

2nd Quarter 2007 Earnings Supplemental Information



July 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.

Key Messages for Investors

- **Near Term:**

- Business Market Segment Performed About As Expected
- Challenges
 - Declining OEM Unit Sales
 - Declining Inkjet Supplies Sales
 - Aggressive Pricing Environment
 - Product Cost Impacts
 - Affordably Grow Hardware Shipments
- Strategic Investments
 - R&D – Strengthen Product Line
 - Building Brand
 - Demand Generation

- **Long Term:**

- Good Growth Opportunities
- Making Progress on Strategic Initiatives
 - Product Line Evolution
 - Key Segment Branded Unit Growth
 - Brand Awareness / Consideration

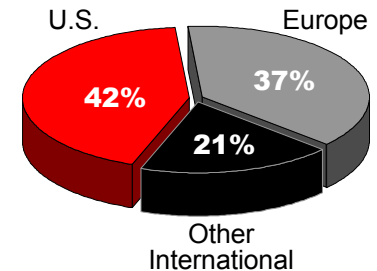
Key Points for 2Q07

- **Shortfall in 2Q07 EPS compared to April 24 guidance was in the consumer market segment and primarily driven by several factors**
 - Ongoing (and greater than expected) decline in our inkjet supplies revenue
 - Lower average unit revenue on inkjet hardware due to aggressive price / promotion
 - Higher than expected inkjet product costs
 - Negative period impact from higher than expected branded inkjet hardware unit sales
- **2nd quarter results compared to a year ago include important positives**
 - Business market segment performed about as expected in the April 24 guidance, including double-digit unit growth in branded hardware, continuing good growth in laser supplies revenue, significant wins in our large account sales, and the introduction of a new line of printers and MFPs focused on the rapidly growing color laser segment
 - Strong branded unit growth in the key growth segments of color laser, laser MFP, and inkjet AIO
 - Total branded hardware revenue (the key focus area in 2007) continued to grow year to year
 - Continued strong financial position and strong balance sheet
- **3rd quarter guidance reflects continued good performance in the business market segment, weak performance in the consumer market segment**
 - Expecting good laser supplies growth year-on-year (but a seasonal decline sequentially)
 - The expected weak operating results are largely driven by weakness in the consumer segment in which we expect to incur an operating loss
 - The sequential decline in operating income in the consumer segment is expected to be driven by:
 - Lower supplies revenue
 - A sequentially negative APC/LCM impact
 - Continued aggressive hardware pricing and promotion
 - An increase in inkjet unit sales
 - Product cost impacts

2nd Quarter Results

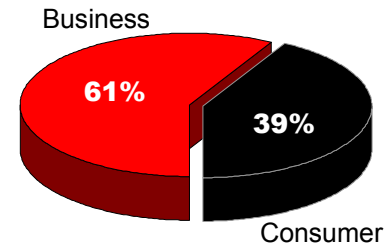
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
United States	\$ 508	\$ 531	-4%
Europe	446	450	-1%
Other International	254	248	+3%
Total Revenue	\$ 1,208	\$ 1,229	-2%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Business	\$ 734	\$ 713	3%
Consumer	474	516	-8%
Total Revenue	\$ 1,208	\$ 1,229	-2%



Segment Operating Income

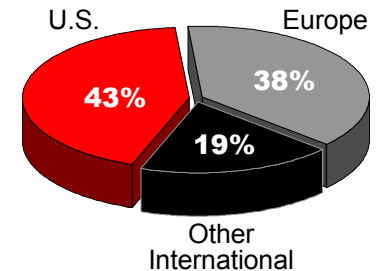
<i>(Dollars in millions)</i>	<u>2007</u>			<u>2006</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructure Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructure Related</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 149	\$ 1	\$ 149	\$ 149	\$ 14	\$ 163	0%	-8%
Consumer	14	0	14	69	19	88	-80%	-84%
Other	(97)	4	(93)	(114)	20	(94)	+15%	+1%
Total Operating Income⁽²⁾	\$ 66	\$ 5	\$ 71	\$ 104	\$ 53	\$ 157	-37%	-55%

- (1) 2007 restructuring-related amounts are comprised of net restructuring-related project costs.
 (2) Totals may not foot due to rounding.

Year To Date Results

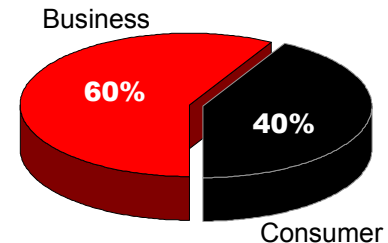
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
United States	\$ 1,053	\$ 1,105	-5%
Europe	928	916	+1%
Other International	488	484	+1%
Total Revenue	\$ 2,469	\$ 2,504	-1%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Business	\$ 1,471	\$ 1,402	5%
Consumer	998	1,103	-10%
Total Revenue	\$ 2,469	\$ 2,504	-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	\$ 303	\$ 1	\$ 304	\$ 296	\$ 22	\$ 318	2%	-5%
Consumer	78	(3)	75	133	51	184	-41%	-60%
Other ⁽²⁾	(194)	10	(185)	(205)	20	(185)	5%	0%
Total Operating Income ⁽³⁾	\$ 187	\$ 7	\$ 194	\$ 224	\$ 93	\$ 317	-17%	-39%

- (1) 2007 restructuring-related amount of \$7 million is comprised of net restructuring-related project costs of \$11 million and a \$4 million gain on 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 \$1.208 billion declined 2%
 - Business segment revenue of \$734 million grew 3%
 - Laser unit shipments grew 5% driven by good branded unit growth partially offset by OEM unit declines. Branded unit growth was driven by good unit growth in low end lasers and workgroup lasers and strong unit growth in laser MFPs and color lasers
 - Laser average unit revenue (AUR) declined 10% driven by unfavorable pricing and mix
 - Laser hardware revenue declined year to year driven by AUR declines greater than unit growth
 - Consumer segment revenue of \$474 million declined 8%
 - Inkjet unit shipments grew 3% as branded unit growth was mostly offset by a significant decline in OEM printers. Branded units grew over 30% in the period
 - Inkjet AUR declined 13% year to year impacted by aggressive price / promotion which offset positive mix
 - Inkjet hardware revenue declined year to year driven by AUR declines greater than unit growth
 - Laser and inkjet supplies revenue grew about 1%. Laser supplies growth was mostly offset by a decline in inkjet supplies
 - Laser and inkjet printer revenue declined 7%
 - Revenue in the U.S. declined 4%, revenue in Europe declined 1%, and Other International revenue grew 3%

Margins Compared to Last Year

- **Gross profit margin 30.6%**

- Excluding the restructuring-related project costs, would have been 31.0%
- 2Q06 gross profit margin was 34.0%, or 35.3% excluding restructuring-related activities
- Non-GAAP gross profit margin declined 430 basis points principally due to a 590 basis point reduction in product margins, the largest factor of which was a decline in inkjet hardware margins

- **Operating expense to revenue ratio 25.2%**

- Excluding the charges for restructuring-related project costs, would also have been 25.2%
- 2Q06 operating expense to revenue ratio was 25.6%, or 22.6% excluding restructuring-related activities
- Non-GAAP operating expense to revenue ratio grew 260 basis points driven by increased demand generation and R&D investments

- **Operating income \$66 million**

- Excluding restructuring-related project costs, would have been \$71 million
- 2Q06 operating income of \$104 million, or \$157 million excluding restructuring-related activities
- Non-GAAP operating income declined \$86 million driven by a \$74 million decline in consumer segment operating income, and a \$14 million decline in business segment operating income

- **Operating income margin 5.4%**

- Excluding restructuring-related project costs, would have been 5.9%
- 2Q06 operating income margin was 8.4%, or 12.8% excluding restructuring-related activities

Taxes & EPS Compared to Last Year

- **2Q07 effective tax rate 16.4%**

- Lower than expected principally due to a one-time tax benefit from the release of deferred tax assets of \$5 million
- 2Q06 effective tax rate was 28.5%

- **2Q07 EPS \$0.67**

- \$0.05 per share tax benefit included in both GAAP and non-GAAP EPS
- Includes \$0.02 per share net benefit from restructuring-related items
 - \$0.04 per share restructuring-related project costs
 - \$0.06 per share gain from the liquidation of the company's Scotland legal entity
- 2Q07 EPS would have been \$0.65 excluding restructuring-related items
- 2Q06 EPS were \$0.74, or \$1.09 excluding \$0.35 per share restructuring-related activities

Cash Generation and Share Repurchase

- **Net cash provided by operating activities** of \$124 million in 2Q07
 - Cash and marketable securities of \$527 million at quarter end
 - Capital expenditures were \$43 million in the quarter
 - Depreciation / amortization was \$43 million in the quarter
- **Share repurchase authorization** remains at \$295 million at quarter end, with no 2Q07 repurchases

Outlook

In the 3rd 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 compared to 2Q07
- **Operating expense (\$)** to be up slightly compared to 2Q07
- **Operating income margin (%)** to be down compared to 2Q07
- **Effective tax rate** to be approximately 25%
- **GAAP EPS** of \$0.00 - \$0.10
 - GAAP EPS were \$0.85 in the 3rd quarter of 2006, or \$0.95 excluding \$0.10 per share restructuring-related charges
- **Capital expenditures and depreciation** for 2007 projected to be about \$235 million and \$160 million, respectively

Tables

- GAAP to Non-GAAP Reconciliation Tables
- Unit Trends, Revenue by Product

GAAP to Non-GAAP Reconciliation Table

	2Q07					2Q06					3Q06 EPS	3Q07 Guidance
	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS		
GAAP	\$370 30.6%	\$305 25.2%	\$66 5.4%	\$64 5.3%	\$0.67	\$418 34.0%	\$314 25.6%	\$104 8.4%	\$77 6.2%	\$0.74	\$0.85	\$0.00-\$0.10
Restructure Related (1)(2)	\$5	(\$1)	\$5	\$4	\$0.04	\$16	(\$37)	\$53	\$37	\$0.35	\$0.10	
Scotland Entity(3)				(\$6)	(\$0.06)							
Non-GAAP(4)	\$375 31.0%	\$304 25.2%	\$71 5.9%	\$62 5.1%	\$0.65	\$434 35.3%	\$277 22.6%	\$157 12.8%	\$114 9.2%	\$1.09	\$0.95	

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. 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) 2006 restructuring-related amounts include accelerated depreciation, employee separation costs, contract termination charges, and project costs related to the execution of restructuring-related activities.
- (2) 2Q07 restructuring-related amounts include restructuring-related project costs of \$5 million.
- (3) Gain from the substantial liquidation of the Scotland legal entity.
- (4) Totals may not foot due to rounding.

GAAP to Non-GAAP Reconciliation Table

	<u>2Q07 YTD</u>					<u>2Q06 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	\$793 32.1%	\$606 24.6%	\$187 7.6%	\$157 6.3%	\$1.62	\$822 32.8%	\$597 23.9%	\$224 8.9%	\$163 6.5%	\$1.52
Restructure Related (1)(2)	\$6	(\$1)	\$7	\$7	\$0.07	\$35	(\$68)	\$103	\$71	\$0.66
Scotland Entity(3)				(\$7)	(\$0.07)					
Pension Benefit						\$10	(\$10)	(\$7)	(\$7)	(\$0.06)
Non-GAAP(4)	\$799 32.4%	\$605 24.5%	\$194 7.9%	\$156 6.3%	\$1.62	\$857 34.2%	\$540 21.5%	\$317 12.7%	\$227 9.1%	\$2.12

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. 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) 2Q06 YTD restructuring-related amounts include accelerated depreciation, employee separation costs, contract termination charges, and project costs related to the execution of restructuring-related activities.
- (2) 2Q07 YTD restructuring-related amounts include restructuring-related project costs of \$7 million.
- (3) Gain from the substantial liquidation of the Scotland legal entity.
- (4) Totals may not foot due to rounding.

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%