Earnings Presentation

First Quarter 2012

April 24, 2012

Forward Looking Statements and GAAP Reconciliations

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.

This presentation contains non-GAAP financial measures, unless otherwise noted. Lexmark has provided in the supplemental materials section of these slides reconciliations of GAAP to non-GAAP financial measures and a discussion of management's use of non-GAAP financial measures.

CEO Presentation

Paul Rooke

Chairman and Chief Executive Officer

Business Highlights

In-Line Financial Performance

- Revenue and EPS In Line with Guidance Range
- Strong Gross Profit Margin Performance, A First Quarter Record
- Delivered Free Cash Flow of $44 Million

Continued Revenue Growth in Strategic Focus Areas

- Double Digit Growth in MPS and Perceptive Software, Both Outperforming the Market
- Growth in Large Workgroup Hardware and Core Supplies Revenue
- Legacy an Impactful, But Diminishing Headwind

Strengthened High Value Core Product Portfolio

- Announced New Smart Devices for Mid-Range Color Market
- Advanced End-To-End Solutions Capabilities With Acquisitions of Three Software Companies

Remain Focused on Delivering Value for Our Shareholders

- Talent and Resources Squarely Focused on Business Customers
- Aggressively Building and Growing Solutions Business Through Expansion and Acquisitions
- Returning >50% of Free Cash Flow to Shareholders Through Dividends and Share Repurchases

Financial Summary*

1Q12

Revenue

$993M
- 4% YTY

- Continued Growth in Strategic Focus Areas
  - Double-digit Growth in MPS
  - Growth in Large Workgroup Hardware and Core Supplies
  - Perceptive Software Grew 41%, 18% Excluding the Recent Acquisitions
- Diminishing Headwind From Decline in Legacy

Operating Income Margin

11.0%
-0.9 pts YTY

- Record 1st Quarter Gross Profit Margin
- Increased OPEX Driven by Increased Perceptive Software Investments

EPS

$1.05
-9% YTY

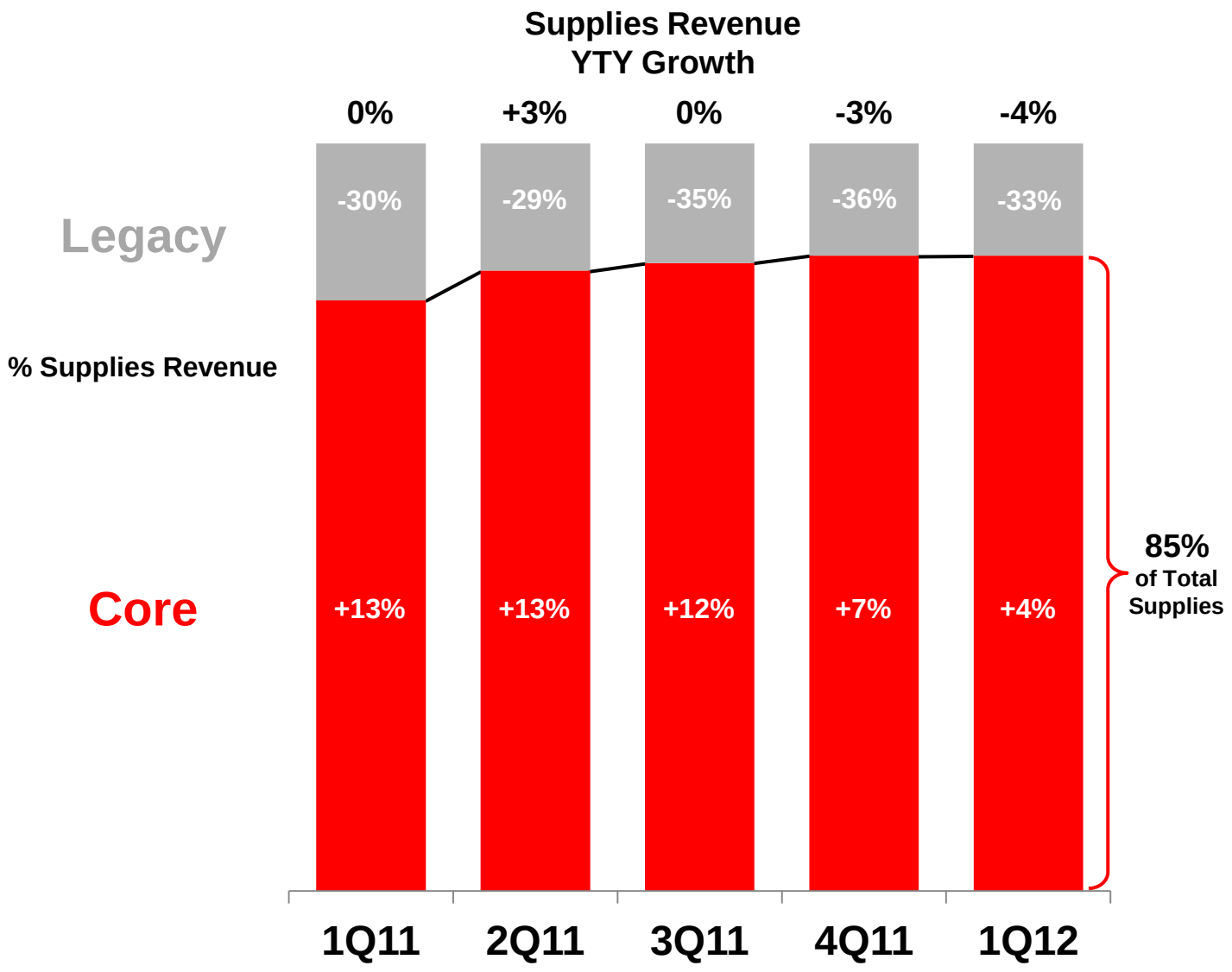
- In-Line With Guidance

Free Cash Flow

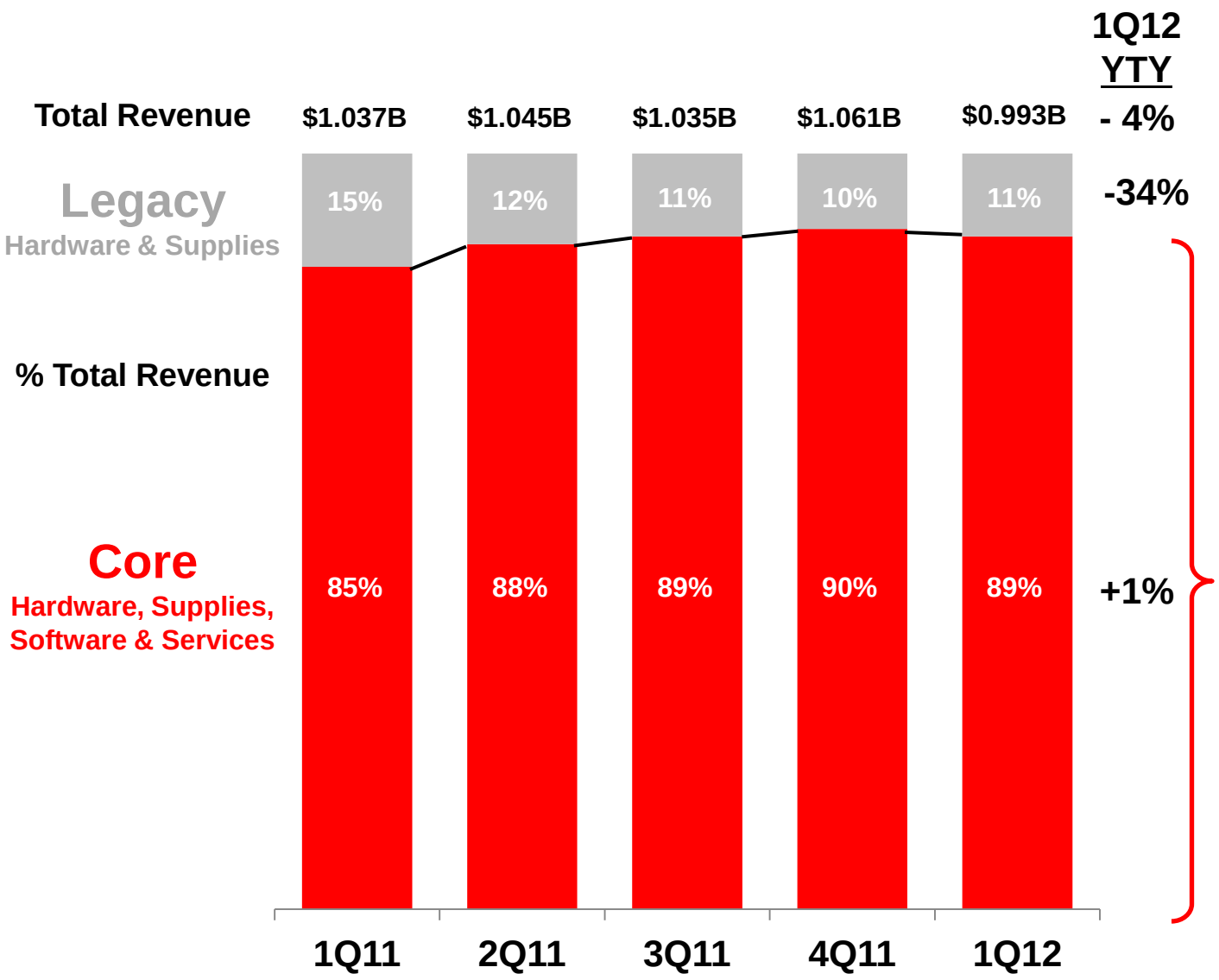
$44M

* Non-GAAP

Core Supplies Revenue Growth Continues



The Strategic Segments are Growing



Double Digit Growth in MPS and Perceptive Software

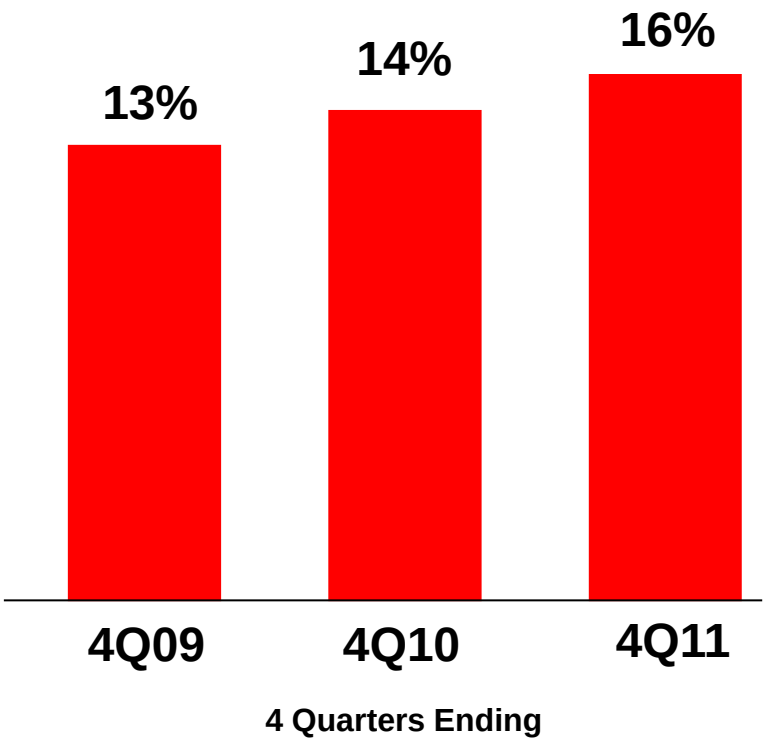
Growth in Large Workgroup Hardware and Core Supplies

Dampened By Small Workgroup Hardware Decline

* Non-GAAP

Share Position in High-Usage Workgroup Segment

World Wide A4 Laser Unit Share[1][2]



(1) Rolling four quarters
(2) Lexmark Custom Category using IDC WW HCP Tracker, Q4 2011 Branded A4 Laser Printer/MFP Shipments, Worldwide Excluding Japan

Lexmark Awarded MPS Contract with USDA

Agency-wide MPS Program

5 Year, Estimated $50 Million Agreement

Lexmark Strengthens Position in Color Workgroup

Lexmark's New Family of Mid-Range Color Workgroup Products

- **Extends solutions advancements to mid-range color workgroup devices**
- **Highlighted by color touch screens that provide tablet-like navigation**
- **First and only color laser printer under $1,000 to offer a color touch screen user interface***

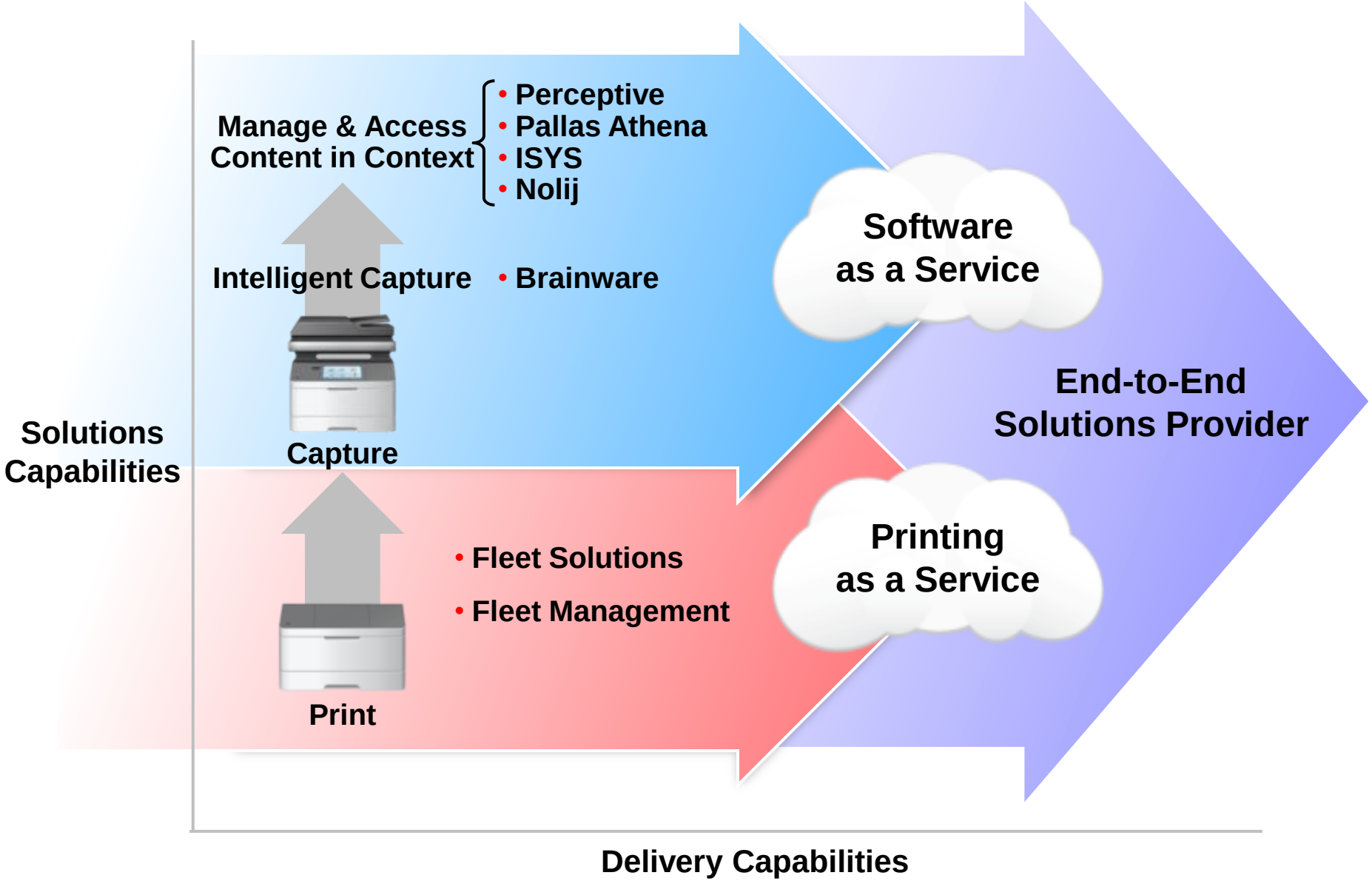
Lexmark's innovative smart devices are a key vehicle in providing advanced features and unique bundles of end-to-end solutions

* The Lexmark C748 family class consists of network ready A4 color electrophotographic printers between $700 and $1,000 street price

Recent Acquisitions

perceptivesoftware a Lexmark company June 2010	• Leading Enterprise Content Management Software Company with Deep Industry Expertise
PALLAS ATHENA Nov. 2011	• Leading Provider of Business Process Management, Document Output Management and Process Mining Software
BRAINWARE Feb. 2012	• Leading Provider of Intelligent Data Capture Software
ISYS:// Mar. 2012	• Leading Provider of High Performance Enterprise and Federated Search and Document Filtering Software
NOLIJ Mar. 2012	• Prominent Provider of Web-based Imaging, Document Management and Workflow Solutions for Higher Education Market

Lexmark's Evolution to Solutions Provider

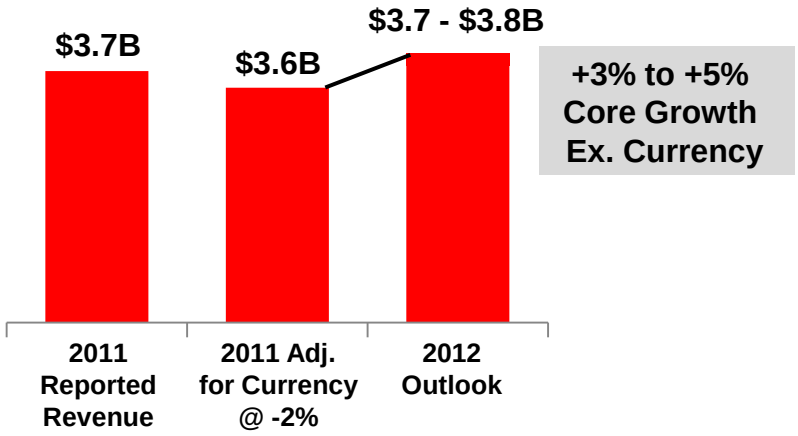


Squarely Focused on Core Business Customers

	Legacy	Core
Customer	Consumer (Exited)	Business Customers (Small & Medium + Enterprise)
Path to Market	Retail Channel (Past Restructurings)	Non-Retail Channel + Direct
Manufacturing	Multiple Supplies Sites (Past Restructurings)	• Hardware Manufacturing Outsourced • Supplies Manufacturing Consolidated (2 Owned Sites)
R&D	Consumer Inkjet (Past Restructurings)	Hardware: Small Workgroup (Printer, MFP) + Large Workgroup (Printer, MFP); Laser; Business Inkjet; Laser Software

Revenue Growth Model

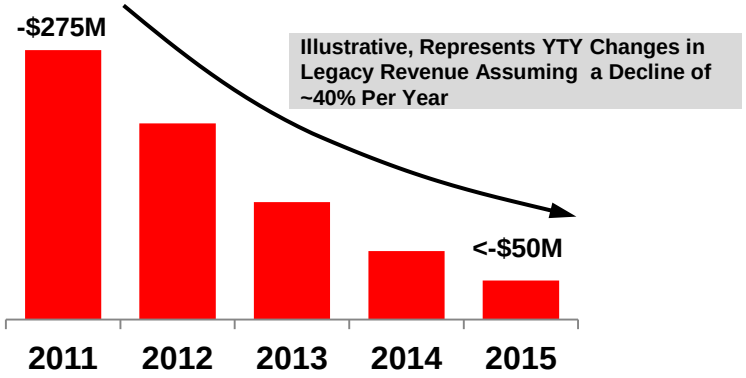
Strong & Growing Core



Core Revenue Growth Objective

- Solutions
  - MPS
  - Software
  - • Double Digit
  - • Above Market
- Transactional
  - Hardware
  - Supplies
  - Services
  - Low Single Digits

Legacy YTY Headwind Declining



Full Year 2012 Outlook

Previous Revenue Guidance:	-3% to -5%
1Q12 Acquisitions:	~+1%
Revised Revenue Guidance*:	-2% to -4%

(*) Based on foreign currency exchange rates as of 3/31/12

Outlook*

2Q12

Revenue	Down 7% to 9% YTY
EPS	$0.95 - $1.05

FY12

Revenue	Down 2% to 4% YTY
EPS	$4.70 - $4.90

Long Term

Revenue Growth	Grow at or above market
Op. Inc. Margin	11% - 13%

* Non-GAAP

CFO Presentation

John Gamble

Executive Vice President and Chief Financial Officer

Revenue[1]

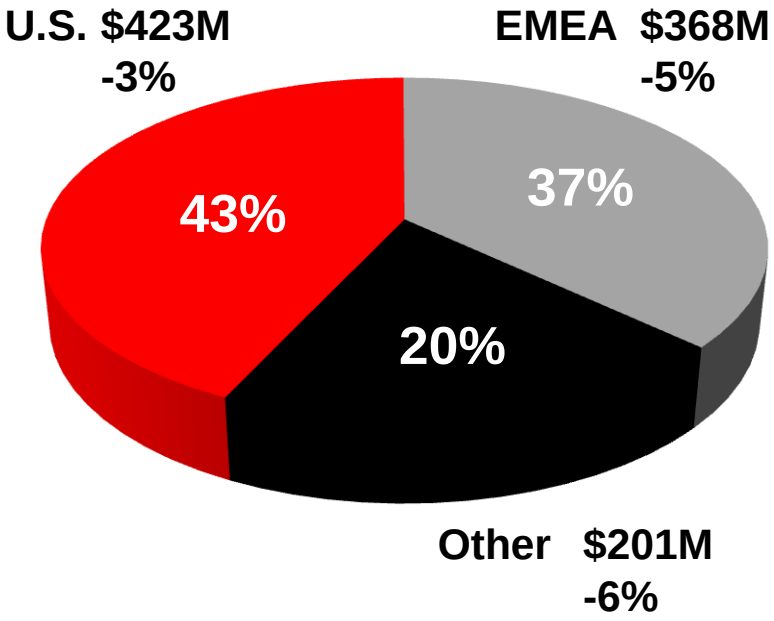
	1Q12	Guidance	YTY	SEQ
	$993M	High End	-4%	-6%
ISS	$963M		-5%	-6%
Perceptive	$30M		+41%	-4%
Core	$887M		+1%	-7%
Legacy	$106M		-34%	-2%

- **Revenue Reduced 2% YTY by Unfavorable Currency Changes**
- **ISS growth in MPS, Large Workgroup Hardware and Core Supplies Offset by Declines in Small Workgroup Hardware and Legacy**
- **Perceptive YTY Grew 41%, or 18% Excluding Acquisitions Completed Over Past 4 Quarters.**
- **Sequential Change Consistent With Average 4Q to 1Q Decline**

(1) Non-GAAP

Geographic Revenue Details*

1Q12 ($M)



* Non-GAAP, Totals May Not Foot Due To Rounding

Product Revenue[1]

(millions)	1Q12 YTY
Hardware[2]	-9%
Supplies[3]	-4%
Software & Other[4]	+6%
Total	-4%

Core Hardware – Revenue -8% / Units -21% / AUR +18%
- **Large Workgroup[5] – Revenue +7% / Units +15% / AUR -7%**
- **Small Workgroup[6] – Revenue -36% / Units -31% / AUR -7%**

Legacy Hardware – Discontinued
- **Down $3M YTY**

Core Supplies – Revenue +4%
- **85% of Total Supplies**

Legacy Supplies – Revenue -33%
- **15% of Total Supplies**

Perceptive Software – Revenue +41%
- **+18% Excluding Revenue from Acquisitions Completed Over the Past 4 Quarters**

(1) Non-GAAP
(2) Includes laser, inkjet, and dot matrix hardware and the associated features sold on a unit basis or through a managed service agreement.
(3) Includes laser, inkjet, and dot matrix supplies and associated supplies services sold on a unit basis or through a managed service agreement.
(4) Includes parts and service related to hardware maintenance and includes software licenses and the associated software maintenance services sold on a unit basis or as a subscription service.
(5) Includes departmental, large workgroup, and medium workgroup lasers, dot matrix printers and options
(6) Includes small workgroup and personal lasers and newer platform business inkjet based products

Gross Profit Margin*

1Q12	YTY	SEQ
39.4%	+120 bps	+110 bps

- **Record 1Q Gross Profit Margin Despite Additional Cost Resulting From Thailand Flood**

- **Gross Profit Margin Up YTY and Sequentially**
  - **YTY Comparison Helped by North American Distribution Issues Experienced in 1Q11 That Did Not Repeat in 1Q12**
  - **YTY Also Reflects a Favorable Shift in Product Mix**
    - **Principally Less Inkjet Hardware and an Increased Mix of Laser Supplies**
  - **Sequential Improvement Driven By a Favorable Shift in Product Mix, Principally Less Hardware and an Increased Mix of Supplies**

* Non-GAAP

Operating Expense*

	1Q12	YTY	SEQ
	$282M	+$10M	-$1M
R&D	$97M	+$6M	-$2M
SG&A	$185M	+$4M	+$1M

- **YTY Increase Driven By Perceptive Software Investments Including International Expansion and Acquired Companies**
- **Sequential Reduction Driven By Lower ISS Expenses Partially Offset By Increased Investments in Perceptive Software**

* Non-GAAP

Operating Income Margin*

	1Q12	YTY	SEQ
%	11.0%	-90 bps	-60 bps
$	$109M	-$15M	-$14M
ISS	$188M	-$2M	-$6M
Perceptive	-$8M	-$8M	-$7M
All other	-$71M	-$5M	-$1M

- ~Half of the Decline YTY and Sequentially was Driven by Perceptive Software
  - Principally Perceptive Software Expenses For International Expansion and Acquired Companies Ahead of Growth

* Non-GAAP

EPS*

1Q12	Guidance	YTY	SEQ
$1.05	In Line	-$0.09	-$0.20

- **EPS In Line With Guidance**

* Non-GAAP

Cash Generation / Conversion*

	1Q12
Cash[1]	$949M
U.S. Cash[1]	$88M
Non-U.S. Cash[1]	$861M
Cash from Operations[2]	$92M
Free Cash Flow[3]	$44M
Depreciation & Amortization	$62M
Capital Expenditures	$48M
Cash Provided By or (Used For)	
A/R	($8M)
Inventory	$7M
A/P	($17M)

(1) Includes current marketable securities
(2) Net cash provided by operating activities
(3) Free cash flow = cash from operations – capital expenditures + proceeds from the sale of fixed assets

Cash Conversion Days

	1Q11	2Q11	3Q11	4Q11	1Q12
Receivables	42	38	41	39	43
Inventory	51	50	47	45	48
Payables	79	73	68	66	70
Cash Conversion	14	16	20	18	22

* GAAP, Totals may not foot due to rounding.

Dividend & Ongoing Share Repurchases

Lexmark Has a Strong Liquidity Position

- **$949 Million of Cash and Current Marketable Securities at the End of 1Q12**
- **$350 Million Revolver (Expires 2017), $125 Million Receivables Program**

Long History of Solid Cash Generation

- **Building a Quality Install Base Drives Predictable Cash Flow**
- **More than 2/3rds of Lexmark's Revenue Comes From Annuity-Like Revenue Streams**
- **Generated Positive Free Cash Flow Annually in Each of the Past 10 Years**
- **Continuing to Invest Organically and Confident in Future Cash Generation**

Announced Dividend* & Continued Share Repurchase For Our Shareholders

- **Return >50% Free Cash Flow to Shareholders on Average**
- **Cash Dividend of $1.00/Share Annualized ($0.25 / Share Quarterly)**
- **Ongoing Share Repurchases To Return Excess Cash To Shareholders**
  - **Repurchased $30 Million in 1Q12**

Continue Acquisitions To Drive Long Term Shareholder Value

- **Continue To Strengthen Lexmark's Fleet Management and Business Content / Process Software Capabilities**

* Future quarterly dividend payments subject to Board of Directors' approval.

2Q12 Outlook

Revenue[(1)(2)] to be Down 7% to 9% YTY

Gross Profit Margin[(1)(2)] to be Consistent with the 40% in 2Q11

Operating Expense[(1)(2)] to be Consistent with the $282 Million in 1Q12

Operating Income Margin[(1)(2)] to be Down from the Record 14.2% in 2Q11

GAAP EPS[(2)] of $0.65 - $0.75 Assuming a ~25% Effective Tax Rate, or $0.95 - $1.05 Excluding Approximately $0.30 Per Share for Non-GAAP Adjustments

Compares to 2Q11 GAAP EPS of $1.27 Which Included a 23% Effective Tax Rate, or $1.36 Excluding $0.10 Per Share for Non-GAAP Adjustments

Note: Refer to appendix for discussion of Management's use of GAAP and Non-GAAP measures.

(1) Non-GAAP, excludes restructuring-related and acquisition-related adjustments.

(2) Based on foreign currency exchange rates as of 3/31/12.

FY12 and Longer-Term Assumptions

FY12 Assumptions

- Revenue[1][2] to Decline 2% to 4% YTY
- Effective Tax Rate 23% (Assuming Passage of R&E Tax Credit)
- EPS[1][2] of $4.70 - $4.90
- Free Cash Flow 90% - 100% of Non-GAAP Net Income
- Capital Spending ~$185M
- Depreciation ~$230M
- Pension Funding ~$45M (Cash)

Longer Term Assumptions

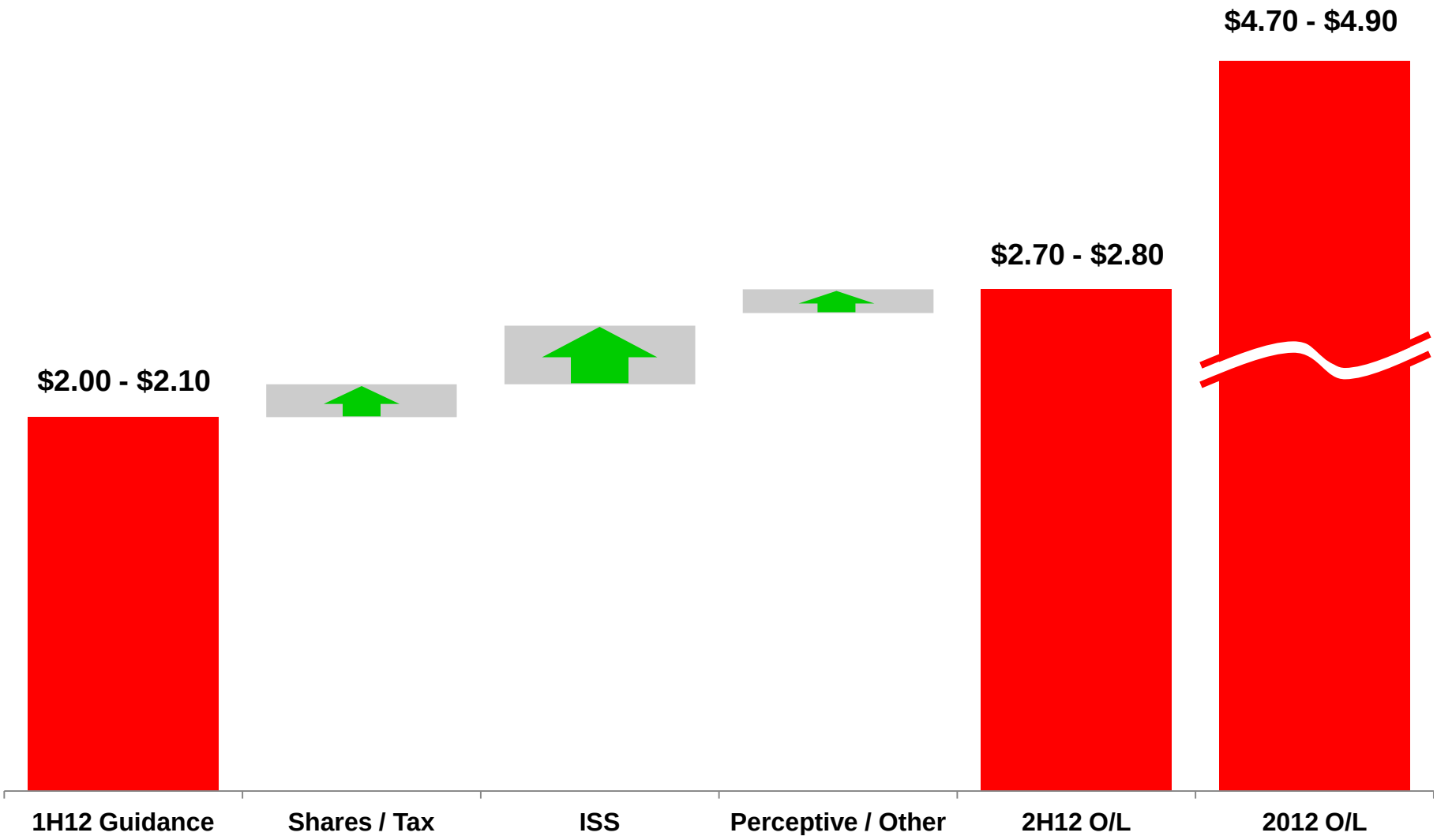
- Grow Revenue At or Above Market
- Op. Inc. Margin[1] of 11% - 13%
- Cash Generation Primarily Driven by Net Income
- Modest Ongoing Working Capital / Cash Cycle Improvements
- Capital Expenditures ~ Depreciation
- Free Cash Flow prioritization –
  - > 50% Dividends & Share Repurchases
  - < 50% Acquisitions & Other cash needs

Note: Refer to appendix for discussion of Management's use of GAAP and Non-GAAP measures.

(1) Non-GAAP, excludes restructuring-related and acquisition-related adjustments.

(2) Based on foreign currency exchange rates as of 3/31/12.

EPS Improvement – 1H12 vs 2H12



* Non-GAAP, excludes restructuring-related and acquisition-related adjustments.

Supplemental Materials

- Anticipated Dividend Schedule
- Estimated Currency Impact on Revenue
- Outstanding Share Counts
- Financial Summary
- P&L Compared to Last Year
- Geo & Segment Comparison
- Expected Non-GAAP Adjustments
- Restructuring Summary
- 2011 Foreign Currency Exposure

Anticipated Dividend Schedule*

Declaration Date	Record Date	Payment Date
4/26/12	6/1/12	6/15/12
7/26/12	8/31/12	9/14/12
10/25/12	11/30/12	12/14/12
2/21/13	3/4/13	3/15/13
4/25/13	5/31/13	6/14/13
7/25/13	8/30/13	9/13/13
10/24/13	11/29/13	12/13/13

* Future quarterly dividend payments subject to Board of Directors' approval

Estimated Currency Impact To Revenue*

1Q12

1Q12 vs. 4Q11	0%
1Q12 vs. 1Q11	-2%
1Q12 vs. Guidance	0%

2Q12 and FY12

2Q12 vs. 1Q12	0%
2Q12 vs. 2Q11	-3%
FY12 vs. FY11	-2%

(*) Based on foreign currency exchange rates as of 3/31/12.

Outstanding Share Counts*

Quarter	Actual Ending	Diluted Average
1Q12	71.1	72.3
4Q11	71.4	74.0
3Q11	75.2	78.0
2Q11	79.2	80.0
1Q11	79.1	79.8

* Millions

Financial Summary*

	1Q12
• Revenue	$993M
• Gross Profit Margin	39.4%
• Operating Expense	$282M
– R&D	$97M
– SG&A	$185M
• Operating Income	$109M
– ISS	$188M
– Perceptive	($8)M
– Other	($71)M
• Operating Income Margin	11.0%
• Tax Rate	25.7%
• EPS	$1.05

* Non-GAAP

1Q P&L Compared to Last Year

	2012						2011					
	Revenue	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS	Revenue	Gross Profit	Op Ex	Op Inc	Net Earnings	EPS
GAAP	**$992**	**$381** **38.4%**	**$292** **29.4%**	**$89** **9.0%**	**$61**	**$0.84**	**$1,034**	**$389** **37.6%**	**$276** **26.7%**	**$113** **10.9%**	**$83**	**$1.04**
Deferred revenue	*$0*	*$0*	*$0*	*$0*			*$3*	*$3*	*--*	*$3*		
Amortization of purchased intangibles	*--*	*$5*	*($2)*	*$8*			*--*	*$4*	*($1)*	*$5*		
Acquisition costs	*--*	*--*	*($2)*	*$2*			*--*	*--*	*($1)*	*$1*		
Acquisition-Related(1)	**$0**	**$6**	**($4)**	**$10**	**$7**	**$0.10**	**$3**	**$6**	**($2)**	**$8**	**$6**	**$0.08**
Restructuring-Related(2)	**--**	**$4**	**($6)**	**$10**	**$8**	**$0.11**	**--**	**$0**	**($2)**	**$2**	**$2**	**$0.02**
Non-GAAP(3)	**$993**	**$391** **39.4%**	**$282** **28.4%**	**$109** **11.0%**	**$76**	**$1.05**	**$1,037**	**$396** **38.2%**	**$272** **26.2%**	**$124** **11.9%**	**$91**	**$1.14**

Note: **Refer to appendix for discussion of Management's use of GAAP and Non-GAAP measures.**

(1) **Acquisition-related amounts include amortization of purchased intangibles, adjustments to deferred revenue and acquisition and integration costs.**

(2) **Restructuring-related amounts include 2007, 2008 , 2009 and 2012 actions and related project costs.**

(3) **Totals may not foot due to rounding.**

1Q Geo & Segment Comparison[1]

Geographic Revenue

(Dollars in millions)	2012			2011			YTY Comparison	
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP	GAAP	Non-GAAP
United States	$ 423	$ 0	$ 423	$ 432	$ 3	$ 434	(2%)	(3%)
EMEA	368	--	368	390	--	390	(6%)	(6%)
Other International	201	--	201	213	--	213	(6%)	(6%)
Total Revenue	$ 992	$ 0	$ 993	$ 1,034	$ 3	$ 1,037	(4%)	(4%)

Segment Revenue

(Dollars in millions)	2012			2011			YTY Comparison	
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP	GAAP	Non-GAAP
Imaging Solutions and Services	$ 963	$ --	$ 963	$ 1,016	$ --	$ 1,016	(5%)	(5%)
Perceptive Software	30	0	30	19	3	21	59%	41%
Total Revenue	$ 992	$ 0	$ 993	$ 1,034	$ 3	$ 1,037	(4%)	(4%)

Segment Operating Income

(Dollars in millions)	2012			2011			YTY Comparison	
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP	GAAP	Non-GAAP
Imaging Solutions and Services	$ 178	$ 10	$ 188	$ 188	$ 1	$ 190	(6%)	(1%)
Perceptive Software	(16)	8	(8)	(7)	7	0	114%	N/A
All other	(73)	2	(71)	(68)	2	(66)	(7%)	(7%)
Total Operating Income	$ 89	$ 20	$ 109	$ 113	$ 10	$ 124	(21%)	(12%)

Note: Refer to appendix for discussion of Management's use of GAAP and Non-GAAP measures.
(1) Totals may not foot due to rounding
(2) Adjustments comprised of restructuring-related amounts from 2007, 2008, 2009 and 2012 actions and related project costs, and acquisition-related adjustments.

Expected Non-GAAP Adjustments[1]

2Q12

	Revenue	Gross Profit	Op Ex	Op Inc	EPS
Deferred revenue	*$2*	*$2*		*$2*	
Amortization of purchased intangibles		*$4*	*($6)*	*$10*	
Acquisition costs		*$0*	*($2)*	*$2*	
Acquisition-Related[(1)]	**$2**	**$6**	**($9)**	**$15**	**$0.16**
Restructuring-Related[(2)]		**$3**	**($11)**	**$14**	**$0.14**
Total Non-GAAP Adjustments					**$0.30**

2012

	Revenue	Gross Profit	Op Ex	Op Inc	EPS
Deferred revenue	*$5*	*$5*		*$5*	
Amortization of purchased intangibles		*$19*	*($21)*	*$40*	
Acquisition costs		*$0*	*($6)*	*$6*	
Acquisition-Related[(1)]	**$5**	**$24**	**($28)**	**$52**	**$0.55**
Restructuring-Related[(32]		**$7**	**($24)**	**$32**	**$0.34**
Total Non-GAAP Adjustments					**$0.89**

Notes: Refer to appendix for discussion of Management's use of GAAP and Non-GAAP measures.
Totals may not foot due to rounding.

(1) Acquisition-related amounts include amortization of purchased intangibles, adjustments to deferred revenue and acquisition and integration costs.
(2) Restructuring-related amounts include 2009 and 2012 actions and related project costs.

2012 Restructuring Summary

Pretax charges[1]	
• 4Q11	$8M
• 1Q12	$9M
• 2Q12 Expected	$12M
• FY12 Expected	$27M

Savings[2]	
• 1Q12	$1M
• 2Q12 Expected	$3M
• FY12 Expected	$15M

Note:

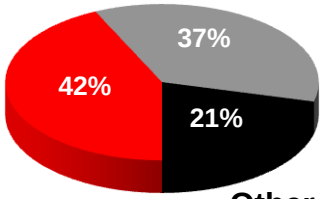
(1) Restructuring-related charges for 2012 actions and related project costs only.

(2) Restructuring savings include savings from 2012 actions only.

2011 Foreign Currency Exposure

Revenue by Geography

U.S.

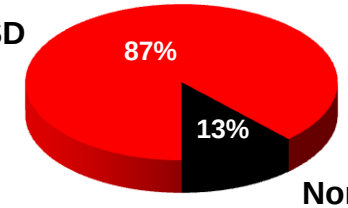


Europe: Mostly Euro (65%-70%) and British Pound (10%-15%)

Other International: Primarily Canadian Dollar, Brazilian Real and Australian Dollar

Cost by Currency

USD

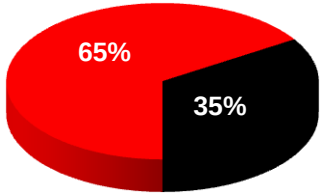


Non-USD

Non-USD: Primarily Euro (40%-45%), Mexican Peso (10%-15%), Philippine Peso (5%-10%), and a number of other currencies representing less than 7% including Canadian Dollar, Australian Dollar, and Japanese Yen.

Operating Expense by Currency

USD



Non-USD: Euro (40%- 45%), and a number of other currencies each representing less than 10% including the Swiss Franc, Brazilian Real, Canadian Dollar, Australian Dollar, Philippine Peso and British Pound

Other Factors

- Company generally acts to harmonize supplies prices globally to the U.S. dollar
- Price increases cannot immediately impact laser supplies that are sold under contract (~60% or more at any given point in time)
- Lexmark does not hedge cash flow, but does hedge transaction exposures

GAAP to Non-GAAP

Revenue *(In Millions)*	**1Q12**	**4Q11**	**3Q11**	**2Q11**	**1Q11**
GAAP	$ 992	$ 1,060	$ 1,035	$ 1,044	$ 1,034
Acquisition-related adjustments	0	1	0	1	3
Non-GAAP	$ 993	$ 1,061	$ 1,035	$ 1,045	$ 1,037

Software and Other Revenue *(In Millions)*	**1Q12**	**1Q11**
GAAP	$ 70	$ 65
Acquisition-related adjustments	0	3
Non-GAAP	$ 71	$ 67

Selling, General & Administrative	**1Q12**	**1Q11**	**4Q11**
GAAP	$ 191	$ 187	$ 201
Restructuring-related charges & project costs	$ (1)	$ (4)	$ (11)
Acquisition-related adjustments	$ (4)	$ (2)	$ (5)
Non-GAAP	$ 185	$ 181	$ 185

Research & Development	**1Q12**	**1Q11**	**4Q11**
GAAP	$ 97	$ 91	$ 98
Acquisition-related adjustments	(0)	$ (0)	$ (0)
Non-GAAP	$ 97	$ 91	$ 98

Non-GAAP Measures

Management believes that presenting non-GAAP measures is useful because they enhance investors' understanding of how management assesses the performance of the Company's businesses. Management uses non-GAAP measures for budgeting purposes, measuring actual results to budgeted projections, allocating resources, and in certain circumstances for employee incentive compensation. Adjustments to GAAP results in determining non-GAAP results fall into two broad general categories that are described below:

•Restructuring- related charges
In recent years, the Company has initiated restructuring plans which have resulted in operating expenses which otherwise would not have been incurred. The size of these items can vary significantly from period to period and the Company does not consider these items to be part of core operating expenses of the business. Restructuring and related charges that are excluded from GAAP earnings to determine non-GAAP earnings consist of accelerated depreciation, employee termination benefits and contract termination and lease charges. They also include project costs that relate to the execution of the restructuring plans. These project costs are incremental to normal operating charges and are expensed as incurred, such as compensation costs for overlap staffing, travel expenses, consulting costs and training costs.

•Acquisition- related adjustments
In connection with acquisitions, management provides supplementary non-GAAP financial measures of revenue and expenses to normalize for the impact of business combination accounting rules as well as to exclude certain expenses which would not have been incurred otherwise.

A. Adjustments to Revenue

Due to business combination accounting rules, deferred revenue balances for service contracts assumed as part of acquisitions are adjusted down to fair value. Fair value approximates the cost of fulfilling the service obligation, plus a reasonable profit margin. Subsequent to acquisitions, management adds back the amount of amortized revenue that would have been recognized had the acquired company remained independent and had the deferred revenue balances not been adjusted to fair value. Management reviews non-GAAP revenue to allow for more complete comparisons to historical performance as well as to forward-looking projections and also uses it as a metric for employee incentive compensation.

B. Amortization of intangible assets

Due to business combination accounting rules, intangible assets are recognized which were not previously presented on the balance sheet of the acquired company. These intangible assets consist primarily of purchased technology, customer relationships, trade names, in-process R&D and non-compete agreements. Subsequent to the acquisition date, some of these intangible assets begin amortizing and represent an expense that would not have been recorded had the acquired company remained independent. The total amortization of the acquired intangible assets varies from period to period, due to the mix in value and useful lives of the different assets. For the purpose of comparing financial results to historical performance as well as for defining targets for employee incentive compensation, management excludes the amortization of the acquired intangible assets on a non-GAAP basis.

C. Acquisition and integration costs

In connection with its acquisitions, the Company incurs expenses that would not have been incurred otherwise. The acquisition costs include items such as investment banking fees, legal and accounting fees, and costs of retention bonus programs for the senior management of the acquired company. Integration costs may consist of information technology expenses, consulting costs and travel expenses. The costs are expensed as incurred and can vary substantially in size from one period to the next. For these reasons, management excludes these expenses from non-GAAP earnings in order to evaluate the Company's performance on a continuing and comparable basis.

In addition to GAAP results, management presents these non-GAAP financial measures to provide investors with additional information that they can utilize in their own methods of evaluating the Company's performance. Management compensates for the material limitations associated with the use of non-GAAP financial measures by having specific initiatives associated with restructuring actions and acquisitions approved by management, along with their budgeted costs. Subsequently, actual costs incurred as a part of these approved restructuring plans and acquisitions are monitored and compared to budgeted costs to assure that the Company's non-GAAP financial measures only exclude pre-approved restructuring-related costs and acquisition-related adjustments. Any non-GAAP measures provided by the Company may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

LEXMARK™