

3rd Quarter 2006 Earnings Supplemental Information



October 24, 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.

Key Messages for Investors

- 3Q06 Highlights:
 - Results above expectation, particularly EPS (+47% YY) and operating income (+40% YY)
 - Revenue growth for first time this year
 - Strong branded unit growth in key focus segments
 - Continued solid cash generation (3Q: \$167 million, YTD 2006 \$528 million)
 - Restructuring on track
- Continue making progress on key product expansion and brand development initiatives, strengthening our competitive position
- Financial position remains strong
 - Cash and marketable securities of \$562 million
 - YTD cash returned to shareholders via share repurchase of \$730 million
- Lexmark is focused on the distributed output market which presents us with a number of attractive growth opportunities

Progress on Strategic Initiatives

Strategic Initiatives

Expand Product Segments

Expand Market Segments

Develop The Brand

Expand Product Segments

Laser AIOs / MFPs



Color Laser



Mono Laser



Inkjet AIOs



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



Recent Product Recognition

Mono Laser



E120n



E24X



E250dn



E34X



T64X



Editors' Choice



W840



Laser AIOs / MFPs



X64X



var Business

Outstanding Achievement
for MFP Design



X85X



X342n

var Business



Color Laser



C500n



C52X



Editors' Choice



C534dn



Editors' Choice



C920



Inkjet AIOs



X8350

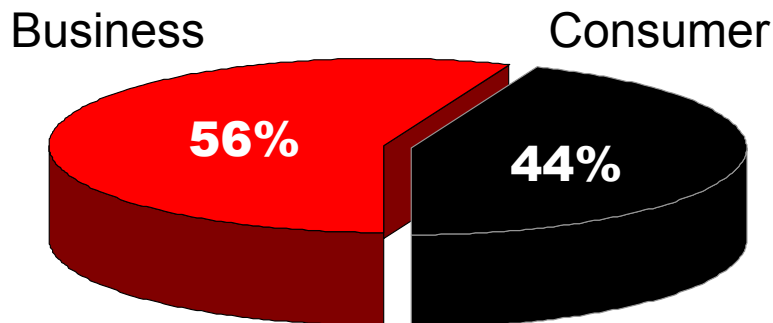


X7350

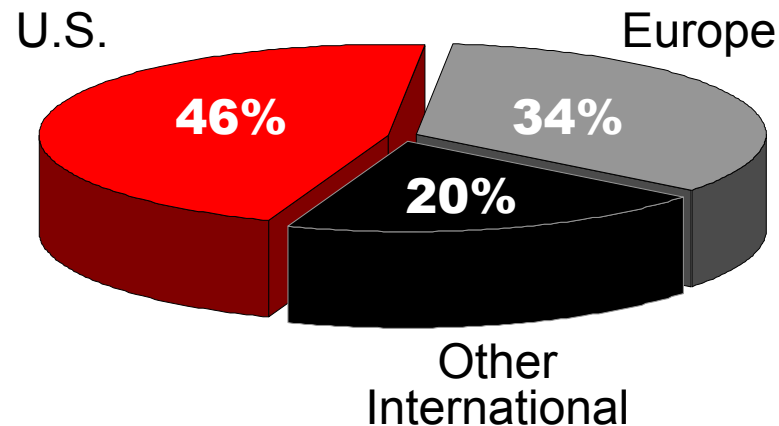


2006 Revenue

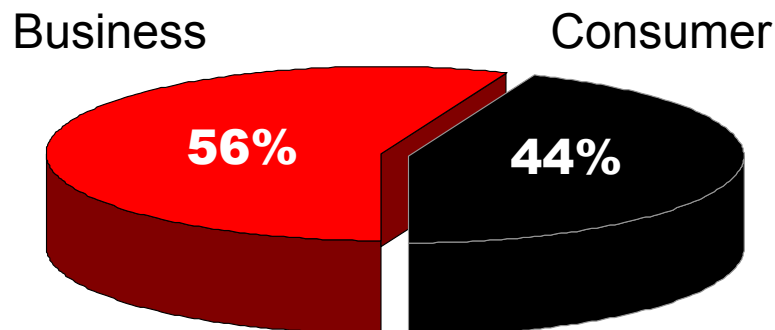
3Q by Segment



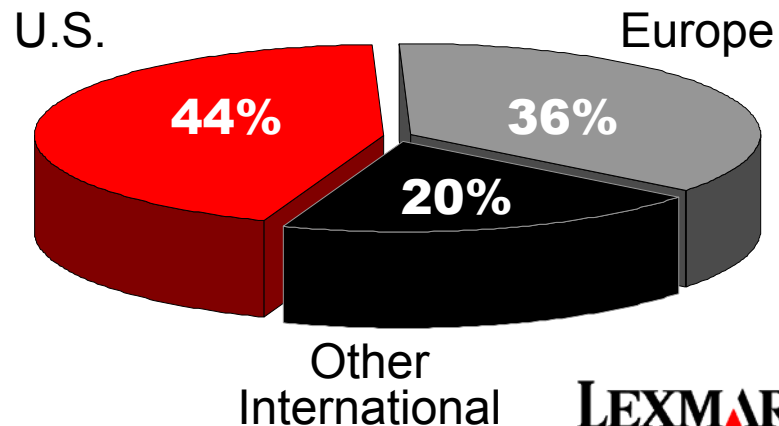
3Q by Region



YTD by Segment



YTD by Region



Revenue by Geography

Revenue by Geography – 3Q06

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 563.4	\$ 572.3	-2%
Europe	417.8	397.4	5%
Other International	253.4	245.8	3%
<u>Total revenue</u>	<u>\$ 1,234.6</u>	<u>\$ 1,215.5</u>	<u>2%</u>

Revenue by Geography – YTD Sept. 30, 2006

<u>(Dollars in millions)</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
United States	\$ 1,668.3	\$ 1,764.7	-6%
Europe	1,333.4	1,360.3	-2%
Other International	737.2	731.2	1%
<u>Total revenue</u>	<u>\$ 3,789.9</u>	<u>\$ 3,856.2</u>	<u>-3%</u>

Segment Revenue

Segment Revenue – 3Q06

<i>(Dollars in millions)</i>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 695.7	\$ 646.7	8%
Consumer	538.9	568.8	-5%
Total revenue	\$ 1,234.6	\$ 1,215.5	2%

Segment Revenue – YTD Sept. 30, 2006

<i>(Dollars in millions)</i>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Business	\$ 2,097.3	\$ 2,081.7	1%
Consumer	1,641.6	1,774.5	-8%
Total revenue	\$ 3,738.9	\$ 3,856.2	-3%

Segment Operating Income

Segment Operating Income – 3Q06

<i>(Dollars in millions)</i>	2006			2005			YTY Comparison	
	GAAP	Restructure	NON GAAP	GAAP	Workforce Reduction	NON GAAP	GAAP	NON GAAP
Business	\$ 146.8	\$ 5.9	\$ 152.7	\$ 138.7	\$ 5.0	\$ 143.6	6%	6%
Consumer	62.2	4.6	66.8	30.9	2.6	33.5	101%	99%
Other ⁽¹⁾	(93.9)	2.8	(91.1)	(86.9)	1.3	(85.5)	-8%	-7%
Total operating income ⁽¹⁾	\$ 115.1	\$ 13.3	\$ 128.4	\$ 82.7	\$ 8.9	\$ 91.6	39%	40%

Segment Operating Income – YTD Sept. 30, 2006

<i>(Dollars in millions)</i>	2006			2005			YTY Comparison	
	GAAP	Restructure	NON GAAP	GAAP	Workforce Reduction	NON GAAP	GAAP	NON GAAP
Business	\$ 443.1	\$ 28.0	\$ 471.1	\$ 503.5	\$ 5.0	\$ 508.4	-12%	-7%
Consumer	195.5	54.9	250.4	188.8	2.6	191.4	4%	31%
Other ⁽¹⁾	(299.4)	33.4	(266.0)	(272.4)	1.3	(271.1)	-10%	2%
Total operating income ⁽¹⁾	\$ 339.2	\$ 116.3	\$ 455.5	\$ 419.9	\$ 8.9	\$ 428.8	-19%	6%

(1) All expense resulting from the adoption of SFAS123R are included above in the “Other” line. 3Q06 and 2006 YTD “Other” operating income and total operating income numbers above include \$10.5 million and 30.4 million, respectively, for the adoption of SFAS123R.

(2) Totals may not foot due to rounding.

3Q06 Revenue

- **Total revenue** of \$1.235 billion grew about 2% year-to-year, exceeded guidance range. Compared to a year ago:
 - Laser and inkjet supplies revenue increased 6%
 - Laser and inkjet printer revenue declined 3%
 - Laser units increased 8%. Good branded laser unit growth overall driven by strong growth in branded color lasers, laser AIOs, and low-end monochrome lasers. This branded unit growth was partially offset by a unit decline in OEM lasers. Laser average unit revenue (AUR) declined 1%.
 - Inkjet units declined 19%. Declines in branded single-function and OEM printers were partially offset by strong growth in branded AIOs. Inkjet AUR increased 4% year to year as price declines were offset by a mix shift to AIOs.
 - Business segment revenue of \$696 million grew 8%; Consumer segment revenue of \$539 million declined 5%
 - Revenue in the U.S. declined 2%, revenue in Europe increased 5%, and Other International revenue grew 3%

3Q06 Margins

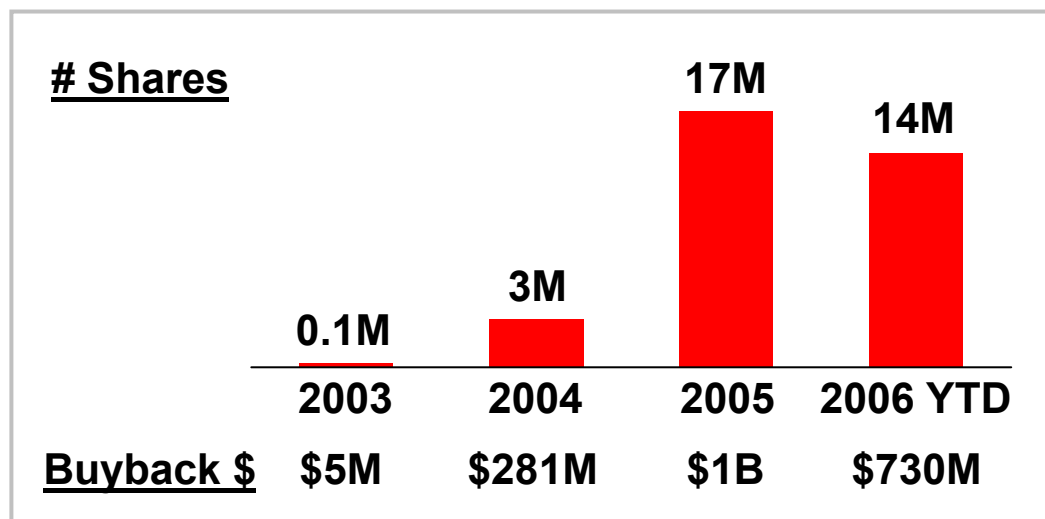
- **Gross Profit Margin 32.6%**
 - Includes charges for restructuring related activities of \$4 million
 - Excluding the charges for restructuring related activities, would have been 32.9%, up 350 basis points year to year driven primarily by a change in the mix between hardware and supplies
 - 3Q05 gross profit margin was 29.4%
- **Operating Expense to Revenue Ratio 23.3%**
 - Includes charges for restructuring related activities of \$9 million
 - Excluding the charges for restructuring related activities, would have been 22.5%, up 60 basis points year to year mainly driven by SFAS123R expenses and increased investment in R&D
 - 3Q05 operating expense to revenue ratio of 22.6% would have been 21.9% excluding charges of \$9 million related to the workforce reduction announced in 2005
- **Operating Income of \$115 million**
 - Includes charges for restructuring related activities of \$13 million
 - Excluding charges for restructuring related activities, would have been \$128 million
 - 3Q05 operating income of \$83 million would have been \$92 million excluding charges of \$9 million related to the workforce reduction announced in 2005
- **Operating Income Margin 9.3%**
 - Excluding charges for restructuring related activities, would have been 10.4%
 - 3Q05 operating income margin was 6.8% would have been 7.5% excluding charges of \$9 million related to the workforce reduction announced in 2005
- **Effective Tax Rate 28.1%**
 - Lower than the 31% expected due to a \$2 million reduction in the 3Q06 tax provision as a result of the company reducing its expected 2006 annual tax rate
 - 3Q05 effective tax rate of 19.8% included a \$5 million reduction in the 3Q05 tax provision as a result of the company reducing its expected 2005 annual tax rate

3Q06 EPS

- **EPS** in 3Q06 were significantly better than expected mainly due to better than expected hardware margins
 - **3Q06 EPS of \$0.85**
 - Includes costs of adopting SFAS123R of \$0.06 per share
 - Includes charges for restructuring related activities of \$0.10 per share
 - 3Q06 EPS would have been \$0.95 excluding charges for restructuring related activities
 - **3Q05 EPS of \$0.59**
 - Includes charges of \$0.05 per share related to the workforce reduction announced in 2005
 - 3Q05 EPS would have been \$0.64 excluding charges for the workforce reduction

Cash Generation & Share Repurchase

- **Cash generation of \$167 million in 3Q, \$528 million YTD**
 - Cash and marketable securities of \$562 million as of Sept. 30, 2006
 - Capital expenditures were \$52 million in the quarter
 - Depreciation was \$45 million in the quarter
- **Share repurchases were \$130 million during the quarter**
 - Repurchased 2.3 million shares at an average cost of \$56.00
 - Approximately \$600 million authorization remaining at quarter end



Outlook

In the 4th quarter of 2006, the company expects:

- **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 year over year, and down sequentially
- **Operating income margin**, excluding restructuring actions, to be up year over year, and down sequentially
- **Effective tax rate** expected to be slightly above 30% in 4Q06 and full year 2006.
 - Does not reflect any benefit from the potential extension of the U.S. Research and Experimentation tax credit. Congress has not yet extended this credit. If extended retroactively, this credit will generate a \$6M - \$8M benefit in 4Q
- **EPS** of \$0.80 - \$0.90:
 - Excludes approximately \$0.10 per share of restructuring charges
 - GAAP EPS are expected to be \$0.70 - \$0.80
 - EPS were \$0.71 in the 4th quarter of 2005
- **Capital expenditures and depreciation** for 2006 projected to be about \$200 million and \$160 million (or \$200 million including restructuring and related accelerated depreciation), respectively

Tables

- GAAP to Non-GAAP Reconciliation Table
- Restructuring Related Summary
- SFAS123R Impact Summary
- Units, Revenue By Product

GAAP to Non-GAAP Reconciliation Table

	<u>3Q06</u>				<u>3Q06 YTD</u>				<u>4Q06 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	\$402	\$287	\$115	\$0.85	\$1,224	\$885	\$339	\$2.37	\$0.70 – \$0.80
Restructuring Related ⁽¹⁾	\$4	(\$9)	\$13	\$0.10	\$39	(\$77)	\$116	\$0.77	\$0.10
Pension Benefit						\$10	(\$10)	(\$0.07)	
Tax Benefit ⁽²⁾								(\$0.02)	
Non-GAAP	\$406	\$278	\$128	\$0.95	\$1,263	\$818	\$445	\$3.05	\$0.80 - \$0.90

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: 3Q of \$2.7M, 3Q YTD of \$4.1M and approximately \$4M included in 4Q06 guidance.

(2) Settlement of IRS audits of the years 2002 and 2003.

Restructuring Related Summary⁽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 at least \$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 Actual	(\$4)	(\$13)	(\$0.10)
4Q06 Expected	(\$3)	(\$14)	(\$0.10)
2006 Expected	(\$42)	(\$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, 3Q of \$2.7M, 3Q YTD of \$4.1M and approximately \$4M included in 4Q06 guidance.

(2) 2006 savings of at least \$50 million includes \$10 million of pension curtailment benefit.

(3) EPS calculated using tax rates of 31.6%, 30.8%, 28.1%, 30% for 1Q, 2Q, 3Q, and 4Q, respectively.

SFAS123R Impact Summary

Costs related to adopting SFAS123R options expenses included in 2006 results.

<u>\$ Millions</u>	<u>Gross Profit</u>	<u>Op. Inc.</u>	<u>EPS</u> ⁽¹⁾
1Q06 Actual	(\$1)	(\$10)	(\$0.05)
2Q06 Actual	(\$1)	(\$10)	(\$0.06)
3Q06 Actual	(\$1)	(\$10)	(\$0.06)
4Q06 Expected	(\$1)	(\$9)	(\$0.06)
2006 Expected	(\$5)	(\$39)	(\$0.24)

(1) EPS calculated using U.S. tax rate of 38%.

(2) Totals may not foot due to rounding.

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%