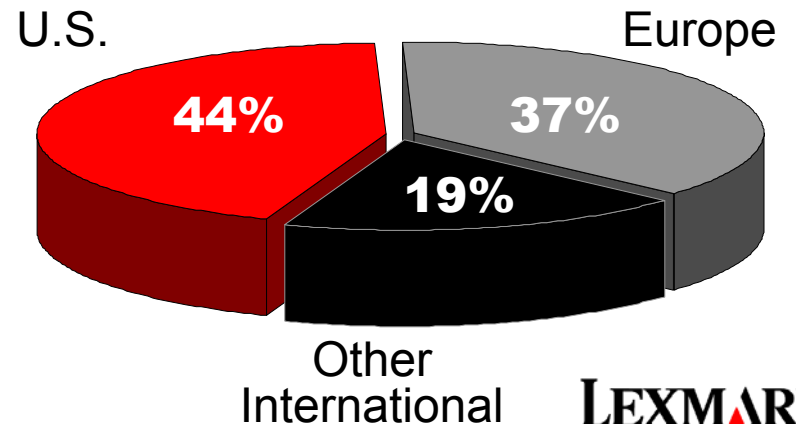
2Q by Region



YTD by Segment



YTD by Region



2Q06 Revenue

- **Total revenue** of \$1.229 billion declined 4%, in-line with the guidance range. Compared to a year ago:
 - Laser and inkjet supplies revenue declined 1%.
 - Laser and inkjet printer revenue declined 7%.
 - Laser units increased 4%. Branded growth in all laser categories led by color lasers, laser all-in-ones (AIOs), and low-end monochrome lasers. This growth was partially offset by a decline in OEM lasers. Laser average unit revenue (AUR) declined approximately 6%, impacted mostly by unfavorable price changes.
 - Inkjet units declined 25%. Declines in OEM and branded single-function printers were partially offset by growth in branded AIOs. Inkjet AUR increased 8% year to year as price declines were offset by a mix shift to AIOs.
 - Business segment revenue of \$713 million increased 1%; Consumer segment revenue of \$516 million declined 10%.
 - Revenue in the U.S. declined 7%, revenue in Europe was about flat, and Other International revenue declined 6%.

2Q06 Margins

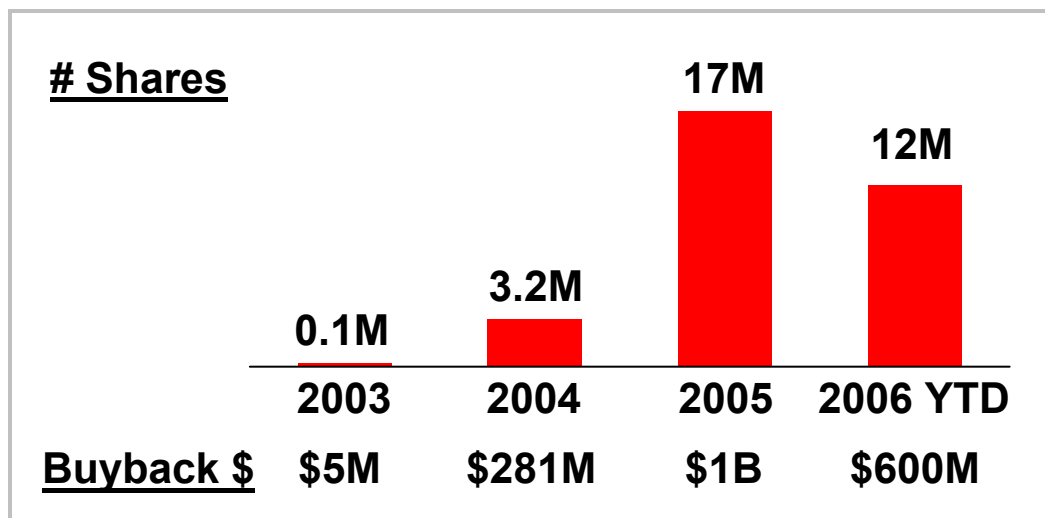
- **Gross Profit Margin 34.0%**
 - Includes charges for restructuring related activities of \$16 million
 - Excluding the charges for restructuring related activities, would have been 35.3%, up 70 basis points year to year principally due to a 250 basis point improvement in mix, mostly from a decrease in the percentage of inkjet hardware, partially offset by hardware margin declines in inkjets and lasers
 - 2Q05 gross profit margin was 34.6%
- **Operating Expense to Revenue Ratio 25.6%**
 - Includes charges for restructuring related activities of \$37 million
 - Excluding the charges for restructuring related activities, would have been 22.6%, up year to year driven by lower revenue and FAS123R expenses
 - 2Q05 operating expense to revenue ratio was 20.9%
- **Operating Income of \$104 million**
 - Includes charges for restructuring related activities of \$53 million
 - Excluding charges for restructuring related activities, would have been \$157 million
 - 2Q05 operating income of \$176 million
 - Costs related to the adoption of FAS123R of \$10 million in 2Q06 are included in 2Q06 operating income, but not in 2Q05 operating income
- **Operating Income Margin 8.4%**
 - Excluding charges for restructuring related activities, would have been 12.8%
 - 2Q05 operating income margin was 13.7%
- **Effective tax rate was 28.5%**
 - Lower than expected to due a \$2.5 million benefit from the settlement of 2002/2003 IRS audits

2Q06 EPS

- **EPS** in 2Q06 were significantly stronger than expected due mainly to better than expected product gross margins.
 - **2Q06 EPS of \$0.74**
 - Includes costs of adopting FAS123R \$0.06 per share
 - Includes charges for restructuring related activities of \$0.35 per share
 - Includes a \$0.02 per share benefit from the settlement of IRS audits for 2002/2003
 - EPS would have been \$1.07 excluding charges for restructuring related activities, and tax benefit
 - **2Q05 EPS of \$0.64**
 - Includes a \$0.42 charge due to the approval to repatriate \$684 million under the American Jobs Creation Act
 - EPS would have been \$1.06 excluding repatriation charges

Cash Generation & Share Repurchase

- **Cash generation of \$142 million**
 - Cash and marketable securities of \$570 million as of June 30, 2006
 - Capital expenditures were \$47 million in the quarter
 - Depreciation was \$53 million
- **Share repurchases were \$300 million during the quarter**
 - Repurchased 5.7 million shares at an average cost of \$52.75
 - Approximately \$730 million authorization remaining at quarter end



Outlook

In the 3rd quarter of 2006, the company expects:

- An inkjet component shortage, which has now been largely resolved, will negatively impact third-quarter EPS by about \$0.05 per share, primarily for incremental air freight to expedite product delivery. This is included in the guidance range.
- **Revenue** to be flat to down in the low-single digit range
- **Gross margin**, excluding restructuring actions, to be up year over year, and down sequentially
- **Operating expense to revenue ratio**, excluding restructuring actions, to be up slightly year over year, and about flat sequentially
- **Operating income margin**, excluding restructuring actions, to be up year over year, and down sequentially
- **Effective tax rate** expected in 3Q06 and for full year 2006 is 31% and 29%, respectively. The full-year tax rate assumes the extension of the U.S. Research and Experimentation Credit which has not been extended by Congress at this time
- **EPS** of \$0.65 - \$0.75:
 - Excludes approximately \$0.16 per share of restructuring charges
 - GAAP EPS are expected to be \$0.49 - \$0.59
 - EPS were \$0.59 in the 3rd quarter of 2005
- **Capital expenditures and depreciation** for 2006 projected to be \$230 million and \$160 million, respectively

Issues, Actions and Initiatives

Issues

- Price / Mix Impact
- Weak Hardware Sales
- Weak Supplies Sales

Actions

Inkjet Profitability

Restructuring

Strategic Initiatives

Strategic Initiatives

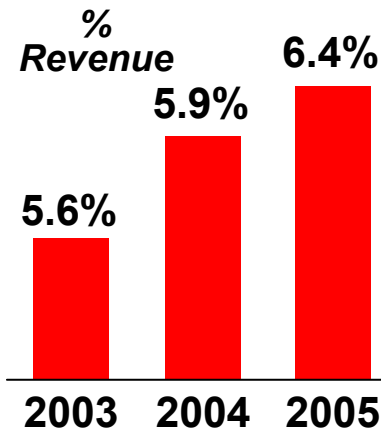
Expand Product Segments

Expand Market Segments

Develop The Brand

Requires Investment

Increasing R&D Investment



Investments

- Core Technology
- Growth Segments
 - LE Mono Laser
 - Color Laser
 - Laser AIO
 - 3-in-1 Inkjet
 - 4-in-1 Inkjet

Recent Product Recognition

Mono Laser



E120n

E24X

E34X



T64X



W840



Usability

Outstanding Achievement for Control Panel Design



Color Laser



C52X



C500n



C920



Mono Laser MFP



X64X



Outstanding Achievement for MFP Design



X85X

Inkjet 4-in-1



X8350



2006 Product Introductions

Laser AIOs / MFPs



**X340
Series**



**X640
Series**



**X850
Series**

3-in-1 Inkjet AIOs



X1270



X2470



X3470

Entry Mono Laser



E120n

Color Laser



C500n

4-in-1 Inkjet AIOs



X7350

Key Messages for Investors

- Lexmark is focused on the distributed output market which presents a number of attractive growth opportunities
- Lexmark has unique strengths in this market and continues to strengthen its competitive position through strategic investments
- Lexmark's financial position and cash flow remain solid allowing continued investment in the company's long-term success
- Lexmark's earnings for the second quarter were significantly better than expected. While we have more work to do, we are making progress on our product, market, and restructuring initiatives

GAAP to Non-GAAP Reconciliation Table

	<u>2Q06</u>				<u>2Q06 YTD</u>				<u>3Q06 Guidance</u>
	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>EPS</u>	<u>Gross Profit</u>	<u>Op Ex</u>	<u>Op Inc</u>	<u>EPS</u>	<u>EPS</u>
GAAP	\$418	\$314	\$104	\$0.74	\$821	\$597	\$224	\$1.52	\$0.49 – \$0.59
Restructuring Related ⁽¹⁾	\$16	(\$37)	\$53	\$0.35	\$35	(\$68)	\$103	\$0.66	\$0.16
Pension Benefit						\$10	(\$10)	(\$0.06)	
Tax Benefit				(\$0.02)				(\$0.02)	
Non-GAAP	\$434	\$277	\$157	\$1.07	\$857	\$540	\$317	\$2.10	\$0.65 - \$0.75

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) Charges for restructuring related activities include accelerated depreciation, employee separation costs, contract termination charges and project costs (related to the execution of restructuring related activities). Project costs included above are as follows: 2Q of \$1.4M, 2Q YTD of \$1.4M and approximately \$8M included in 3Q06 guidance.

Restructuring Related ⁽¹⁾

Actions announced in January still expected to cost about \$130 million and generate future pre-tax annual savings of about \$80 million and 2006 savings of about \$50 million ⁽²⁾.

	<u>\$ Millions</u>		
	<u>Gross Profit</u>	<u>Op. Inc</u>	<u>EPS</u> ⁽³⁾
1Q06 Actual	(\$19)	(\$50)	(\$0.31)
2Q06 Actual	(\$16)	(\$53)	(\$0.35)
3Q06 Expected	(\$13)	(\$23)	(\$0.16)
2006 Expected	(\$50)	(\$130)	

(1) Charges for restructuring related activities include accelerated depreciation, employee separation costs, contract termination charges and project costs (related to the execution of restructuring related activities). Project costs included above are as follows: 2Q of \$1.4M, 2Q YTD of \$1.4M and approximately \$8M included in 3Q06 guidance.

(2) 2006 savings of about \$50 million includes \$10 million of pension curtailment benefit

(3) EPS calculated using tax rates of 31.6%, 30.8%, and 31.2% for 1Q, 2Q, and 3Q, respectively.

FAS123R Impact Summary

Costs related to adopting FAS123R options expenses included in 2006 results.

	<u>\$ Millions</u>		
	<u>Gross Profit</u>	<u>Op. Inc</u>	<u>EPS</u>
1Q06 Actual⁽¹⁾	(\$1)	(\$10)	(\$0.05)
2Q06 Actual⁽¹⁾	(\$1)	(\$10)	(\$0.06)
3Q06 Expected⁽¹⁾	(\$1)	(\$10)	(\$0.06)
2006 Expected	(\$5)	(\$39)	

(1) \$10 million op. inc. impact in 1Q, 2Q, and 3Q includes: \$1 million cost of sales, \$2 million R&D, and \$7 million SG&A. EPS calculated using U.S. tax rate of 38%.

Appendix

Unit Trends, Revenue by Product

Unit Trends

<i>(Millions)</i>	2003	2004	2005
Laser Units	1.3	1.7	2.0
Inkjet Units	15.2	18.3	18.4

Revenue by Product

<i>(Dollars in millions)</i>	2005	2004	% Change
Laser & Inkjet Printers	\$ 1,799.4	\$ 2,000.1	-10%
Laser & Inkjet Supplies	3,117.2	2,974.8	5%
Other	304.9	338.9	-10%
Total Revenue	\$ 5,221.5	\$ 5,318.8	-2%