

LEGGETT & PLATT INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

Commission file number 1-7845

LEGGETT & PLATT, INCORPORATED

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

44-0324630
(I.R.S. Employer

Identification No.)

No. 1 Leggett Road

64836

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

Carthage, Missouri
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (417) 358-8131

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Common stock outstanding as of July 31, 2007: 172,448,792

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

| (Amounts in millions) | June 30, 2007 | December 31, 2006 |
|---|-------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 168.2 | \$ 131.9 |
| Accounts and other receivables | 869.5 | 871.9 |
| Allowance for doubtful accounts | (21.3) | (18.1) |
| Inventories, net | 811.8 | 826.3 |
| Other current assets | 96.5 | 82.1 |
| Total current assets | 1,924.7 | 1,894.1 |
| NET PROPERTY, PLANT & EQUIPMENT | 962.9 | 962.8 |
| OTHER ASSETS | | |
| Goodwill | 1,169.1 | 1,149.3 |
| Other intangibles, less accumulated amortization of \$61.6 at June 30, 2007 and \$49.0 at December 31, 2006 | 242.9 | 182.9 |
| Sundry | 78.8 | 76.2 |
| Total other assets | 1,490.8 | 1,408.4 |
| TOTAL ASSETS | \$ 4,378.4 | \$ 4,265.3 |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 82.8 | \$ 52.0 |
| Accounts payable | 290.4 | 259.0 |
| Accrued expenses | 272.6 | 268.0 |
| Other current liabilities | 113.9 | 112.2 |
| Total current liabilities | 759.7 | 691.2 |
| LONG-TERM DEBT | 1,054.8 | 1,060.0 |
| OTHER LIABILITIES | 113.1 | 95.9 |
| DEFERRED INCOME TAXES | 61.3 | 67.1 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock | 2.0 | 2.0 |
| Additional contributed capital | 494.0 | 493.4 |
| Retained earnings | 2,343.4 | 2,270.7 |
| Accumulated other comprehensive income | 115.5 | 75.6 |
| Treasury stock | (565.4) | (490.6) |
| Total shareholders' equity | 2,389.5 | 2,351.1 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 4,378.4 | \$ 4,265.3 |

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

See accompanying notes to consolidated condensed financial statements.

The December 31, 2006 consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Unaudited)

(Amounts in millions, except per share data)

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|-----------------|--------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 2,610.4 | \$ 2,679.4 | \$ 1,316.1 | \$ 1,355.6 |
| Cost of goods sold | 2,146.3 | 2,201.1 | 1,081.0 | 1,106.7 |
| Gross profit | 464.1 | 478.3 | 235.1 | 248.9 |
| Selling and administrative expenses | 256.4 | 244.9 | 134.3 | 123.4 |
| Other expense, net | 13.9 | 19.7 | 8.2 | 7.1 |
| Earnings from continuing operations before interest and income taxes | 193.8 | 213.7 | 92.6 | 118.4 |
| Interest expense | 28.8 | 26.5 | 14.7 | 13.8 |
| Interest income | 3.6 | 3.6 | 1.7 | 2.1 |
| Earnings from continuing operations before income taxes | 168.6 | 190.8 | 79.6 | 106.7 |
| Income taxes | 46.0 | 53.0 | 19.6 | 25.7 |
| Earnings from continuing operations | 122.6 | 137.8 | 60.0 | 81.0 |
| Earnings from discontinued operations, net of tax | 13.1 | 8.5 | | 3.2 |
| NET EARNINGS | \$ 135.7 | \$ 146.3 | \$ 60.0 | \$ 84.2 |
| Earnings Per Share from continuing operations | | | | |
| Basic | \$.67 | \$.73 | \$.33 | \$.43 |
| Diluted | \$.67 | \$.73 | \$.33 | \$.43 |
| Earnings Per Share from discontinued operations | | | | |
| Basic | \$.07 | \$.05 | \$ | \$.02 |
| Diluted | \$.07 | \$.05 | \$ | \$.02 |
| Earnings Per Share - net | | | | |
| Basic | \$.74 | \$.78 | \$.33 | \$.45 |
| Diluted | \$.74 | \$.78 | \$.33 | \$.45 |
| Cash Dividends Declared Per Share | \$.35 | \$.33 | \$.18 | \$.17 |
| Average Shares Outstanding | | | | |
| Basic | 182.5 | 187.3 | 181.9 | 186.9 |
| Diluted | 183.2 | 188.1 | 182.6 | 187.9 |

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| (Amounts in millions) | Six Months Ended | |
|--|------------------|----------------|
| | June 30, | |
| | 2007 | 2006 |
| OPERATING ACTIVITIES | | |
| Net Earnings | \$ 135.7 | \$ 146.3 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation | 77.4 | 78.6 |
| Amortization | 12.8 | 9.4 |
| Asset impairment | 2.3 | 3.1 |
| Gain from sales of assets | (30.8) | (4.1) |
| Deferred income tax expense (benefit) | (8.8) | .1 |
| Stock-based compensation | 25.1 | 25.1 |
| Other | 1.3 | 2.6 |
| Other changes, excluding effects from purchase of companies | | |
| Increase in accounts receivable | (2.1) | (50.7) |
| Decrease (increase) in inventories | 11.4 | (31.0) |
| Increase in other current assets | (9.0) | (11.8) |
| Increase in accounts payable | 16.5 | 32.9 |
| Increase in accrued expenses and other current liabilities | 9.5 | 15.0 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 241.3 | 215.5 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (71.1) | (79.8) |
| Purchases of companies, net of cash acquired | (83.7) | (64.7) |
| Proceeds from sales of assets | 101.6 | 14.2 |
| Other | (7.2) | (4.3) |
| NET CASH USED FOR INVESTING ACTIVITIES | (60.4) | (134.6) |
| FINANCING ACTIVITIES | | |
| Additions to debt | 93.9 | 152.2 |
| Payments on debt | (97.1) | (86.0) |
| Dividends paid | (61.5) | (59.0) |
| Issuances of common stock | 6.2 | 5.1 |
| Purchases of common stock | (90.7) | (66.9) |
| Other | 1.2 | 1.0 |
| NET CASH USED FOR FINANCING ACTIVITIES | (148.0) | (53.6) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 3.4 | 2.6 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 36.3 | 29.9 |
| CASH AND CASH EQUIVALENTS - January 1, | 131.9 | 64.9 |
| CASH AND CASH EQUIVALENTS - June 30, | \$ 168.2 | \$ 94.8 |

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(Dollar amounts in millions, except per share data)

1. STATEMENT

The interim financial statements of the Company included herein have not been audited by an independent registered public accounting firm. The statements include all adjustments, including normal recurring accruals, which management considers necessary for a fair presentation of the financial position and operating results of the Company for the periods presented. The statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of results to be expected for an entire year.

For further information, refer to the financial statements of the Company and footnotes thereto included in the annual report on Form 10-K of the Company for the year ended December 31, 2006.

2. NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities and requires additional disclosure about the use of fair value measures, the information used to measure fair value, and the effect fair-value measurements have on earnings. The primary areas in which the Company utilizes fair value measures are valuing pension plan assets and liabilities, valuing hedge-related derivative financial instruments, allocating purchase price to the assets and liabilities of acquired companies, and evaluating long-term assets for potential impairment. SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for the Company beginning January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other instruments at fair value, with the objective of improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company will adopt SFAS 159 on January 1, 2008, and it is not expected to have a material impact on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation modified the accounting for uncertain income tax positions recognized in accordance with SFAS 109, Accounting for Income Taxes. Specifically, FIN 48 changed the application of SFAS 109 by establishing criteria that an individual tax position must meet before any part of the benefit of that position may be recognized in an enterprise's financial statements. Additionally, FIN 48 provided new rules for the measurement, classification and derecognition of uncertain tax positions, as well as new rules regarding application of interest and penalties, and accounting for income taxes in interim periods. Finally, FIN 48 established new disclosure requirements and provided transition rules.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

2. NEW ACCOUNTING STANDARDS (continued)

The Company adopted the provisions of FIN 48 on January 1, 2007. Upon implementation of this interpretation, the Company recognized an increase in the liability for unrecognized tax benefits of approximately \$13.4 and an increase to deferred tax assets of \$13.2. The resulting impact of the adoption at January 1, 2007 was immaterial. The total amount of the Company's unrecognized tax benefits at January 1, 2007 is \$30.2, of which \$17.0 would impact the Company's effective tax rate, if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits as part of income tax expense in the Consolidated Condensed Statements of Earnings, which is consistent with prior reporting periods. As of January 1, 2007, the Company had recorded a liability of approximately \$3.8 and \$0.9 for the payment of interest and penalties, respectively.

At the beginning of the year, five tax years were undergoing (or subject to) audit by the United States Internal Revenue Service (IRS) and Canada Revenue Agency, covering the periods 2002 through 2006. Periods prior to 2002 are closed for examination in both jurisdictions. In early 2007, the IRS examination for the years 2002 and 2003 was concluded and resulted in no significant adjustments. Various state and foreign jurisdiction tax years remain open to examination as well, though the Company believes assessments (if any) will be immaterial to its consolidated financial statements.

The Company is not aware of any changes that would materially increase or decrease the total amount of unrecognized tax benefits within the next 12 months.

3. INVENTORIES

Inventories, about 50% of which are valued using the Last-In, First-Out (LIFO) cost method and the remainder using the First-In, First-Out (FIFO) cost method, are comprised of the following:

| | June 30, | December 31, |
|----------------------------|----------|--------------|
| | 2007 | 2006 |
| At FIFO cost | | |
| Finished goods | \$ 446.2 | \$ 428.6 |
| Work in process | 86.8 | 97.9 |
| Raw materials and supplies | 346.5 | 370.9 |
| | 879.5 | 897.4 |
| LIFO reserve | (67.7) | (71.1) |
| | \$ 811.8 | \$ 826.3 |

The Company calculates its LIFO reserve (the excess of FIFO cost over LIFO cost) on an annual basis. During interim periods, the Company estimates the current year annual change in the LIFO reserve (i.e., the annual LIFO expense or income) and allocates that change proportionally to the four quarters. The interim estimate of the annual LIFO reserve change can vary significantly quarter-to-quarter, and from the actual amount for the year, due to price changes experienced in subsequent periods and from actual inventory levels at year-end being different than estimated levels.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

4. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is comprised of the following:

| | June 30, | December 31, |
|--|------------|--------------|
| | 2007 | 2006 |
| Property, plant and equipment, at cost | \$ 2,343.8 | \$ 2,330.2 |
| Less accumulated depreciation | (1,380.9) | (1,367.4) |
| | \$ 962.9 | \$ 962.8 |

5. DISCONTINUED OPERATIONS

In March 2007, the Company sold its Prime Foam Products unit, resulting in a pre-tax gain of \$23.7 (\$12.1 net of tax) that was reported within earnings from discontinued operations in the Consolidated Condensed Statements of Earnings. This divestiture was previously part of the Residential Furnishings Segment and produced foam used for cushioning by upholstered furniture and bedding manufacturers.

As part of this divestiture, the Company entered into a seven-year supply agreement with the buyer for scrap foam. Although the amount is immaterial to the consolidated financial statements, this supply agreement provides a reliable source of scrap foam which is used in the Company's carpet cushion products.

The following amounts related to the Prime Foam Products unit have been segregated from continuing operations and reported as discontinued operations through the date of disposition.

| | Six Months Ended | | Three Months Ended | |
|---|------------------|----------|--------------------|---------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| External sales | \$ 44.4 | \$ 100.9 | \$ | \$ 47.0 |
| Gain on sale, net of \$11.6 tax | \$ 12.1 | \$ | \$ | \$ |
| Earnings from operations before interest and income taxes | 1.7 | 13.5 | | 5.1 |
| Interest allocated to discontinued operations | (.2) | (.4) | | (.2) |
| Provision for income taxes related to operations | (.5) | (4.6) | | (1.7) |
| Earnings from discontinued operations, net of tax | \$ 13.1 | \$ 8.5 | \$ | \$ 3.2 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

6. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) consists primarily of foreign currency translation adjustments, net unrealized gains (losses) on net investment hedges, cash flow hedges and defined benefit pension plans. The following table sets forth the changes in each component of accumulated other comprehensive income (loss):

| | Foreign Currency Translation Adjustments (1) | Net Investment Hedges (2) | Cash Flow Hedges (3) | Other | Defined Benefit Pension Plans (4) | Accumulated Other Comprehensive Income (Loss) |
|------------------------|--|------------------------------------|-------------------------------|---------|---|---|
| Balance Jan. 1, 2007 | \$ 104.5 | \$ (1.2) | \$ (1.3) | \$ (.2) | \$ (26.2) | \$ 75.6 |
| Period change | 1.3 | | 1.8 | .2 | (.3) | 3.0 |
| Balance March 31, 2007 | \$ 105.8 | \$ (1.2) | \$.5 | \$ | \$ (26.5) | \$ 78.6 |
| Period change | 36.4 | .3 | .2 | | | 36.9 |
| Balance June 30, 2007 | \$ 142.2 | \$ (.9) | \$.7 | \$ | \$ (26.5) | \$ 115.5 |

- (1) Foreign currency translation adjustments activity is shown net of income tax benefit of \$2.0 in the six months ended June 30, 2007.
(2) Net investment hedge activity is shown net of income tax expense of \$.1 in the six months ended June 30, 2007.
(3) Cash flow hedge activity is shown net of income tax expense of \$1.1 in the six months ended June 30, 2007.
(4) Defined benefit pension plan activity affecting accumulated other comprehensive income is primarily the effect of foreign currency exchange rates.

| | Six Months Ended | | Three Months Ended | |
|---|------------------|------------------|--------------------|------------------|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Comprehensive Income (Loss): | | | | |
| Net Earnings | \$ 135.7 | \$ 146.3 | \$ 60.0 | \$ 84.2 |
| Foreign currency translation adjustments | 37.7 | 28.3 | 36.4 | 24.9 |
| Net investment hedges | .3 | (1.4) | .3 | (1.2) |
| Cash flow hedges | 2.0 | (4.0) | .2 | (1.2) |
| Other adjustments to comprehensive income | .2 | | | |
| Defined benefit pension plans | (.3) | (.2) | | (.2) |
| Total Comprehensive Income | \$ 175.6 | \$ 169.0 | \$ 96.9 | \$ 106.5 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

7. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|-----------------|--------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Basic | | | | |
| Weighted average shares outstanding, including shares issuable for little or no cash | 182.5 | 187.3 | 181.9 | 186.9 |
| Earnings from continuing operations | \$ 122.6 | \$ 137.8 | \$ 60.0 | \$ 81.0 |
| Earnings from discontinued operations, net of tax | 13.1 | 8.5 | | 3.2 |
| Net earnings | \$ 135.7 | \$ 146.3 | \$ 60.0 | \$ 84.2 |
| Earnings per share - basic: | | | | |
| From continuing operations | \$.67 | \$.73 | \$.33 | \$.43 |
| From discontinued operations | \$.07 | \$.05 | \$ | \$.02 |
| Earnings per share - net | \$.74 | \$.78 | \$.33 | \$.45 |
| Diluted | | | | |
| Weighted average shares outstanding, including shares issuable for little or no cash | 182.5 | 187.3 | 181.9 | 186.9 |
| Additional dilutive shares principally from the assumed exercise of outstanding stock options | .7 | .8 | .7 | 1.0 |
| | 183.2 | 188.1 | 182.6 | 187.9 |
| Earnings from continuing operations | \$ 122.6 | \$ 137.8 | \$ 60.0 | \$ 81.0 |
| Earnings from discontinued operations, net of tax | 13.1 | 8.5 | | 3.2 |
| Net earnings | \$ 135.7 | \$ 146.3 | \$ 60.0 | \$ 84.2 |
| Earnings per share - diluted: | | | | |
| From continuing operations | \$.67 | \$.73 | \$.33 | \$.43 |
| From discontinued operations | \$.07 | \$.05 | \$ | \$.02 |
| Earnings per share - net | \$.74 | \$.78 | \$.33 | \$.45 |
| Anti-dilutive shares excluded from diluted EPS computation | 4.2 | 3.2 | 4.2 | 3.1 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

8. CONTINGENCIES

The Company is involved in various legal proceedings including matters which involve claims against the Company under employment, intellectual property, environmental and other laws. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with claims and proceedings, and the costs can be reasonably estimated, appropriate liabilities are recorded in the financial statements and charges are made against earnings. No claim or proceeding has resulted in a material charge against earnings, nor are the total liabilities recorded material to the Company's financial position for any of the periods presented. While the results of any ultimate resolution cannot be predicted with certainty, management believes the probability of a material adverse effect on the Company's consolidated financial position, results of operations and cash flows from claims and proceedings is remote.

9. SEGMENT INFORMATION

Reportable segments are based upon the Company's management organizational structure. This structure is generally focused on broad end-user markets for the Company's diversified products. Residential Furnishings derives its revenues from components for bedding, furniture and other furnishings, as well as related consumer products. Commercial Fixturing & Components derives its revenues from retail store fixtures, displays, storage and material handling systems, components for office and institutional furnishings, and plastic components. The Aluminum Products revenues are derived from die castings, custom tooling and secondary machining and coating. Industrial Materials derives its revenues from drawn steel wire, steel rod, specialty wire products and welded steel tubing sold to trade customers as well as other Company segments. Specialized Products derives its revenues from the automotive components industry, specialized machinery and equipment, and van interiors and truck bodies.

As discussed in Note 5, the Company sold its Prime Foam Products unit in March 2007. The divested unit primarily produced foam used for cushioning by upholstered furniture and bedding manufacturers in the Residential Furnishing Segment.

A summary of segment results from continuing operations for the three and six months periods ended June 30, 2007 and 2006 are shown in the following tables. Prior year results have been retrospectively adjusted for (i) the reclassification of the Prime Foam Products unit in Residential Furnishings as discontinued operations (as discussed in Footnote 5), and (ii) an organizational change, effective June 1, 2007, that moved a few small formed wire operations from Commercial Fixturing & Components to Industrial Materials.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. SEGMENT INFORMATION (continued)

The impact of the organizational change on reported results for the six months and quarter ended June 30, 2006 is presented in the following table:

| | Six Months Ended June 30, 2006 | Quarter Ended June 30, 2006 |
|---|-----------------------------------|--------------------------------|
| Commercial Fixturing & Components: | | |
| External Sales as previously reported | \$ 507.5 | \$ 260.9 |
| Adjustment amount | (8.7) | (3.6) |
| External Sales as adjusted | \$ 498.8 | \$ 257.3 |
| Intersegment Sales as previously reported | \$ 7.1 | \$ 3.5 |
| Adjustment amount | 2.5 | .8 |
| Intersegment Sales as adjusted | \$ 9.6 | \$ 4.3 |
| Total Sales as previously reported | \$ 514.6 | \$ 264.4 |
| Adjustment amount | (6.2) | (2.8) |
| Total Sales as adjusted | \$ 508.4 | \$ 261.6 |
| EBIT as previously reported | \$ 32.0 | \$ 21.3 |
| Adjustment amount | 2.4 | .7 |
| EBIT as adjusted | \$ 34.4 | \$ 22.0 |
| Industrial Materials: | | |
| External Sales as previously reported | \$ 241.7 | \$ 117.4 |
| Adjustment amount | 8.7 | 3.6 |
| External Sales as adjusted | \$ 250.4 | \$ 121.0 |
| Intersegment Sales as previously reported | \$ 138.1 | \$ 65.8 |
| Adjustment amount | 9.4 | 5.4 |
| Intersegment Sales as adjusted | \$ 147.5 | \$ 71.2 |
| Total Sales as previously reported | \$ 379.8 | \$ 183.2 |
| Adjustment amount | 18.1 | 9.0 |

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

| | | | | |
|-----------------------------|----|-------|----|-------|
| Total Sales as adjusted | \$ | 397.9 | \$ | 192.2 |
| EBIT as previously reported | \$ | 30.8 | \$ | 13.6 |
| Adjustment amount | | (2.4) | | (.7) |
| EBIT as adjusted | \$ | 28.4 | \$ | 12.9 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. SEGMENT INFORMATION (continued)

| | External Sales | Inter- Segment Sales | Total Sales | EBIT |
|---------------------------------------|-------------------|----------------------------|----------------|----------|
| Six Months ended June 30, 2007 | | | | |
| Residential Furnishings | \$ 1,239.9 | \$ 7.8 | \$ 1,247.7 | \$ 103.1 |
| Commercial Fixturing & Components | 472.3 | 13.7 | 486.0 | 28.6 |
| Aluminum Products | 259.6 | 6.9 | 266.5 | 8.5 |
| Industrial Materials | 252.4 | 134.8 | 387.2 | 27.0 |
| Specialized Products | 386.2 | 22.7 | 408.9 | 27.5 |
| Intersegment eliminations | | | | (2.5) |
| Change in LIFO reserve | | | | 1.6 |
| | \$ 2,610.4 | \$ 185.9 | \$ 2,796.3 | \$ 193.8 |
| Six Months ended June 30, 2006 | | | | |
| Residential Furnishings | \$ 1,279.4 | \$ 13.0 | \$ 1,292.4 | \$ 106.0 |
| Commercial Fixturing & Components | 498.8 | 9.6 | 508.4 | 34.4 |
| Aluminum Products | 297.7 | 7.0 | 304.7 | 31.1 |
| Industrial Materials | 250.4 | 147.5 | 397.9 | 28.4 |
| Specialized Products | 353.1 | 23.4 | 376.5 | 16.1 |
| Intersegment eliminations | | | | (.3) |
| Change in LIFO reserve | | | | (2.0) |
| | \$ 2,679.4 | \$ 200.5 | \$ 2,879.9 | \$ 213.7 |
| Quarter ended June 30, 2007 | | | | |
| Residential Furnishings | \$ 606.9 | \$ 3.9 | \$ 610.8 | \$ 43.3 |
| Commercial Fixturing & Components | 246.5 | 7.9 | 254.4 | 17.9 |
| Aluminum Products | 131.1 | 3.4 | 134.5 | 3.2 |
| Industrial Materials | 131.4 | 64.7 | 196.1 | 13.6 |
| Specialized Products | 200.2 | 11.9 | 212.1 | 15.6 |
| Intersegment eliminations | | | | (1.8) |
| Change in LIFO reserve | | | | .8 |
| | \$ 1,316.1 | \$ 91.8 | \$ 1,407.9 | \$ 92.6 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. SEGMENT INFORMATION (continued)

| | External Sales | Inter- Segment Sales | Total Sales | EBIT |
|-----------------------------------|-------------------|----------------------------|----------------|----------|
| Quarter ended June 30, 2006 | | | | |
| Residential Furnishings | \$ 640.0 | \$ 6.8 | \$ 646.8 | \$ 56.9 |
| Commercial Fixturing & Components | 257.3 | 4.3 | 261.6 | 22.0 |
| Aluminum Products | 153.4 | 3.6 | 157.0 | 17.5 |
| Industrial Materials | 121.0 | 71.2 | 192.2 | 12.9 |
| Specialized Products | 183.9 | 11.0 | 194.9 | 10.3 |
| Intersegment eliminations | | | | .8 |
| Change in LIFO reserve | | | | (2.0) |
| | \$ 1,355.6 | \$ 96.9 | \$ 1,452.5 | \$ 118.4 |

Average asset information for the Company's segments at June 30, 2007 and December 31, 2006 is shown in the following table. As a result of the organizational change discussed above, \$35.4 of the December 31, 2006 average asset balance was moved from the Commercial Fixturing & Component segment to the Industrial Materials segment.

| | June 30, 2007 | December 31, 2006 |
|---|------------------|----------------------|
| Assets | | |
| Residential Furnishings | \$ 1,613.3 | \$ 1,605.9 |
| Commercial Fixturing & Components | 835.1 | 834.9 |
| Aluminum Products | 444.0 | 426.2 |
| Industrial Materials | 363.6 | 343.7 |
| Specialized Products | 762.3 | 721.8 |
| Unallocated assets | 313.5 | 275.4 |
| Adjustment to period-end vs. average assets | 46.6 | 57.4 |
| | \$ 4,378.4 | \$ 4,265.3 |

10. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

Beginning January 1, 2007, the Company amended its standard stock option terms to increase the post-employment vesting and exercise period for employees who terminate due to retirement. A retirement termination occurs if the employee is either age 65 or age 55 with 20 years of Company service at termination. For retirement terminations, options continue to vest and remain exercisable for 3 years and 6 months after termination of employment. Therefore, the expense for these retirement eligible options is recognized as soon as the employee is eligible.

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

For the six months ended June 30, 2007, 1.5 million shares were granted, and during the second quarter and six months ended June 30, 2007, the Company recorded stock compensation expense of \$1.7 and \$5.1, respectively, related to current year grants and vesting of shares previously granted to employees.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

11. EMPLOYEE BENEFIT PLANS

The following table provides information as to the Company's sponsored domestic and foreign defined benefit pension plans. Expected 2007 employer contributions are not significantly different than the \$2.1 previously reported at year-end 2006.

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|-----------------------------------|------------------------------|--------|--------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Components of net pension expense | | | | |
| Service cost | \$ 2.2 | \$ 3.6 | \$ 1.1 | \$ 1.8 |
| Interest cost | 6.6 | 6.0 | 3.4 | 3.0 |
| Expected return on plan assets | (8.7) | (8.0) | (4.5) | (4.0) |
| Recognized net actuarial loss | .8 | 1.4 | .4 | .7 |
| Net pension expense | \$.9 | \$ 3.0 | \$.4 | \$ 1.5 |

12. RESTRUCTURING AND OTHER SPECIAL CHARGES

The Company has historically implemented various cost reduction initiatives to improve its operating cost structures. These cost initiatives have, among other actions, included workforce reductions and the closure or consolidation of certain operations. Except for the 2005 Closure and Consolidation Initiative described below, none of these initiatives has individually resulted in a material charge to earnings for any of the periods presented.

The details regarding all of the Company's net restructuring-related costs for the periods presented are provided below.

Restructuring and other special charges for the three and six months ended June 30, 2007 and June 30, 2006 were comprised of:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|---------|--------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Severance and other restructuring costs | \$ 5.4 | \$ 12.3 | \$ 4.6 | \$ 3.6 |
| Asset impairment charges | 2.3 | 3.1 | 2.2 | 1.1 |
| Inventory obsolescence and other | 1.4 | 3.0 | 1.4 | 2.4 |
| Gain from sales of assets | (7.8) | (1.9) | (7.6) | (1.0) |
| Total restructuring & other special charges | \$ 1.3 | \$ 16.5 | \$.6 | \$ 6.1 |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

12. RESTRUCTURING AND OTHER SPECIAL CHARGES (continued)

2005 Closure and Consolidation Initiative

In September 2005, the Company launched a significant broad-based restructuring initiative to reduce excess capacity and improve performance in a number of its businesses. At December 31, 2006, these activities were essentially completed, except for some isolated asset sales. The following table contains the total amount incurred to date by each major type of cost associated with the 2005 Closure and Consolidation Initiative. Amounts incurred in 2007 on this initiative were immaterial. The Company originally expected to incur approximately \$58 (excluding gains from sales of assets) in connection with the 2005 Closure and Consolidation Initiative.

| | Total Amount Incurred to Date |
|--|--|
| Type of charge: | |
| Employee termination costs | \$ 12.4 |
| Contract termination costs | 2.4 |
| Other exit costs, primarily plant closure and asset relocation | 7.3 |
| Total restructuring costs (1) | 22.1 |
| Asset impairment charges (2) | 20.1 |
| Inventory obsolescence and other (3) | 12.0 |
| Gain from sale of assets (4) | (9.7) |
| Total costs | \$ 44.5 |

- (1) Restructuring costs associated with the 2005 Closure and Consolidation Initiative are reported on the Consolidated Condensed Statements of Earnings in Other expense, net.
 - (2) Of the 36 facilities management identified to be closed, consolidated or sold, 26 had asset impairment charges relating primarily to the write down of property, plant and equipment at the impacted facilities. These facilities by group include 7 in Fixture & Display; 5 in Bedding; 4 in Fabric, Foam & Fiber; 4 in Wire; 3 in Home Furniture & Consumer Products; 2 in Automotive and 1 in Machinery. Current fair market values were estimated based primarily on prices for similar assets. Asset impairment charges for the 2005 Closure and Consolidation Initiative are reported in Other expense, net.
 - (3) Inventory obsolescence and other charges for the 2005 Closure and Consolidation Initiative are reported in Cost of Goods Sold.
 - (4) Gain from sale of assets for the 2005 Closure and Consolidation Initiative are reported in Other expense, net.
- Of the total costs of \$44.5 associated with the 2005 Closure and Consolidation Initiative, \$12.4 represent cash charges.

The total amounts of costs incurred to date in connection with the 2005 Closure and Consolidation Initiative by segment are: Residential Furnishings, \$18.3; Commercial Fixturing & Components, \$14.4; Industrial Materials, \$4.0; and Specialized Products, \$7.8.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

12. RESTRUCTURING AND OTHER SPECIAL CHARGES (continued)

At June 30, 2007, the accrued liability associated with the 2005 Closure and Consolidation Initiative consisted of the following:

| | Balance at December 31, 2006 | Additional Charges | Payments | Adjustments | Balance at June 30, 2007 |
|----------------------------|------------------------------------|-----------------------|----------|-------------|--------------------------------|
| Termination benefits | \$ 1.1 | \$ | \$ (.8) | \$ | \$.3 |
| Contract termination costs | .1 | 1.3 | (1.4) | | |
| Other restructuring costs | .5 | .4 | | .2 | 1.1 |
| | \$ 1.7 | \$ 1.7 | \$ (2.2) | \$.2 | \$ 1.4 |

All remaining payments relating to the 2005 Closure and Consolidation Initiative are expected to be made in 2007.

Other Initiatives

Apart from the 2005 Closure and Consolidation Initiative, the Company has implemented various cost reduction initiatives during the periods presented to improve its operating cost structures. None of these actions has individually resulted in a material charge to earnings. In the first six months of 2007, the Company incurred an additional \$6.9 for these initiatives. These costs were partially offset by gains from sale of assets of \$5.5. For the full year of 2006, the Company incurred \$7.7, primarily composed of employee termination costs for these initiatives. Total costs associated with these other initiatives have had the following impact on the Company's financial statements:

| | Six months ended June 30, | Six months ended June 30, | Quarter ended June 30, | Quarter ended June 30, |
|--|------------------------------|------------------------------|---------------------------|---------------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Charged to other expense, net: | | | | |
| Severance and other restructuring costs | \$ 3.8 | \$ 5.2 | \$ 3.4 | \$.4 |
| Write-downs of property, plant & equipment | 1.9 | .2 | 1.9 | |
| Gain from sale of assets | (5.5) | | (5.5) | |
| | \$.2 | \$ 5.4 | \$ (.2) | \$.4 |
| Charged to cost of goods sold: | | | | |
| Inventory obsolescence and other | \$ 1.2 | \$.4 | \$ 1.2 | \$ |
| | \$ 1.2 | \$.4 | \$ 1.2 | \$ |
| Total of Other Initiatives | \$ 1.4 | \$ 5.8 | \$ 1.0 | \$.4 |
| Restructuring liabilities at June 30 | \$ 3.4 | \$ 1.7 | \$ 3.4 | \$ 1.7 |

Adjustments of previously established liabilities relating to these activities have been negligible.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
INTRODUCTION

What We Do

Leggett & Platt is a FORTUNE 500 diversified manufacturer that conceives, designs, and produces a wide range of engineered components and products found in most homes, retail stores, offices, and automobiles. We make components that are often hidden within, but integral to, our customers' products.

We are North America's leading independent manufacturer of: components for residential furniture and bedding, adjustable beds, carpet underlay, retail store fixtures and point-of-purchase displays, components for office furniture, non-automotive aluminum die castings, drawn steel wire, automotive seat support and lumbar systems, and machinery used by the bedding industry for wire forming, sewing, and quilting.

Our Segments

Our 124-year-old company is composed of 28 business units under five reportable segments, with approximately 33,000 employee-partners, and more than 300 facilities located in over 20 countries around the world. Our five segments are Residential Furnishings, Commercial Fixturing & Components, Aluminum Products, Industrial Materials, and Specialized Products.

Residential Furnishings: This segment supplies a variety of components mainly used by bedding and upholstered furniture manufacturers in the assembly of their finished products. We also sell adjustable beds, bed frames, ornamental beds, carpet cushion, geo

components (includes synthetic fabrics and various other products used in ground stabilization, drainage protection, and erosion and weed control, as well as silt fencing, chemicals, seed, and fertilizer), and other finished products. This segment has generated between 45% to 47% of the Company's total sales during the past two years.

Commercial Fixturing & Components: Operations in this segment, which have contributed approximately 17% to 20% of total sales in the past two years, produce: a) store fixtures, point-of-purchase displays, and storage products used by retailers; b) chair controls, bases, and other components for office furniture manufacturers; and c) injection molded plastic components used in a variety of end products.

Aluminum Products: This segment has represented about 9% to 10% of total sales in the past two years, and provides die cast aluminum components for customers that manufacture many products including motorcycles, diesel and small engines, outdoor lighting fixtures, appliances, power tools, and consumer electronics.

Industrial Materials: These operations primarily supply steel rod, drawn steel wire, and welded steel tubing to other Leggett operations and to external customers. Our wire and tubing is used to make bedding, furniture, automotive seats, retail store fixtures and displays, mechanical springs, and many other end products. This segment has generated approximately 14% to 15% of our total sales in the last two years.

Specialized Products: From this segment we supply lumbar systems and wire components used by automotive seating manufacturers. We design, produce, and sell van interiors (the racks, shelving and cabinets installed in service vans) and truck bodies (for cargo vans, flatbed trucks, service trucks, and dump trucks) used in light-to-medium duty commercial trucks. We also design and produce machinery, both for our own use and for others, including bedding manufacturers. This segment has contributed about 10% to 15% of total sales during the past two years.

Customers

We serve a broad suite of customers, with no single one representing even 5% of our sales. Many are companies whose names are widely recognized; they include most manufacturers of furniture and bedding, a variety of other manufacturers, and many major retailers.

We primarily sell our products through our own sales employees, although we also use independent sales representatives and distributors in some of our businesses.

Major Factors That Impact Our Business

Many factors impact our business, but those that generally have the greatest impact are: market demand for our products, raw material cost trends, energy costs, and competition.

Market Demand

Market demand (including product mix) is impacted by several economic factors, with consumer confidence being most significant. Other important factors include disposable income levels, employment levels, housing turnover, and interest rates. All these factors influence consumer spending on durable goods, and therefore affect demand for our components and products. Some of these factors also influence business spending on facilities and equipment, which impacts approximately one-quarter of our sales.

Despite generally favorable economic conditions in recent years, demand in some of our markets has been weak. In the second quarter of 2007, continued soft demand in the U.S. home-related, retail, office seating and aluminum markets that we serve led to lower volume in certain of our businesses. However, we saw strength in certain international markets (bedding, furniture and automotive), as well as machinery.

Raw Material Costs

In many of our businesses, we enjoy a cost advantage from buying large quantities of raw materials. This purchasing leverage is a benefit that many of our competitors do not enjoy. Still, our costs can vary significantly as market prices for raw materials (many of which are commodities) fluctuate.

Purchasing arrangements vary considerably across the company. We typically have short-term commitments from our suppliers; accordingly our raw material costs generally move with the market. In certain of our businesses, we have longer-term purchase contracts with pricing terms that provide stability under reasonable market conditions. However, when commodities experience extreme inflation, vendors do not always honor those contracts.

Our ability to recover higher costs (through selling price increases) is crucial. We have few long-term, fixed-pricing contracts with customers. When we experience significant increases in raw material costs, we typically implement price increases to recover the higher costs. Although we are generally able to pass through most cost increases, we encounter greater difficulty (i) in businesses where we have a smaller market share, and (ii) in products that are of a commodity nature. Inability to recover cost increases (or a delay in the recovery time) can impact our earnings.

Steel is our most significant raw material. In 2007, the cost of steel scrap increased, leading to higher rod costs. We have recently implemented price increases to pass through some of these costs.

In 2005, we experienced significant inflation in chemicals, fibers, and resins (generally driven by changes in oil prices). These costs remained relatively stable (at high levels) in 2006 and early 2007, and the majority of the cost increases are reflected in our selling prices.

In addition to steel and oil-based materials, we also use significant amounts of aluminum, but we are generally less exposed to cost changes in this commodity because of the pricing arrangements we have with our customers.

When we raise our prices to recover higher raw material costs, this sometimes causes customers to modify their product designs and replace higher cost components with lower cost components. We experienced this de-contenting effect in our Residential Furnishings and Industrial Materials segments during 2006 and into the second quarter of 2007, as our customers changed the quantity and mix of components in their finished goods to address significant steel and chemical inflation from recent years. Our profit margins were negatively impacted as a result of this de-contenting.

Energy Costs

Higher prices for natural gas, electricity, and fuel increase our production and delivery costs. Many of our large manufacturing operations are heavy users of natural gas and electricity. Our ability to respond to these cost increases by raising selling prices affects our operating results.

We continuously monitor natural gas price trends and have locked in prices on a portion of our natural gas requirements for the next two years. The details of those arrangements are discussed under [Derivative Financial Instruments](#) (on page 29).

Higher energy prices can also impact consumer demand in certain markets. As consumers pay more for fuel and utilities, they have less disposable income available to purchase products that contain our components. We believe consumers purchased fewer mattresses during 2006 and 2007 in part due to the impact higher energy prices had on disposable income.

Competition

Many of our markets are highly competitive with the number of competitors varying by product line. In general, our competitors tend to be smaller, private companies.

We believe we gain competitive advantage in our global markets through low cost operations, significant internal production of key raw materials, superior manufacturing expertise and product innovation, higher quality products, extensive customer service capabilities, and greater financial strength. Many of our competitors, both domestic and foreign, compete primarily on the basis of price. Our success has stemmed from the ability to remain price competitive, while delivering product quality, innovation, and customer service.

We continue to face increased pressure from foreign competitors as some of our customers source a portion of their components and finished products from Asia. When prices for key materials (such as steel, aluminum, and chemicals) are comparable throughout the world, it is generally cheaper to produce our components in the U.S. Our products generally have low labor content, so potential cost savings from overseas sourcing are offset by higher transportation costs. However, in instances where our customers move production of their finished products overseas, our operations must be located nearby to supply them efficiently. At June 30, 2007, Leggett operated 11 facilities in China.

In recent years, we experienced increased price competition in the U.S. from Chinese bedding component manufacturers. This primarily occurred with lower-end commodity products in geographic markets easily served by major ocean ports. We reacted to this competition in 2006 by selectively adjusting prices, and also by developing new proprietary products that help reduce our customers' total costs.

The increased price competition for bedding components is partially due to lower wire costs in China. Asian manufacturers currently benefit from lower costs for commodities such as steel and chemicals. We believe these commodities are subsidized at times by Asian governments. When there is a cost imbalance in global commodities, this can impact pricing and demand for our products. Asian manufacturers also benefit from lenient attitudes toward safety and environmental matters, as well as currency rates that are pegged to the U.S. dollar rather than free floating. However, when exporting to the U.S., they must overcome higher transportation costs, increased working capital needs, and difficulty matching U.S. manufacturers' levels of service, flexibility, and logistics.

Fixture & Display Performance

Sales in our Fixture & Display business was roughly flat with 2nd quarter 2006. Margin improvement remains our top focus in this business, and we expect progress in 2007. Although incremental volume is needed in order to reach the segment's margin target, several other factors should also contribute and are within the Company's control. We should continue to benefit from past restructuring activity. The equipment and technology upgrade at one of the wood facilities in the Fixture & Display group is now complete and should contribute through labor savings and efficiency improvements. Purchasing, pricing and continuous improvement initiatives should also enhance margins. In addition, we are addressing a few remaining performance issues.

Divestiture

During the first quarter of 2007 the Company divested its Prime Foam Products unit, which primarily produced commodity foam used for cushioning by upholstered furniture and bedding manufacturers. We retained our foam operations that manufacture carpet underlay. This sale marks the largest divestiture in our history, generating a pre-tax gain of approximately \$24 million. For the full years 2005 and 2006, the Prime Foam operations contributed, respectively, \$143 million and \$192 million of revenue and \$.03 and \$.07 of per share earnings.

Strategic Review

The Company is in the midst of a strategic review of its 28 business units. This current analytical effort grew from a series of internal strategy discussions that commenced in mid-2006. In the second quarter of this year the Company engaged a strategy consulting firm to provide an independent, thorough assessment of the Company's business units. This review is broader in scope, more strategic in nature and more long-term oriented than any of our previous activities. While there can be no assurances of success, we believe that we will implement fundamental changes in our business during 2008 as a result of this strategic review.

RESULTS OF OPERATIONS

Discussion of Consolidated Results

Second quarter 2007 sales of \$1.32 billion (from continuing operations) were 2.9% lower than in the second quarter of 2006. Same location sales (sales for locations owned and operated in both the current and prior year periods) decreased about 5% primarily reflecting lower unit volume, but were partially offset by a 2% increase in revenue from acquisitions (net of dispositions). Continued soft demand in the U.S. home-related, retail, office seating and aluminum markets that we serve led to lower volume in certain of our businesses.

Earnings for the quarter were \$0.33 per diluted share, which was \$0.12 lower than the previous year primarily due to lower volume. Current year's results include a net \$0.02 per share benefit (\$0.05 per share gain on building sale and a tax benefit, partially offset by \$0.03 per share of restructuring-related costs). Per share earnings for the second quarter of 2006 were \$.45, including a net \$0.05 per share benefit (a tax benefit associated with the write-off of the tax basis of subsidiary stock and income from the discontinued Prime Foam operations, partially offset by restructuring-related expenses).

LIFO/FIFO and the effect of Changing Prices

At the segment reporting level, all of our segments use the first-in, first-out (FIFO) method for valuing inventory. In our consolidated financials, we use the last-in, first-out (LIFO) method for determining cost of about half of our inventories. An adjustment is made at the corporate level (i.e. outside the segments) to convert the appropriate operations to the LIFO inventory method. As of June 30, 2007, the Company is projecting LIFO income of \$3.0 million for the full year of 2007. Therefore, there was a \$.8 million LIFO income adjustment made in the second quarter of 2007.

See Note 3 of the Company's Notes to Consolidated Condensed Financial Statements for further discussion of inventories.

Other Income and Expense

In the quarter and six months ended June 30, 2007 restructuring-related and other special charges decreased significantly compared to last year, due to the completion in 2006 of the Company's 2005 Closure and Consolidation Initiative, See Note 12 of Notes to Consolidated Condensed Financial Statements.

Income Taxes

The reported second quarter 2007 consolidated worldwide effective tax rate on continuing operations was 24.6%, compared to 24.1% for the same quarter last year. Excluding the impact of one time events, including a benefit related to the realization of foreign tax credits in 2007, and a tax write-off of subsidiary stock recorded in 2006, the normalized tax rate for the second quarter 2007 was 30.5%, compared to 33.1% for second quarter 2006. The reduction in the normalized tax rate of 2.6% was largely the result of a more favorable mix of earnings among domestic and foreign tax jurisdictions in the second quarter 2007 versus 2006.

Discussion of Segment Results

Second Quarter Discussion

A description of the products included in each segment, along with segment financial data, appear in Note 9 of the Notes to Consolidated Condensed Financial Statements.

A summary of the segment results from continuing operations for the quarters ended June 30, 2007 and June 30, 2006 are shown in the following tables. Reported amounts for

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

the second quarter 2006 in the Commercial Fixturing & Components segment and the Industrial Materials segment have been retrospectively adjusted for an organizational change effective June 1, 2007. This change moved a few small formed wire operations from the Commercial Fixturing & Components segment to the Industrial Materials segment. We provide additional detail on our segment results in Note 9 to the financial statements on page 10.

| | 2nd Qtr. 2007 Sales | 2nd Qtr. 2006 Sales | Change in Sales | | % Change in Same Location Sales |
|-----------------------------------|------------------------|------------------------|-----------------|--------|---------------------------------------|
| | | | \$ | % | |
| Residential Furnishings | \$ 610.8 | \$ 646.8 | \$ (36.0) | (5.6) | (7.1) |
| Commercial Fixturing & Components | 254.4 | 261.6 | (7.2) | (2.8) | (2.7) |
| Aluminum Products | 134.5 | 157.0 | (22.5) | (14.3) | (14.3) |
| Industrial Materials | 196.1 | 192.2 | 3.9 | 2.0 | (2.4) |
| Specialized Products | 212.1 | 194.9 | 17.2 | 8.8 | 5.4 |
| Total | \$ 1,407.9 | \$ 1,452.5 | \$ (44.6) | (3.1) | (4.8) |

| | 2nd Qtr. 2007 EBIT | 2nd Qtr. 2006 EBIT | Change in EBIT | | EBIT Margins | |
|-----------------------------------|--------------------------|--------------------------|-------------------|--------|---------------|---------------|
| | | | \$ | % | 2nd Qtr. 2007 | 2nd Qtr. 2006 |
| Residential Furnishings | \$ 43.3 | \$ 56.9 | \$ (13.6) | (23.9) | 7.1% | 8.8% |
| Commercial Fixturing & Components | 17.9 | 22.0 | (4.1) | (18.6) | 7.0% | 8.4% |
| Aluminum Products | 3.2 | 17.5 | (14.3) | (81.7) | 2.4% | 11.1% |
| Industrial Materials | 13.6 | 12.9 | .7 | 5.4 | 6.9% | 6.7% |
| Specialized Products | 15.6 | 10.3 | 5.3 | 51.5 | 7.4% | 5.3% |
| Intersegment eliminations | (1.8) | .8 | (2.6) | | | |
| LIFO | .8 | (2.0) | 2.8 | | | |
| Total | \$ 92.6 | \$ 118.4 | \$ (25.8) | (21.8) | 7.0% | 8.7% |

Residential Furnishings

Total sales from continuing operations for the quarter decreased \$36.0 million. Acquisitions (net of divestitures) added \$10 million to sales, but were more than offset by a 7% decline in same location sales. This decline is primarily due to soft demand in U.S. residential markets and very strong prior year sales in our carpet underlay business. International demand for both bedding and upholstered furniture components remained strong.

EBIT (earnings before interest and income taxes) from continuing operations decreased \$13.6 million. The decrease reflects the soft volume in our U.S. residential markets, as well as operating inefficiencies within our geo components business. Demand in the geo components business is ramping up, but has been hindered in part by declines in residential housing development and weather-related factors. As a result, current volume is not yet at anticipated levels and therefore is not yet supporting the overhead we put in place.

Commercial Fixturing & Components

Total sales decreased \$7.2 million, or 2.8%. There have been no acquisitions within the last 12 months. Sales declined primarily due to lower demand in office furniture

components. Fixture & Display volume was roughly flat with the 2nd quarter of 2006. The volume decrease in office furniture components reflects broad softness across our customer base during the quarter, and generally across all office seating price points.

EBIT decreased \$4.1 million, primarily reflecting lower volume.

Aluminum Products

Total sales for the second quarter declined \$22.5 million due to the movement of a customer's barbecue grill manufacturing offshore, and lower demand in several markets including small engines, electric motors and appliances. These declines were partially offset by inflation in commodity prices.

Significant declines in EBIT and EBIT margins primarily reflect lower volume and plant utilization. Our Auburn, Alabama facility as well as a few other locations are under-performing our expectations, in part due to lower market demand.

Industrial Materials

Total sales increased \$3.9 million during the quarter. Same location sales declined 2.4%, primarily from continued softness in the U.S. residential markets. These declines were partially offset by inflation in steel prices. In early March, the cost of steel scrap increased significantly, leading to higher rod costs. We implemented price increases to pass through some of these higher costs.

EBIT and EBIT margins improved versus second quarter 2006 in part due to a gain from a small divestiture and earnings from acquired companies.

Specialized Products

Total sales for the quarter increased \$17.2 million. Same location sales grew 5.4% in the second quarter, reflecting growth in our Asian and European automotive businesses, and continued solid performance of our international machinery operations and a portion of our Commercial Vehicle Products business.

EBIT and EBIT margins improved versus second quarter 2006 reflecting higher sales, earnings from acquired companies, and the absence of last year's restructuring-related costs. These gains were partially offset by currency factors and unacceptable performance by certain operations.

Six-Month Discussion

A summary of the segment results from continuing operations for the six months ended June 30, 2007 and June 30, 2006 are shown in the following tables. Reported amounts for the six month period ending June 30, 2006 in the Commercial Fixturing & Components segment and the Industrial Materials segment have been retrospectively adjusted for an organizational change effective June 1, 2007. This change moved a few small formed wire operations from the Commercial Fixturing & Components segment to the Industrial Materials segment. We provide additional detail on our segment results in Note 9 to the financial statements on page 10.

| | Six Months ended | Six Months ended | Change in Sales | | % Change in Same Location Sales |
|-----------------------------------|------------------|------------------|-----------------|--------|---------------------------------|
| | June 30, 2007 | June 30, 2006 | \$ | % | |
| Residential Furnishings | \$ 1,247.7 | \$ 1,292.4 | \$ (44.7) | (3.5) | (5.9) |
| Commercial Fixturing & Components | 486.0 | 508.4 | (22.4) | (4.4) | (4.4) |
| Aluminum Products | 266.5 | 304.7 | (38.2) | (12.5) | (12.5) |
| Industrial Materials | 387.2 | 397.9 | (10.7) | (2.7) | (3.7) |
| Specialized Products | 408.9 | 376.5 | 32.4 | 8.6 | 6.5 |
| Total | \$ 2,796.3 | \$ 2,879.9 | \$ (83.6) | (2.9) | (4.2) |

| | Change in EBIT | | | | EBIT Margins | |
|-----------------------------------|------------------|---------------|------------------|--------|------------------|------------------|
| | Six Months ended | | Six Months ended | | Six Months ended | Six Months ended |
| | June 30, 2007 | June 30, 2006 | | | June 30, 2007 | June 30, 2006 |
| | EBIT | EBIT | \$ | % | EBIT | EBIT |
| Residential Furnishings | \$ 103.1 | \$ 106.0 | \$ (2.9) | (2.7) | 8.3% | 8.2% |
| Commercial Fixturing & Components | 28.6 | 34.4 | (5.8) | (16.9) | 5.9% | 6.8% |
| Aluminum Products | 8.5 | 31.1 | (22.6) | (72.7) | 3.2% | 10.2% |
| Industrial Materials | 27.0 | 28.4 | (1.4) | (4.9) | 7.0% | 7.1% |
| Specialized Products | 27.5 | 16.1 | 11.4 | 70.8 | 6.7% | 4.3% |
| Intersegment eliminations | (2.5) | (.3) | (2.2) | | | |
| LIFO | 1.6 | (2.0) | 3.6 | | | |
| Total | \$ 193.8 | \$ 213.7 | \$ (19.9) | (9.3) | 7.4% | 8.0% |

Residential Furnishings

Total sales from continuing operations decreased \$44.7 million. Acquisitions (net of divestitures) added \$31.0 million to sales, but were more than offset by a 5.9% decline in same location sales, which were down primarily due to soft demand in U.S. residential markets. International demand for both bedding and upholstered furniture components was generally stronger.

EBIT (earnings before interest and income taxes) from continuing operations decreased \$2.9 million. The decrease reflects soft volume in our U.S. residential markets and operating inefficiencies within our geo components business; partially offset by the absence of last year's restructuring-related costs of \$11.3 million, benefits from past restructuring activities, and earnings from acquired companies.

Commercial Fixturing & Components

Total sales decreased \$22.4 million, or 4.4%. There have been no acquisitions within the last 12 months. Sales declined on lower unit volumes in both the Fixture & Display business and office furniture components.

EBIT decreased \$5.8 million, primarily due to lower sales, but operational benefits from past restructuring and absence of last year's restructuring-related expenses offset some of the sales impact.

Aluminum Products

Total sales declined \$38.2 million due to the movement of a customer's barbecue grill manufacturing offshore, and lower demand in several markets, including small engines, electric motors and appliances. In addition, a major customer experienced a work stoppage during the first quarter of 2007, and this impacted three of our large operations. These declines were partially offset by inflation in commodity prices. There have been no acquisitions within the last 12 months.

EBIT decreased \$22.6 million, primarily from lower volume, underutilized capacity and production inefficiencies at certain facilities. Margins were also negatively impacted by the pass-through of higher raw material costs with no incremental profit.

Industrial Materials

Total sales decreased \$10.7 million, primarily from continued weakness in the U.S. residential markets. Same location sales declined 3.7%; sales from acquired companies of \$14 million were partially offset by divestitures, which removed approximately \$10 million of sales.

EBIT declined \$1.4 million largely as a result of reduced sales.

Specialized Products

Total sales increased \$32.4 million, or 8.6%. Same location sales grew 6.5%, reflecting growth in our Asian and European automotive businesses, continued solid performance of our international machinery operations and strong demand in a portion of our Commercial Vehicle Products business.

EBIT improved \$11.4 million due primarily to increased sales, income from acquired companies and the absence of last year's restructuring-related costs.

LIQUIDITY AND CAPITALIZATION

In this section, we provide details about our:

Uses of cash

Cash from operations

Debt position and total capitalization

Our priorities for use of cash, in order of importance, are:

Finance internal growth and acquisitions

Pay dividends and extend our record of annual increases

Repurchase our stock

Our operations provide much of the cash required to fund these priorities. Over the past two years, we also increased net debt and used excess cash to fund a portion of these items, including acquisitions and share repurchases. Net debt to net capital decreased slightly from 28.0% at year-end 2006 to 27.4% as of June 30, 2007. Our long-term goal is to have net debt as a percent of net capital in the 30%-40% range while maintaining our longstanding single A debt rating.

During the first quarter of 2007, we divested our Prime Foam Products unit resulting in cash proceeds of \$88.0 million and a net after-tax gain of \$12.1 million. The divestiture of these operations should not result in a significant change in cash from operations, working capital requirements, capital expenditures or liquidity demands.

Uses of Cash

Finance Growth

We use cash to fund growth, both internally through capital expenditures and externally through acquisitions.

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

Capital expenditures are investments we make to modernize, maintain, and expand manufacturing capacity. We expect 2007 capital spending to approximate \$160 million.

Acquisitions add to our business by expanding our markets, product lines, or manufacturing capabilities. See the section entitled "Acquisitions and Divestiture" above for additional details.

Pay Dividends

Our second quarter 2007 dividend was 5.9% higher than in 2006 and, annualized, extends Leggett's string of consecutive annual dividend increases to 36 years, at an

average compound growth rate of approximately 14%. Over the last three years, dividends have grown at a 7% compound annual rate. Our long-term target for dividend payout is approximately one-third of the prior three years' average earnings. Our actual dividend payout has been above those levels in recent years, but as profitability returns to expected levels, we expect the dividend payout to move back toward that target.

Repurchase Stock

In 2006 we purchased 6.2 million shares of our stock at an average cost of about \$24 per share. Shares outstanding declined in 2006 by 4.6 million shares, or 2.5%, to 178.0 million shares at year end 2006. During the second quarter of 2007, the Company purchased over 3 million shares of its stock, achieving its second-highest quarterly repurchase on record; most of those shares were obtained near the end of June at a price of about \$22 per share. As of July 31, 2007, the Company had purchased 7.1 million shares of its stock, and issued 1.5 million shares through benefit plans. As a result, shares outstanding have declined by 5.6 million, or 3.1%, to 172.4 million.

The cash available to repurchase shares will fluctuate each year with earnings, capital spending, and the pace of acquisitions. At a minimum, we typically repurchase shares to replace those issued for employee stock plans (approximately two million shares each year). Although no specific repurchase schedule has been established, we have been authorized by the Board of Directors to repurchase up to 10 million shares in 2007.

Cash from Operations

Cash from operations is our primary source of funds. Changes in earnings and working capital levels are the two broad factors that generally have the greatest impact on our cash from operations. Cash from operations for the first half of 2007 was \$241.3 million, a 12.0% improvement over last year primarily due to our ongoing working capital initiatives.

We ended the second quarter of 2007 with working capital at 20.5% of annualized sales. Our target for working capital is approximately 19% of annualized sales, but this amount will vary from quarter to quarter with the seasonality of our business. Working capital management remains a priority, and we expect to improve on current levels (as a percent of sales) over the remainder of 2007.

Working capital levels vary by segment, with the requirements of Aluminum Products and Commercial Fixturing & Components generally higher than overall company averages. Accounts receivable balances in these segments are typically higher due to the longer credit terms required to service certain customers of the Aluminum Die Casting and Fixture & Display businesses. These same businesses also require higher inventory investments due to the custom nature of their products, longer manufacturing lead times (in certain cases), and the needs of many customers to receive large volumes of product within short periods of time.

Capitalization

The following table recaps Leggett's total capitalization and unused committed credit at June 30, 2007 and December 31, 2006.

| (Dollar amounts in millions) | June 30, 2007 | December 31, 2006 |
|---|--------------------------|------------------------------|
| Long-term debt outstanding: | | |
| Scheduled maturities | \$ 838.2 | \$ 905.6 |
| <i>Average interest rates*</i> | 4.9% | 5.0% |
| <i>Average maturities in years*</i> | 7.2 | 7.4 |
| Revolving credit/commercial paper | 216.6 | 154.4 |
| | | |
| Total long-term debt | 1,054.8 | 1,060.0 |
| Deferred income taxes and other Liabilities | 174.4 | 163.0 |
| Shareholders' equity | 2,389.5 | 2,351.1 |
| | | |
| Total capitalization | \$ 3,618.7 | \$ 3,574.1 |
| | | |
| Unused committed credit: | | |
| Long-term | \$ 383.4 | \$ 245.6 |
| Short-term | | |

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

| | | |
|---------------------------------------|----------|----------|
| Total unused committed credit** | \$ 383.4 | \$ 245.6 |
| Current maturities of long-term debt | \$ 82.8 | \$ 52.0 |
| Cash and cash equivalents | \$ 168.2 | \$ 131.9 |
| Ratio of earnings to fixed charges*** | 4.8x | 6.2x |

- * These calculations include current maturities but exclude commercial paper.
 ** Effective May 1, 2007 the Company increased its revolving credit and commercial paper programs to \$600 million from \$400 million.
 *** Earnings consist principally of income from continuing operations before income taxes, plus fixed charges. Fixed charges include interest expense, capitalized interest, plus implied interest included in operating leases.

The next table shows the percent of long-term debt to total capitalization at June 30, 2007 and December 31, 2006. We show this calculation in two ways:

Long-term debt to total capitalization as reported in the previous table.

Long-term debt to total capitalization each reduced by cash and cash equivalents and increased by current maturities of long-term debt.

We believe that adjusting this measure for cash and cash equivalents and current maturities allows more meaningful comparison to recent periods, during which cash fluctuated significantly. We use these adjusted measures to monitor our financial leverage.

| (Amounts in millions) | June 30, 2007 | December 31, 2006 |
|--|-------------------|----------------------|
| Debt to total capitalization: | | |
| Long-term debt | \$ 1,054.8 | \$ 1,060.0 |
| Current debt maturities | 82.8 | 52.0 |
| Cash and cash equivalents | (168.2) | (131.9) |
| Net debt | \$ 969.4 | \$ 980.1 |
| | | |
| Total capitalization | \$ 3,618.7 | \$ 3,574.1 |
| Current debt maturities | 82.8 | 52.0 |
| Cash and cash equivalents | (168.2) | (131.9) |
| Net capitalization | \$ 3,533.3 | \$ 3,494.2 |
| | | |
| Long-term debt to total capitalization | 29.1% | 29.7% |
| Net debt to net capitalization | 27.4% | 28.0% |

Total debt (which includes long-term debt and current debt maturities) increased \$25.6 million from year-end 2006 levels. During the first six months of 2007, we added \$62.2 million of commercial paper borrowings. During the same period of 2007, \$25.0 million in term notes and \$2.0 million in industrial revenue bonds matured and were paid. In addition, approximately \$8.0 million in miscellaneous foreign debt was paid.

Since 2003, we've issued \$730 million of fixed rate debt with an average remaining life at June 30, 2007 of 8.0 years, and a weighted average coupon rate of 4.7%. To further facilitate the issuance of debt and other securities, \$300 million remains available under a shelf registration.

In addition to issuing long-term notes, we can also raise cash by issuing up to \$600 million in commercial paper through a program that is backed by a \$600 million, five year revolving credit commitment which matures in May 2012. Commercial paper issued under this agreement is classified as long-term debt since we intend to maintain or increase the balance until it is replaced with long-term notes. At June 30, 2007, \$216.6 million of commercial paper was outstanding under this program.

With both the shelf registration and the commercial paper program in place, we believe we have sufficient funds available to support our ongoing operations and take advantage of growth opportunities.

Most of our debt has fixed repayment dates. At June 30, 2007, this debt consisted primarily of term notes. We have maintained a single A rating (from both Moody's and Standard & Poor's) on our term notes and public debt for over a decade. Our commercial paper program carries a Moody's rating of P-1 and a Standard & Poor's rating of A-1.

NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities and requires additional disclosure about the use of fair value measures, the information used to measure fair value, and the effect fair-value measurements have on earnings. The primary areas in which the Company utilizes fair value measures are valuing pension plan assets and liabilities, valuing hedge-related derivative financial instruments, allocating purchase price to the assets and liabilities of acquired companies, and evaluating long-term assets for potential impairment. SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for the Company beginning January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other instruments at fair value, with the objective of improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company will adopt SFAS 159 on January 1, 2008, and it is not expected to have a material impact on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation modified the accounting for uncertain income tax positions recognized in accordance with SFAS 109, Accounting for Income Taxes. Specifically, FIN 48 changed the application of SFAS 109 by establishing criteria that an individual tax position must meet before any part of the benefit of that position may be recognized in an enterprise's financial statements. Additionally, FIN 48 provided new rules for the measurement, classification and derecognition of uncertain tax positions, as well as new rules regarding application of interest and penalties, and accounting for income taxes in interim periods. Finally, FIN 48 established new disclosure requirements and provided transition rules.

The Company adopted the provisions of FIN 48 on January 1, 2007. Upon implementation of this interpretation, the Company recognized an increase in the liability for unrecognized tax benefits of approximately \$13.4 million and an increase to deferred tax assets of \$13.2 million. The resulting impact of the adoption at January 1, 2007 was immaterial. The total amount of the Company's unrecognized tax benefits at January 1, 2007 is \$30.2 million, of which \$17.0 million would impact the Company's effective tax rate, if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits as part of income tax expense in the Consolidated Condensed Statements of Earnings, which is consistent with prior reporting periods. As of January 1, 2007, the Company had recorded a liability of approximately \$3.8 million and \$0.9 million for the payment of interest and penalties, respectively.

At the beginning of the year, five tax years were undergoing (or subject to) audit by the United States Internal Revenue Service (IRS) and Canada Revenue Agency, covering the periods 2002 through 2006. Periods prior to 2002 are closed for examination in both jurisdictions. In early 2007, the IRS examination for the years 2002 and 2003 was concluded and resulted in no significant adjustments. Various state and foreign jurisdiction tax years remain open to examination as well, though the Company believes assessments (if any) will be immaterial to its consolidated financial statements.

The Company is not aware of any changes that would materially increase or decrease the total amount of unrecognized tax benefits within the next 12 months.

DISCLOSURES ABOUT MARKET RISK

Derivative Financial Instruments

Risk Management Strategy & Objectives

The Company is subject to market and financial risks related to interest rates, foreign currency, and commodities. In the normal course of business, the Company utilizes derivative instruments (individually or in combinations) to reduce or eliminate these risks. The Company seeks to use derivative contracts that qualify for hedge accounting treatment; however, some instruments may not qualify for hedge accounting treatment. It is the Company's policy not to speculate in derivative instruments.

Cash Flow Hedges

At June 30, 2007 and 2006, the Company had outstanding derivative financial instruments that hedge forecasted transactions and anticipated cash flows. The changes in fair value of unexpired contracts are recorded in other comprehensive income and reclassified to income or expense in the period in which earnings are impacted.

Commodity Cash Flow Hedges

The commodity cash flow hedges primarily manage natural gas commodity price risk. Of the \$10.8 million in outstanding commodity hedges at June 30, 2007, \$9.9 million have maturities less than 1 year. None of these hedges had maturities beyond 20 months; however the Company routinely hedges commodity price risk up to 36 months. The Company recognized expense on these commodity hedges of \$.2 million and \$.5 million for the quarter and six months ended June 30, 2007, respectively; and expense of \$1.3 million and \$1.8 million for the quarter and six months ended June 30, 2006, respectively.

Foreign Currency Cash Flow Hedges

The foreign currency hedges manage risk associated with exchange rate volatility of various currencies. Of the \$47.0 million in foreign currency cash flow hedges at June 30, 2007, 50% hedged Canadian dollar exposures, 38% hedged Mexican peso exposures, and 12% hedged other currencies including the British pound, Euro, and Australian dollar. In general, foreign currency cash flow hedges have maturities within 2 years. The Company recognized income on these hedges of \$.4 million and \$.3 million for the quarters ended June 30, 2007 and 2006, respectively; and income of \$.5 and \$.7 for the six months ended June 30, 2007 and 2006, respectively.

Fair Value Hedges

The Company's fair value hedges are not material and are outstanding to manage foreign currency risk associated with intercompany debt of a Brazilian subsidiary and trade receivables of a Canadian subsidiary. Hedges designated as fair value hedges recognize gain or loss currently in earnings.

Net Investment Hedges

At June 30, 2007 and December 31, 2006, the Company had \$30.0 million in derivatives on a notional basis designated as hedging the net investment in a foreign operation. This hedge manages risk associated with net investments in a Swiss subsidiary. Changes in the value of the hedge offset the changes in the value of \$30.0 million of the foreign net investment on a consolidated basis. As of June 30, 2007, the net investment hedge had a maturity within 24 months.

Hedge Effectiveness

The Company considers all hedges to be highly effective and as a result, we have not recorded any material amounts for ineffectiveness.

All derivative transactions are disclosed in the table below. These transactions qualified for hedge accounting treatment and were designated as hedging instruments in the quarter and six months ended June 30, 2007. The Company expanded its use of derivative instruments during 2006 and anticipates that the trend will continue. The table below details the derivative contracts outstanding at June 30, 2007 and December 31, 2006 respectively. The fair values of the derivatives reflect the change in market value of the derivative from the date of trade execution, and do not consider the offsetting underlying hedged item.

| | June 30, 2007 | | December 31, 2006 | |
|-----------------------------------|--|-----------------------------|--|------------------------------|
| | Total USD Equivalent Notional Amount | Fair Value at 6/30/07 | Total USD Equivalent Notional Amount | Fair Value at 12/31/06 |
| Commodity cash flow hedges | \$ 10.8 | \$ (.6) | \$ 21.8 | \$ (2.4) |
| Foreign currency cash flow hedges | 47.0 | 1.7 | 53.8 | .6 |
| Total cash flow hedges | 57.8 | 1.1 | 75.6 | (1.8) |
| Fair value hedges | .9 | | 3.0 | (.4) |
| Net investment hedges | 30.0 | (1.5) | 30.0 | (1.9) |
| Total derivative instruments | \$ 88.7 | (.4) | \$ 108.6 | (4.1) |
| Deferred income taxes | | .2 | | 1.4 |
| Total, net of tax | | \$ (.2) | | \$ (2.7) |

Interest rate

Substantially all of the Company's debt is denominated in United States dollars. The fair value for fixed rate debt was less than its \$821.7 million carrying value by \$55.0 million at June 30, 2007, and less than its \$846.7 million carrying value by \$43.5 million at December 31, 2006. The fair value of variable rate debt is not significantly different from its recorded amount. The fair value of fixed rate debt was calculated using the U.S. Treasury Bond rate as of June 30, 2007 and December 31, 2006 for similar remaining maturities, plus an estimated spread over such Treasury securities representing the Company's interest costs.

Investment in Foreign Subsidiaries

The Company views its investment in foreign subsidiaries as a long-term commitment, and does not hedge translation exposures, except for the net investment hedge discussed above. The investment in a foreign subsidiary may take the form of either permanent capital or notes. The Company's net investment (i.e., total assets less total liabilities subject to translation exposure) in foreign subsidiaries was \$937.1 million at June 30, 2007, compared to \$877.8 million at December 31, 2006. The increase in net investment was due primarily to a general strengthening of Canadian and European currencies against the U.S. dollar.

FORWARD-LOOKING STATEMENTS AND RELATED MATTERS

This report and our other public disclosures, whether written or oral, may contain forward-looking statements including, but not limited to, projections of revenue, income, earnings, capital expenditures, dividends, capital structure, cash flows or other financial items; possible plans, goals, objectives, prospects, strategies or trends concerning future operations; statements concerning future economic performance; and statements of the underlying assumptions relating to the forward-looking statements. These statements are identified either by the context in which they appear or by use of

words such as anticipate, believe, estimate, expect, intends, may, plans, should or the like. All such forward-looking statements, whether written or oral, and whether made by us or on our behalf, are expressly qualified by the cautionary statements described in this provision.

Any forward-looking statement reflects only the beliefs of the Company or its management at the time the statement is made. Because all forward-looking statements deal with the future, they are subject to risks, uncertainties and developments which might cause actual events or results to differ materially from those envisioned or reflected in any forward-looking statement. Moreover, we do not have, and do not undertake, any duty to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement was made. For all of these reasons, forward-looking statements should not be relied upon as a prediction of actual future events, objectives, strategies, trends or results.

It is not possible to anticipate and list all risks, uncertainties and developments which may affect the Company's future operations or performance, or which otherwise may cause actual events or results to differ from forward-looking statements. However, some of these risks and uncertainties include the following:

factors that could affect industries or markets in which we participate, such as growth rates and opportunities in those industries, changes in demand for certain products or trends in capital spending

changes in competitive, economic, legal, market and political conditions, including the rate of economic growth in the United States and abroad, inflation, currency fluctuation, political risk, U.S. or foreign laws or regulations, consumer sentiment, employment levels, housing turnover, interest rates, taxation and the like

price and product competition from foreign (particularly Asian) and domestic competitors

factors that could impact raw material and other costs, including the availability and pricing of steel rod and scrap, and other raw materials (including chemicals, fibers and resins), the reduction in the spread between the pricing of steel rod and steel scrap, energy costs (including natural gas, electricity and fuel) and the availability of labor

our ability to pass along raw material cost increases to our customers through increased selling prices

our ability to maintain profit margins if our customers change the quantity and mix of our components in their finished goods because of increased raw materials costs

our ability to improve operations and realize cost savings (including our ability to improve the profitability of the Fixture & Display group)

a significant decline in the long-term outlook for any given reporting unit that could result in goodwill impairment

our ability to achieve long-term targets for sales, earnings and margins for the Company as a whole and for each segment

litigation risks, including litigation regarding product liability and warranty, intellectual property and workers' compensation expense. Furthermore, we have made and expect to continue to make acquisitions. Acquisitions present significant challenges and risks, and depending upon market conditions, pricing and other factors, there can be no assurance that we can successfully negotiate and consummate acquisitions or successfully integrate acquired businesses into the Company.

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

This MD&A contains a disclosure on page 28 of the security ratings of the Company's public debt. This discussion is not a recommendation to buy, sell or hold securities. Also, the security ratings are subject to revisions and withdrawal at any time by the rating organizations. Each rating should be evaluated independently of any other rating.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the Disclosures About Market Risk section under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation as of the period ending June 30, 2007 was carried out by the Company's management, with participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures are effective, as of June 30, 2007, to provide reasonable assurance that information that is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified by the Securities & Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The only changes in the Company's internal control over financial reporting that occurred during the quarter ending June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting are as follows:

The Company began the rollout of a redesigned procurement process incorporating PeopleSoft/Oracle purchasing and payables software and trade import facilitation software from NextLinx in the second quarter of 2005. Spanning the purchasing, receiving and accounts payable processes, this initiative will centralize purchasing information for selected significant operations in the United States and Canada. The primary objectives of this initiative are to enable strategic sourcing with our suppliers and reduce total procurement costs. We believe the effectiveness of the Company's internal control over financial reporting will be maintained or enhanced by the redesigned system. We believe implementation risk will be controlled through a staged rollout and an on-going process of monitoring and evaluation. The Company expects approximately 95% of the targeted spending dollars will be converted to this process by the end of 2007.

PART II. OTHER INFORMATION

ITEM 1A RISK FACTORS

Our 2006 Annual Report on Form 10-K filed February 27, 2007 includes a detailed discussion of our risk factors in Item 1A Risk Factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

Investing in our securities involves risk. Set forth below and elsewhere in this report are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking and other statements contained in this report. We may further amend or supplement these risk factors from time to time by other reports we file with the SEC in the future.

Costs of raw materials could adversely affect our operating results.

Raw material cost increases (and our ability to respond to cost increases through selling price increases) can significantly impact our earnings. We typically have short-term commitments from our suppliers; therefore, our raw material costs move with the market.

When we experience significant increases in raw material costs, we often attempt to implement price increases to recover the higher costs. We encounter greater difficulty in implementing these price increases in businesses where we have a smaller market share and in products that are of a commodity nature. Inability to recover cost increases (or a delay in the recovery time) can negatively impact our earnings.

Steel is our most significant raw material. During 2004 the price of certain types of steel nearly doubled. Steel costs were more stable (at higher prices) in 2005 and 2006, although there were some quarter-to-quarter fluctuations in those years. These market conditions in 2004 and 2005 resulted in an unusually high spread between steel scrap costs and steel rod prices. As a result, this spread created unsustainable margins and earnings at our steel rod mill. In 2006, the average rod margins narrowed primarily due to changes in the global steel market. In early March 2007, the cost of steel scrap increased significantly, leading to higher rod costs. If this cost of steel scrap continues to increase, it could negatively impact our results of operation.

Our operations can also be impacted by the cost of other raw materials. Throughout 2005, but particularly in the last half of the year, we experienced higher costs associated with the oil based raw materials, such as chemicals, fibers and resins. In 2006, the cost of these materials remained relatively flat (at high levels). In 2006, the cost of foam scrap increased steadily with the overall cost doubling from the prices at the end of 2005. So far in 2007, the cost of scrap foam has decreased approximately 50%.

In 2005, higher raw material costs led some of our customers to modify their product designs, changing the quantity and mix of our components in their finished goods. This trend continued in 2006 and into the second quarter of 2007. In some cases, higher priced components were replaced with lower cost components. This has primarily impacted our Residential Furnishings and Industrial Materials product mix and decreased profit margins. This trend could further negatively impact our results of operations.

We have exposure to economic and other factors that may affect market demand for our products.

As a supplier of products to a variety of industries, we are adversely affected by general economic downturns. Our operating performance is heavily influenced by market demand for our components and products. Market demand for the majority of our products is most heavily influenced by consumer confidence. To a lesser extent, market demand is impacted by other broad economic factors, including disposable income levels, employment levels, housing turnover, energy costs and interest rates. All of these factors influence consumer spending on durable goods, and therefore drive demand for our components and products. Some of these factors also influence business spending on facilities and equipment, which impacts approximately one quarter of our sales. Significant changes in these economic factors may negatively impact the demand for our products and our results of operations.

Demand was soft in the U.S. home-related, retail, office seating and aluminum markets in the second quarter. If demand in these markets does not improve, our ability to achieve our long-term targets for sales, margins and earnings for the Company as a whole and in each of our segments may be negatively impacted.

Asian competition could adversely affect our operating results.

We operate in markets that are highly competitive. Most companies in our lines of business compete primarily on price, but, depending upon the particular product, we experience competition based on quality, performance and availability as well. We face increasing pressure from foreign competitors as some of our customers source a portion of their components and finished product from Asia. If we are unable to purchase key raw materials, such as steel, aluminum and chemicals, at prices competitive with those of foreign suppliers, our ability to maintain market share and profit margins could be harmed.

If our customers move production of their finished products overseas, we believe that our operations must be located nearby to supply them efficiently. At June 30, 2007, we operated 11 facilities in China. If demand in China (and other foreign countries) increases at a more rapid rate than we are able to establish operations, our market share and results of operations could be negatively impacted.

Also, we have experienced increased price competition in the U.S. from Chinese bedding component manufacturers. This has primarily occurred with low-end commodity products in markets easily served by major ocean ports. If this price competition intensifies we could lose market share and our earnings could be negatively impacted.

We may not be able to improve operating performance in our Fixture & Display group.

Our Fixture & Display group continues to operate at levels below our long term expectations. Sales volume in our Fixture & Display business was roughly flat in the second quarter of 2007 with the second quarter of 2006. Margin improvement remains our top focus in this group, and we expect progress in 2007. Although incremental volume is needed in order to reach the group's margin target, we expect several other factors to contribute and are within the Company's control. These factors include, but are not limited to, (i) continued benefit from past restructuring activity; (ii) reduced labor costs and efficiency savings due to an equipment and technology upgrade at one of our wood facilities; (iii) purchasing, pricing and continuous improvement initiatives; and (iv) addressing a few remaining performance issues. If these and other factors do not contribute, we may not be able to achieve margin and earnings improvements. Earnings must improve in our Fixture & Display group from current levels or further restructuring may be initiated.

Our assets are subject to potential goodwill impairment.

A significant portion of our assets consists of goodwill and other intangible assets, the carrying value of which may be reduced if we determine that those assets are impaired. As of June 30, 2007, goodwill and other intangible assets represented approximately \$1.4 billion, or 32% of our total assets. We test goodwill and other assets for impairment annually and whenever events or circumstances indicate an impairment may exist. We could be required to recognize non-cash reductions in our net income caused by the impairment of goodwill and other intangibles, which could be material.

As disclosed above, our Fixture & Display group has not returned to historical profitability levels. About \$275 million of goodwill is associated with the Fixture & Display group. If earnings in this group fail to more consistently meet forecasted levels a goodwill impairment charge may be necessary.

We may fail to meet our acquisition growth goals.

One of our growth strategies is to increase our sales and earnings and expand our markets through acquisitions. We expect to make acquisitions when appropriate opportunities arise. However, we may not be able to identify and successfully negotiate suitable acquisitions that are sufficient to meet our goals. Further, our acquired companies may encounter unforeseen operating difficulties and may require significant financial and managerial resources, which would otherwise be available for the ongoing development or expansion of our existing operations. Our long term targets for sales and earnings may not be reached if we fail to achieve our acquisition growth goals.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Repurchases of Equity Securities

The table below is a listing of our repurchases of the Company's common stock by calendar month during the second quarter of 2007.

| | Total Number of Shares | | Purchased as Part of a Publicly Announced Plan or Program | Maximum Number of Shares that may yet be purchased under the Plans or Programs |
|------------|---|---------------------------------------|--|--|
| | Total Number of Shares Purchased (1) | Average Price Paid per Share | (2) | (2) |
| April 2007 | 343,686 | \$ 23.60 | 343,492 | 8,047,589 |
| May 2007 | 930,028 | \$ 23.74 | 930,028 | 7,117,561 |
| June 2007 | 1,736,578 | \$ 22.05 | 1,736,482 | 5,381,079 |
| Total | 3,010,292 | \$ 22.75 | 3,010,002 | |

- The shares purchased include 290 shares surrendered in transactions permitted under the Company's benefit plans. These shares were not repurchased as part of a publicly announced plan or program.
- On August 4, 2004, the Board authorized management to repurchase up to 10 million shares each calendar year beginning January 1, 2005. This authorization was first reported in the quarterly report on Form 10-Q for the period ended June 30, 2004, and shall remain in force until repealed by the Board of Directors.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on May 9, 2007. In connection with this meeting, proxies were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934. Matters voted upon were (1) the election of 12 directors, (2) the ratification of the Board's selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2007, and (3) to vote on a shareholder proposal requesting the addition of sexual orientation to the Company's written non-discrimination policy. The number of votes cast for, against or withheld, as well as abstentions and broker non-votes, if applicable, with respect to each matter are set out below.

- All of the nominees for directors listed in the proxy statement were elected to hold office until the next annual meeting of shareholders or until their successors are elected and qualified with the following vote:

| DIRECTOR NOMINEE | SHARES VOTED FOR | SHARES WITHHELD |
|-------------------------|------------------|-----------------|
| Raymond F. Bentele | 153,781,057 | 8,304,635 |
| Ralph W. Clark | 154,299,999 | 7,785,693 |
| Harry M. Cornell, Jr. | 153,427,698 | 8,657,994 |
| Robert Ted Enloe, III | 153,772,119 | 8,313,573 |
| Richard T. Fisher | 153,742,101 | 8,343,591 |
| Karl G. Glassman | 153,638,155 | 8,447,537 |
| David S. Haffner | 153,624,661 | 8,461,031 |
| Joseph W. McClanathan | 154,302,074 | 7,783,618 |
| Judy C. Odom | 154,239,853 | 7,845,839 |
| Maurice E. Purnell, Jr. | 153,746,562 | 8,339,130 |
| Phoebe A. Wood | 154,278,684 | 7,807,008 |
| Felix E. Wright | 153,464,038 | 8,621,654 |

Edgar Filing: LEGGETT & PLATT INC - Form 10-Q

2. The ratification of the Board's selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007 was approved with the following vote:

| SHARES VOTED FOR | SHARES VOTED AGAINST | SHARES ABSTAINING |
|-------------------------|-----------------------------|--------------------------|
| 159,814,524 | 1,277,566 | 993,602 |

3. A shareholder proposal requesting the addition of sexual orientation to the Company's written non-discrimination policy was defeated with the following vote:

| SHARES VOTED FOR | SHARES VOTED AGAINST | SHARES ABSTAINING | BROKER NON-VOTES |
|-------------------------|-----------------------------|--------------------------|-------------------------|
| 36,712,629 | 101,599,186 | 4,853,160 | 18,920,717 |

ITEM 6. EXHIBITS

- Exhibit 10.1 Summary Sheet for Executive Cash Compensation.
- Exhibit 10.2 Leggett & Platt, Incorporated Retirement K Excess Program, amended and restated on May 24, 2007, effective as of January 1, 2007.
- Exhibit 10.3 Second Amendment to Credit Agreement, dated May 1, 2007, among the Company, JPMorgan Chase Bank, N.A., as administrative agent, and the participating banking institutions named therein, filed May 4, 2007 as Exhibit 10.3 to the Company's Current Report on Form 8-K, is incorporated by reference.
- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.
- Exhibit 31.1 Certification of David S. Haffner, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- Exhibit 31.2 Certification of Matthew C. Flanigan, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- Exhibit 32.1 Certification of David S. Haffner, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- Exhibit 32.2 Certification of Matthew C. Flanigan, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEGGETT & PLATT, INCORPORATED

DATE: August 9, 2007

By: /s/ DAVID S. HAFFNER
David S. Haffner
President and
Chief Executive Officer

DATE: August 9, 2007

By: /s/ MATTHEW C. FLANIGAN
Matthew C. Flanigan

Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit

- 10.1 Summary Sheet for Executive Cash Compensation
- 10.2 Leggett & Platt, Incorporated Retirement K Excess Program, amended and restated on May 24, 2007, effective as of January 1, 2007.
- 10.3 Second Amendment to Credit Agreement, dated May 1, 2007, among the Company, JPMorgan Chase Bank, N.A., as administrative agent, and the participating banking institutions named therein, filed May 4, 2007 as Exhibit 10.3 to the Company's Current Report on Form 8-K, is incorporated by reference.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of David S. Haffner, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- 31.2 Certification of Matthew C. Flanigan, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- 32.1 Certification of David S. Haffner, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.
- 32.2 Certification of Matthew C. Flanigan, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 9, 2007.