

3rd Quarter 2007 Earnings Supplemental Information



October 23, 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 performing 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

- **Consumer market segment plans**

- More aggressively shift focus to higher-usage customers
- R&D investment to better support higher-usage customer set
- Optimizing our marketing and sales initiatives and prioritizing specific markets and channels relative to page generation and lifetime profitability
- Preliminarily expect around 30% of prior year inkjet unit sales will not be anniversaried in 4Q07 and 2008
 - Plan to update 2008 projections in January

- **2007 restructuring actions announced today**

- Closure of one of the company's inkjet supplies manufacturing facilities in Mexico, and additional optimization measures at the remaining inkjet facilities in Mexico
- Improve the effectiveness of our consumer segment marketing and sales expense by focusing our efforts in regions of the world that have the highest supplies usage
- Continue the reduction of our cost and expense structure in our business support functions

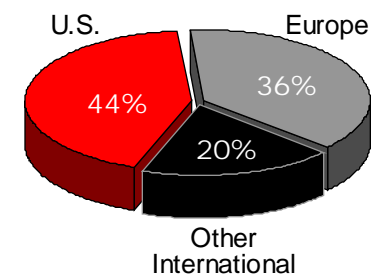
Key Points for 3Q07

- **Operating income better than expected in both the consumer and business market segments driven by several factors including:**
 - Supplies revenue exceeded expectation driven by stronger than expected growth in laser supplies
 - Fewer hardware unit sales than expected
 - Operating expenses were less than anticipated
 - Provision for income taxes was a benefit of \$18 million
- **3rd quarter results compared to a year ago reflect stable business market segment performance, continued weak consumer market segment performance, and Lexmark's strong financial position**
 - Business market segment revenue growth driven by solid laser supplies performance
 - Weak consumer segment performance driven by:
 - Lower supplies revenue
 - Lower product margins driven by continued aggressive hardware pricing and promotion, and additional product cost
 - Continued strong financial position and strong balance sheet
- **4th quarter guidance reflects continued good performance in the business market segment, weak performance in the consumer market segment**

3rd Quarter Results

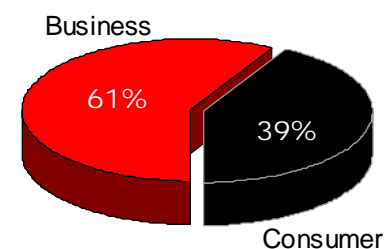
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
United States	\$ 526	\$ 563	-7%
Europe	425	418	2%
Other International	245	253	-3%
Total Revenue	\$ 1,195	\$ 1,235	-3%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Business	\$ 728	\$ 696	5%
Consumer	468	539	-13%
Total Revenue	\$ 1,195	\$ 1,235	-3%



Segment Operating Income

<i>(Dollars in millions)</i>	<u>2007</u>			<u>2006</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructuring Related</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 143	\$ 1	\$ 144	\$ 147	\$ 6	\$ 153	-3%	-6%
Consumer	(22)	7	(16)	62	5	67	NA%	NA%
Other	(100)	7	(94)	(94)	3	(91)	-6%	-3%
Total Operating Income⁽²⁾	\$ 20	\$ 15	\$ 35	\$ 115	\$ 13	\$ 128	-82%	-73%

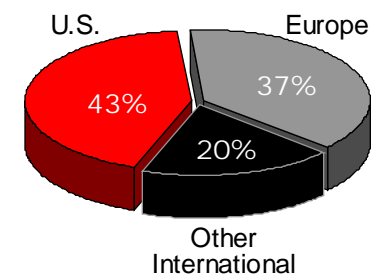
(1) 2007 restructuring-related amounts include \$8 million of project costs.

(2) Totals may not foot due to rounding.

Year To Date Results

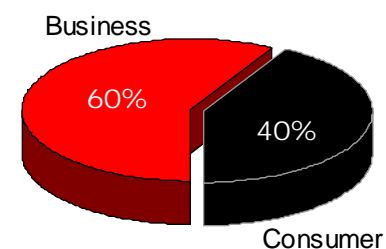
Revenue by Geography

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
United States	\$ 1,579	\$ 1,668	-5%
Europe	1,352	1,333	1%
Other International	733	737	-1%
Total Revenue	\$ 3,664	\$ 3,739	-2%



Segment Revenue

<i>(Dollars in millions)</i>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Business	\$ 2,199	\$ 2,097	5%
Consumer	1,465	1,642	-11%
Total Revenue	\$ 3,664	\$ 3,739	-2%



Segment Operating Income

<i>(Dollars in millions)</i>	<u>2007</u>			<u>2006</u>			<u>YTY Comparison</u>	
	<u>GAAP</u>	<u>Restructuring Related (1)</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>Restructuring Related</u>	<u>NON GAAP</u>	<u>GAAP</u>	<u>NON GAAP</u>
Business	\$ 446	\$ 2	\$ 448	\$ 443	\$ 28	\$ 471	1%	-5%
Consumer	56	3	59	196	55	250	-71%	-76%
Other ⁽²⁾	(295)	17	(278)	(299)	23	(276)	2%	-1%
Total Operating Income ⁽³⁾	\$ 207	\$ 22	\$ 229	\$ 339	\$ 106	\$ 445	-39%	-49%

(1) 2007 restructuring-related amounts include \$15 million of project costs.

(2) \$10 million pension curtailment gain included in "2006 GAAP" and "Restructuring-Related" columns on "Other" line.

(3) Totals may not foot due to rounding.

Revenue Compared to Last Year

- **Total revenue** of \$1.195 billion declined 3%
 - Business segment revenue of \$728 million grew 5%
 - Laser unit shipments declined 7% driven by declines in both branded and OEM units, reflecting strong unit growth in the workgroup segments of mono lasers, color lasers, and laser MFPs, more than offset by a decline in low-end lasers
 - Laser average unit revenue (AUR) was up 1% as positive mix was partially offset by aggressive pricing
 - Laser hardware revenue declined year to year driven by lower unit shipments
 - Consumer segment revenue of \$468 million declined 13%
 - Inkjet unit shipments declined 14% driven by continued declines in OEM printers. Branded units were down slightly in the period
 - Inkjet AUR declined 6% year to year impacted by aggressive price / promotion partially offset by a positive mix shift to more all-in-one printers
 - Inkjet hardware revenue declined year to year driven by lower unit shipments and lower AUR
 - 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 11%
 - Revenue in the U.S. declined 7%, revenue in Europe grew 2%, and Other International revenue declined 3%

Margins Compared to Last Year

- **Gross profit margin 27.8%**

- Excluding the restructuring-related costs, would have been 28.2%
- 3Q06 gross profit margin was 32.6%, or 32.9% excluding restructuring-related activities
- Non-GAAP gross profit margin declined 470 basis points principally due to a reduction in product margins

- **Operating expense to revenue ratio 26.1%**

- Excluding the charges for restructuring-related costs, would have been 25.2%
- 3Q06 operating expense to revenue ratio was 23.3%, or 22.5% excluding restructuring-related activities
- Non-GAAP operating expense to revenue ratio grew 270 basis points driven by increased investments in marketing & sales and R&D

- **Operating income \$20 million**

- Excluding restructuring-related costs, would have been \$35 million
- 3Q06 operating income of \$115 million, or \$128 million excluding restructuring-related activities
- Non-GAAP operating income declined \$93 million driven by an \$83 million decline in consumer segment operating income, and an \$8 million decline in business segment operating income

- **Operating income margin 1.7%**

- Excluding restructuring-related costs, would have been 2.9%
- 3Q06 operating income margin was 9.3%, or 10.4% excluding restructuring-related activities

Taxes & Earnings Compared to Last Year

- **3Q07 provision for income taxes a benefit of \$18 million**
 - Largely a result of two factors:
 - Revised full year effective tax rate from 25% to 20% resulting from an expected change in the geographic mix of worldwide income
 - Settlement of tax audits resulting in 3Q07 tax benefits of \$13 million
 - 3Q06 effective tax rate was 28.1%
- **3Q07 net earnings of \$45 million**
 - Excluding after-tax restructuring-related activities, would have been \$57 million
 - 3Q06 net earnings were \$86 million, or \$95 million excluding after-tax restructuring-related activities
- **3Q07 EPS \$0.48**
 - Includes 3Q07 provision for income taxes benefit of \$0.19 per share
 - Includes \$0.12 per share restructuring-related items
 - 3Q07 EPS would have been \$0.60 excluding restructuring-related items
 - 3Q06 EPS were \$0.85, or \$0.95 excluding \$0.10 per share restructuring-related activities

Cash Generation and Share Repurchase

- **Net cash provided by operating activities** of \$142 million in 3Q07
 - Cash and marketable securities were \$639 million at quarter end
 - Capital spending was \$39 million in the quarter
 - Depreciation / amortization was \$50 million in the quarter
 - Since the end of June:
 - Accounts receivable increased \$5 million
 - Inventory increased \$24 million
 - Accounts payable increased \$47 million
 - Accrued liabilities increased \$7 million
- **Share repurchase authorization** remains at \$295 million at quarter end, with no 3Q07 repurchases

2007 Restructuring Actions

The company announced a restructuring plan today which includes:

- Closure of one of the company's inkjet supplies manufacturing facilities in Mexico, and additional optimization measures at the remaining inkjet facilities in Mexico.
- 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 expected to impact approximately 1,650 positions by the end of 2008. Most of the impacted positions are being moved to lower-cost countries.
- The company estimates that these actions will result in pretax costs of approximately \$20 million in 2007, and \$70 million in 2008. Total savings from the restructuring are expected to be about \$40 million in 2008, and to be approximately \$60 million annually once these actions are completed.

Outlook

In the 4th 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 about flat versus 28.2% in 3Q07
- **Operating expense** to be up compared to the \$302 million in 3Q07
- **Operating income margin** to be up from the 2.9% in 3Q07
- **Effective tax rate** to be approximately 20%
- **GAAP EPS** of \$0.32 - \$0.42
 - EPS of \$0.50 - \$0.60 excluding approximately \$0.18 for restructuring-related activities
 - GAAP EPS were \$0.91 in the 4th quarter of 2006, or \$1.05 excluding \$0.14 per share for restructuring-related activities
- **Full year 2007 capital spending** to be approximately \$210 million
- **Full year 2007 depreciation** to be approximately \$180 million, up slightly from previous expectation due to restructuring-related activities

Tables

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

GAAP to Non-GAAP Reconciliation Table

	<u>3Q07</u>					<u>3Q06</u>					<u>4Q06 EPS</u>	<u>4Q07 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	\$333 27.8%	\$312 26.1%	\$20 1.7%	\$45 3.8%	\$0.48	\$402 32.6%	\$287 23.3%	\$115 9.3%	\$86 6.9%	\$0.85	\$0.91	\$0.32-\$0.42
Restructuring Related (1)(2)	\$4	(\$10)	\$15	\$12	\$0.12	\$4	(\$9)	\$13	\$9	\$0.10	\$0.14	\$0.18
Non-GAAP⁽³⁾	\$337 28.2%	\$302 25.2%	\$35 2.9%	\$57 4.8%	\$0.60	\$406 32.9%	\$278 22.5%	\$128 10.4%	\$95 7.7%	\$0.95	\$1.05	\$0.50-\$0.60

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) 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) 3Q07 restructuring-related amounts include pretax restructuring-related project costs of \$8 million.
- (3) Totals may not foot due to rounding.

GAAP to Non-GAAP Reconciliation Table

	<u>3Q07 YTD</u>					<u>3Q06 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	\$1,126 30.7%	\$918 25.1%	\$207 5.7%	\$202 5.5%	\$2.10	\$1,224 32.7%	\$885 23.6%	\$339 9.1%	\$249 6.6%	\$2.37
Restructure Related (1)(2)	\$10	(\$12)	\$22	\$18	\$0.19	\$39	(\$77)	\$116	\$81	\$0.77
Scotland Entity(3)				(\$7)	(\$0.07)					
Pension Benefit						\$10	(\$10)	(\$7)	(\$7)	(\$0.07)
Non-GAAP(4)	\$1,136 31.0%	\$907 24.7%	\$229 6.3%	\$213 5.8%	\$2.22	\$1,263 33.8%	\$817 21.9%	\$446 11.9%	\$322 8.6%	\$3.07

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) 3Q06 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) 3Q07 YTD restructuring-related amounts include pretax restructuring-related project costs of \$15 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>	2005	2006	Change
Laser & Inkjet Printers	\$ 1,799.4	\$ 1,633.0	-8%
Laser & Inkjet Supplies	3,117.2	3,221.6	+3%
Other	304.9	233.5	-23%
Total Revenue	\$ 5,221.5	\$ 5,108.1	-2%