

2nd Quarter 2008 Earnings Supplemental Information



July 22, 2008

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

- **Lexmark is focused on driving long-term value for its shareholders by strategically investing in technology, demand generation and brand development to profitably capture supplies in high page-growth segments of the \$96 billion distributed printing market.**
 - **The business market segment continues to be quite profitable and is focused on growth in higher page-generating workgroup class lasers, including monochrome lasers, color lasers and laser MFPs.**
 - **The company is aggressively shifting its focus in the consumer market segment to geographic regions, product segments and customers that generate higher page usage.**
- **Lexmark is taking actions to optimize its cost and expense structure.**
- **Lexmark continues to maintain a strong financial position with a long track record of good cash generation and a solid balance sheet, which positions it well to invest in the future and compete effectively, even during challenging times.**

Key Points for 2Q08









- Revenue was about in line with guidance, and EPS exceeded expectation primarily driven by higher operating income, reflecting lower than expected inkjet hardware shipments
- Business market segment model shows continued strength
 - Business segment revenue growth of 4% despite market weakness in North America
 - Record laser supplies revenue with strong year-on-year growth
 - Revenue growth in all regions outside of North America
 - Recent enterprise wins highlighted by 5-year, 25,000 device managed print services contract with Washington Mutual
 - Lexmark's color laser and color laser MFP lines continue to receive industry recognition with the recent receipt of several awards of excellence from respected testing labs and technology publications
- Consumer market segment continuing to transition to new strategy
 - Shift impacting units near term
 - Focused on heavier usage devices
 - Average unit revenue (AUR) up 24% reflecting the strategy-driven mix shift to high-end units, and easy compare
 - Strong wireless unit growth year to year
 - Expanded Professional Series and Home & Student Series yesterday, further advancing the company's strategy to increase its penetration in higher-usage, higher-growth inkjet market segments. Professional Series X9575 recognized by leading business-focused test house and computer publications
- Restructuring on track to optimize cost and expense structure
 - Still expect 2008 savings of \$40 million from the previously announced 2007 actions
 - Beginning in 2009, expect combined annual savings about \$70 million from the previously announced 2007 actions and the 2008 actions announced today
- Repurchased \$158 million (4.5 million shares) of Lexmark stock in the second quarter

Recent Accolades For Lexmark's Products

Product Segment Key

-  **Wireless IJ AIOs** 
 **3 New Awards in 2Q**
-  **Color Laser** 
 **5 New Awards in 2Q**
-  **Laser MFP & Connectivity** 
 **13 New Awards in 2Q**
-  **Mono Laser** 

Better Buys for Business
EDITOR'S CHOICE
2008

-  X4875
-  X6575
- X9575
- E250dn
- E350d
- E352dn
- E450dn
- C530dn
- C532n
- C532dn
- C782 Series
- C935 Series
- X560n 
- X782e 
- X85x Series 
- X854e 
- X940e 
- X945e 

PC
MAGAZINE
www.pcmag.com

- X500n
- X502n



PC WORLD
TOP 10
PRINTERS

-  X6570
-  C780 Series




PC WORLD

- E350d
- E352dn
- X500n
- X502n

2008
BERTL'S BEST

-  X9575 
- C500n 
-  C780 Series 
- C782dtn 
- X940e 
- X945e 
- MarkVision Professional 

BERTL
HIGHLY RECOMMENDED

-  X9575 
- X560n
-  X940e
- X945e

PICK of the YEAR
2007

- E450dn

BLI BUYERS LAB
2007 PICK


BLI BUYERS LAB
2008 PICK

- C782 Series
- C935 Series
- X560n 
- X644e
- X940e
- X945e

2008
BLI
HIGHLY RECOMMENDED
LAB TESTED

-  X560n 

HIGHLY RECOMMENDED
2007

- E250dn
- E350d
- E352dn
-  C782 Series


Macworld

-  X500n 
- X502n

Better Buys for Business
INNOVATIVE PRODUCT OF THE YEAR
2007

-  C935 Series

Computer Bild
Test-Sieger

-  X9575* 

*ComputerBild Testsieger Lexmark X9575 in ComputerBild Ausgabe 11/2008, Testergebnis: gut

Expanding Inkjet Line To Target Higher-Usage Customers

Announced July 21, 2008

The New Home & Student Series

Affordable, easy productivity



Key Features



Wireless
Mobility

Vibrant
OLED
Display



Fast and Easy
to Install

The New Professional Series

Ready for Business



Key Features



Protection Guarantee



Wireless
Mobility

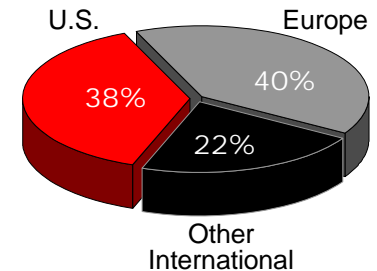


2x the ink

2nd Quarter Results

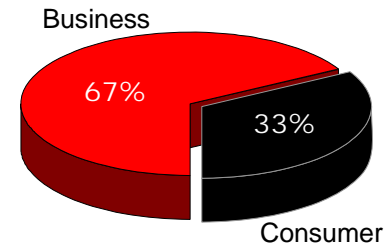
Revenue by Geography

<u>(Dollars in millions)</u>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
United States	\$ 432	\$ 508	-15%
Europe	455	446	2%
Other International	252	254	-1%
Total Revenue	\$ 1,139	\$ 1,208	-6%



Segment Revenue

<u>(Dollars in millions)</u>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Business	\$ 763	\$ 734	4%
Consumer	376	474	-21%
Total Revenue	\$ 1,139	\$ 1,208	-6%



Segment Operating Income

<u>(Dollars in millions)</u>	<u>2008</u>			<u>2007</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 156	\$ 1	\$ 157	\$ 149	\$ 1	\$ 149	5%	5%
Consumer	23	4	27	14	0	14	68%	98%
Other	(78)	3	(75)	(97)	4	(93)	20%	20%
Total Operating Income⁽²⁾	\$ 101	\$ 9	\$ 110	\$ 66	\$ 5	\$ 71	54%	55%

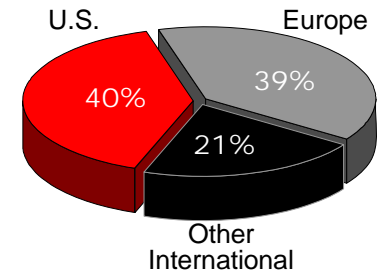
(1) Restructuring-related amounts include 2006, 2007 and 2008 actions and related project costs.

(2) Totals may not foot due to rounding.

Year To Date Results

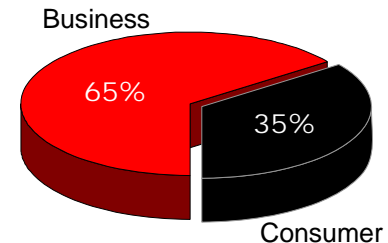
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
United States	\$ 920	\$ 1,053	-13%
Europe	910	928	-2%
Other International	484	488	-1%
Total Revenue	\$ 2,314	\$ 2,469	-6%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Business	\$ 1,504	\$ 1,471	2%
Consumer	810	998	-19%
Total Revenue	\$ 2,314	\$ 2,469	-6%



Segment Operating Income

<i>(Dollars in millions)</i>	<u>2008</u>			<u>2007</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 299	\$ 1	\$ 301	\$ 303	\$ 1	\$ 304	-1%	-1%
Consumer	102	6	108	78	(3)	75	30%	44%
Other	(178)	14	(164)	(194)	10	(185)	8%	11%
Total Operating Income⁽²⁾	\$ 223	\$ 21	\$ 245	\$ 187	\$ 7	\$ 194	20%	26%

(1) Restructuring-related amounts include 2006, 2007 and 2008 actions and related project costs.

(2) Totals may not foot due to rounding.

2Q08 Revenue Compared to Last Year

Total revenue of \$1.14 billion declined 6% in line with guidance

- Business segment revenue of \$763 million grew 4%**
 - Record laser supplies revenue with strong year-on-year growth
 - Revenue growth impacted by market weakness in North America
 - Revenue growth in all regions outside North America
 - Laser unit shipments declined 12%
 - Strong growth in MFP's
 - Laser AUR increased 4%
- Consumer segment revenue of \$376 million declined 21%**
 - Inkjet unit shipments declined 49%,
 - Primarily reflecting the company's previously announced strategy to aggressively shift its focus in the consumer market segment to geographic regions, product segments and customers that generate higher page usage
 - Also reflecting weakness in U.S. and European markets, aggressive competition, and U.S. shelf space
 - Inkjet AUR increased 24% year to year impacted by a positive mix shift toward high-end inkjets and reflective of an easy compare to 2Q07 pricing
- Laser and inkjet supplies revenue were about flat as expected. Record laser supplies offset by a decline in inkjet supplies**
- Laser and inkjet printer revenue declined 19% primarily driven by a decline in inkjet units**
- Revenue in the U.S. declined 15%, revenue in Europe grew 2%, and Other International revenue declined 1%**
 - Weakness primarily driven by the decline in the consumer market segment

2Q08 Compared to Last Year

Gross profit margin 36.6%

- Excluding restructuring-related costs, would have been 37.0%
- 2Q07 gross profit margin was 30.6%, or 31.0% excluding restructuring-related activities
- Non-GAAP gross profit margin grew 600 basis points, principally due to a favorable product mix shift

Operating expense \$316 million

- Excluding charges for restructuring-related costs, would have been \$312 million
- 2Q07 operating expense was \$305 million, or \$304 million excluding restructuring-related activities
- Non-GAAP operating expense grew 2.6%, driven by increased demand generation investment

Operating expense-to-revenue ratio 27.8%

- Excluding charges for restructuring-related costs, would have been 27.4%
- 2Q07 operating expense-to-revenue ratio was 25.2%

Operating income \$101 million

- Excluding restructuring-related costs, would have been \$110 million
- 2Q07 operating income of \$66 million, or \$71 million excluding restructuring-related activities
- Non-GAAP operating income grew 55.1% driven by higher gross profit

Operating income margin 8.9%

- Excluding restructuring-related costs, would have been 9.6%
- 2Q07 operating income margin was 5.4%, or 5.9% excluding restructuring-related activities

Taxes & Earnings Compared to Last Year

2Q08 effective tax rate of 19.2%

- Lower than the 26% expected due to a \$5 million non-recurring tax benefit
- 2Q07 effective tax rate was 16.4% which included a \$5 million one-time tax benefit

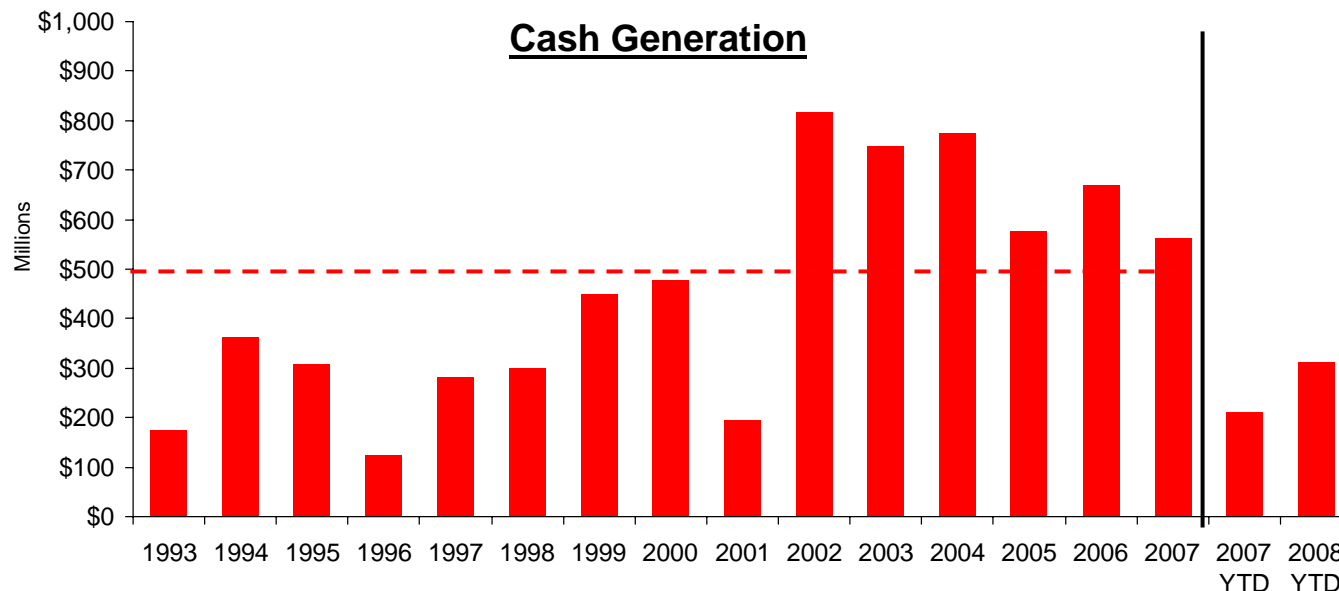
2Q08 net earnings of \$84 million

- Excluding after-tax restructuring-related activities, would have been \$90 million
- 2Q07 net earnings were \$62 million excluding restructuring-related activities

2Q08 GAAP EPS of \$0.89

- GAAP EPS grew 32.0% year to year
- 2Q08 non-GAAP EPS would have been \$0.96 excluding \$0.07 restructuring-related items, up 48% compared to 2Q07 non-GAAP EPS of \$0.65

Track Record of Solid Cash Generation



2Q08 net cash provided by operating activities of \$135 million, \$313 million YTD

- Cash and current marketable securities were \$1.328 billion at quarter end
- Capital expenditures were \$53 million in the quarter
- Depreciation / amortization was \$45 million in the quarter
- Accounts receivable declined \$40 million in the quarter, inventory declined \$6 million in the quarter, accounts payable declined \$5 million in the quarter
- Accrued liabilities declined \$48 million in the second quarter, principally driven by a decline in taxes payable

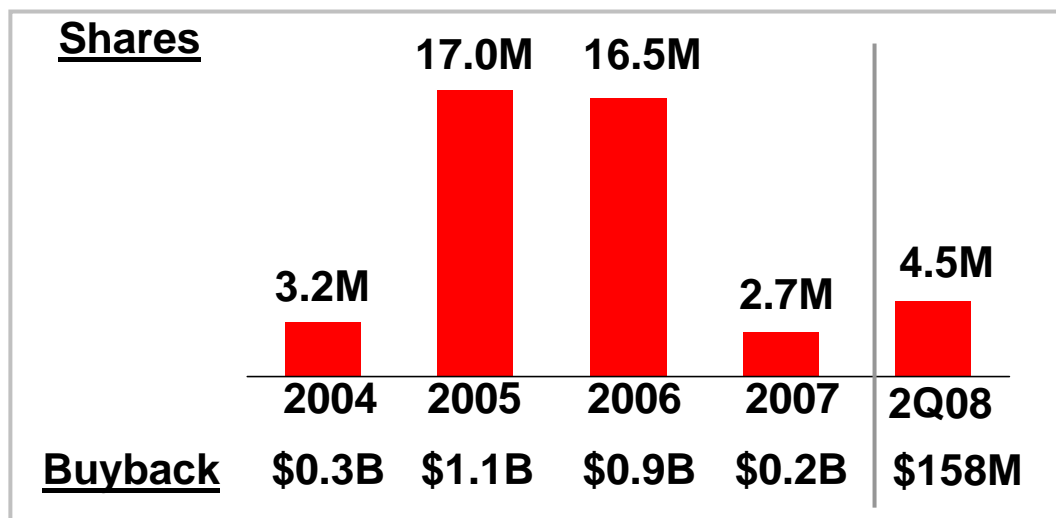
Capital Structure / Share Repurchases

Capital Structure Changes

- \$150 million short-term debt retired
- \$650 million long-term debt issued
- \$750 million additional repurchase authorization

Repurchased \$158 million in 2Q08

- Repurchased 4.5 million shares at an average of \$34.85 per share
- Authorization of approximately \$887 million remained at quarter end



Restructuring Actions

2008 Actions

- Enhance efficiency of operations by further consolidating manufacturing capacity resulting in the closure of one of Lexmark's inkjet supplies manufacturing facilities in Mexico
- 2008 actions expected to impact approximately 650 positions by the end of 2008. Most of the impacted positions being moved to a lower-cost country
- Expected savings of about \$9 million annually beginning in 2009
- Expected pretax cost of \$24 million (\$8 million cash) for this action, of which \$20 million is expected to impact 2008 results. 2Q08 cost was \$3 million

2007 Actions

- Completed closure of one of the company's inkjet supplies manufacturing facilities in Mexico and additional optimization measures at the remaining inkjet facilities
- Reduction of business support cost and expense structure by further consolidating activity globally and expanding the use of shared service centers in lower-cost regions. The areas impacted are supply chain, service delivery, general and administrative expense, as well as marketing and sales support functions
- Focusing consumer segment marketing and sales efforts into countries or geographic regions that have the highest supplies usage
- These actions are still expected to impact approximately 1,650 positions by the end of 2008. Most of the impacted positions are being moved to lower-cost countries
- These 2007 actions are still expected to have a total pretax cost of approximately \$90 million (\$75 million cash).
- Total savings from the restructuring are still expected to be about \$40 million in 2008 and to be approximately \$60 million annually once these actions are completed
- In 2Q08, 2007 restructuring actions generated pretax cost of \$5 million and savings of approximately \$9 million

Outlook

In the 3rd quarter of 2008, the company expects:

Revenue to be down year to year in the mid- to high-single digit range

Gross profit margin⁽¹⁾ to be down versus 37.0% in 2Q08

Operating expense⁽¹⁾ to be down compared to \$312 million in 2Q08

Operating income margin⁽¹⁾ to be down from 9.6% in 2Q08

Effective tax rate to be approximately 25%

GAAP EPS of \$0.25 - \$0.35

- EPS of \$0.53 - \$0.63 excluding approximately \$0.28 for restructuring-related activities**
- GAAP EPS were \$0.48 in 3Q07, or \$0.60 excluding \$0.12 per share for restructuring-related activities**

Full-year 2008 capital spending to be approximately \$225 million

Full-year 2008 depreciation to be approximately \$200 million

Note: (1) Non-GAAP, excludes restructuring-related amounts.

Tables

GAAP to Non-GAAP Reconciliation Tables

Unit Trends, Revenue by Product

GAAP to Non-GAAP Reconciliation Table

	2Q08					2Q07					3Q07 EPS	3Q08 Guidance
	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS		
GAAP	\$417 36.6%	\$316 27.8%	\$101 8.9%	\$84 7.4%	\$0.89	\$370 30.6%	\$305 25.2%	\$66 5.4%	\$64 5.3%	\$0.67	\$0.48	\$0.25-\$0.35
Restructuring- Related⁽¹⁾	\$4	(\$4)	\$9	\$7	\$0.07	\$5	(\$1)	\$5	\$4	\$0.04	\$0.12	\$0.28
Scotland Entity⁽²⁾									(\$6)	(\$0.06)		
Non-GAAP⁽³⁾	\$422 37.0%	\$312 27.4%	\$110 9.6%	\$90 7.9%	\$0.96	\$375 31.0%	\$304 25.2%	\$71 5.9%	\$62 5.1%	\$0.65	\$0.60	\$0.53-\$0.63

Note: Management believes that presenting the non-GAAP measures above is useful because they enhance shareholders' understanding of how management assesses the performance of the company's businesses. Management reviews the performance of the company's operating segments based on GAAP and non-GAAP measures which reflect income and expense items which are recurring in nature, and do not include the impact of actions that management believes are not reflective of the ongoing operation of the company. These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

- (1) Restructuring-related amounts include 2006, 2007 and 2008 actions and related project costs.
- (2) Gain from the substantial liquidation of the Scotland legal entity.
- (3) Totals may not foot due to rounding.

GAAP to Non-GAAP Reconciliation Table

	<u>2Q08 YTD</u>					<u>2Q07 YTD</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	\$853 36.9%	\$630 27.2%	\$223 9.6%	\$185 8.0%	\$1.96	\$793 32.1%	\$606 24.6%	\$187 7.6%	\$157 6.3%	\$1.62
Restructuring-Related⁽¹⁾	\$10	(\$12)	\$21	\$16	\$0.17	\$6	(\$1)	\$7	\$7	\$0.07
Scotland Entity⁽²⁾									(\$7)	(\$0.07)
Non-GAAP⁽³⁾	\$862 37.3%	\$618 26.7%	\$245 10.6%	\$202 8.7%	\$2.13	\$799 32.4%	\$605 24.5%	\$194 7.9%	\$156 6.3%	\$1.62

Note: Management believes that presenting the non-GAAP measures above is useful because they enhance shareholders' understanding of how management assesses the performance of the company's businesses. Management reviews the performance of the company's operating segments based on GAAP and non-GAAP measures which reflect income and expense items which are recurring in nature, and do not include the impact of actions that management believes are not reflective of the ongoing operation of the company. These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

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Unit Trends, Revenue by Product

Unit Trends

<i>(Millions)</i>	2005	2006	2007	2006 – 2007 Change
Laser Units	2.0	2.1	2.1	-3%
Inkjet Units	18.4	14.7	12.1	-18%

Revenue by Product

<i>(Dollars in millions)</i>	2006	2007	Change
Laser & Inkjet Printers	\$ 1,663.0	\$ 1,498.3	-10%
Laser & Inkjet Supplies	3,211.6	3,248.6	+1%
Other	233.5	227.0	-3%
Total Revenue	\$ 5,108.1	\$ 4,973.9	-3%