

LEGGETT & PLATT INC  
Form 10-Q  
August 03, 2006

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**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, 2006

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**

**Carthage, Missouri**  
(Address of principal executive offices)

**64836**  
(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 ☐

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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 27, 2006: 180,658,014

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LEGGETT &amp; PLATT, INCORPORATED

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

|                                                                                       | June 30,          | December 31,      |
|---------------------------------------------------------------------------------------|-------------------|-------------------|
| (Amounts in millions)                                                                 | 2006              | 2005              |
| <b>CURRENT ASSETS</b>                                                                 |                   |                   |
| Cash and cash equivalents                                                             | \$ 94.8           | \$ 64.9           |
| Accounts and other receivables                                                        | 930.0             | 868.4             |
| Allowance for doubtful accounts                                                       | (21.5)            | (20.8)            |
| Inventories, net                                                                      | 806.2             | 767.1             |
| Other current assets                                                                  | 97.9              | 83.7              |
| Total current assets                                                                  | 1,907.4           | 1,763.3           |
| NET PROPERTY, PLANT & EQUIPMENT                                                       | 970.4             | 971.1             |
| <b>OTHER ASSETS</b>                                                                   |                   |                   |
| Goodwill                                                                              | 1,139.5           | 1,102.5           |
| Other intangibles, less accumulated amortization of \$39.2 in 2006 and \$31.3 in 2005 | 176.9             | 133.5             |
| Sundry                                                                                | 81.9              | 82.2              |
| Total other assets                                                                    | 1,398.3           | 1,318.2           |
| <b>TOTAL ASSETS</b>                                                                   | <b>\$ 4,276.1</b> | <b>\$ 4,052.6</b> |
| <b>CURRENT LIABILITIES</b>                                                            |                   |                   |
| Current maturities of long-term debt                                                  | \$ 50.7           | \$ 98.6           |
| Accounts payable                                                                      | 291.8             | 254.2             |
| Accrued expenses                                                                      | 286.7             | 279.3             |
| Other current liabilities                                                             | 125.2             | 105.9             |
| Total current liabilities                                                             | 754.4             | 738.0             |
| LONG-TERM DEBT                                                                        | 1,032.2           | 921.6             |
| OTHER LIABILITIES                                                                     | 90.3              | 84.6              |
| DEFERRED INCOME TAXES                                                                 | 71.4              | 59.4              |
| COMMITMENTS AND CONTINGENCIES                                                         |                   |                   |
| <b>SHAREHOLDERS' EQUITY</b>                                                           |                   |                   |
| Common stock                                                                          | 2.0               | 2.0               |
| Additional contributed capital                                                        | 480.6             | 464.4             |
| Retained earnings                                                                     | 2,178.6           | 2,093.1           |
| Accumulated other comprehensive income                                                | 89.0              | 66.3              |
| Treasury stock                                                                        | (422.4)           | (376.8)           |
| Total shareholders' equity                                                            | 2,327.8           | 2,249.0           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                     | <b>\$ 4,276.1</b> | <b>\$ 4,052.6</b> |

See accompanying notes to consolidated condensed financial statements.

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The December 31, 2005 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 &amp; PLATT, INCORPORATED

## CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Unaudited)

| (Amounts in millions, except per share data) | Six Months Ended<br>June 30, |            | Three Months Ended<br>June 30, |            |
|----------------------------------------------|------------------------------|------------|--------------------------------|------------|
|                                              | 2006                         | 2005       | 2006                           | 2005       |
| Net sales                                    | \$ 2,780.3                   | \$ 2,611.1 | \$ 1,402.6                     | \$ 1,309.8 |
| Cost of goods sold                           | 2,283.8                      | 2,132.5    | 1,146.2                        | 1,063.6    |
| Gross profit                                 | 496.5                        | 478.6      | 256.4                          | 246.2      |
| Selling and administrative expenses          | 249.6                        | 230.9      | 125.8                          | 118.3      |
| Other expense, net                           | 19.7                         | 2.7        | 7.1                            | .2         |
| Earnings before interest and income taxes    | 227.2                        | 245.0      | 123.5                          | 127.7      |
| Interest expense                             | 26.9                         | 22.0       | 14.0                           | 10.4       |
| Interest income                              | 3.6                          | 2.9        | 2.1                            | .9         |
| Earnings before income taxes                 | 203.9                        | 225.9      | 111.6                          | 118.2      |
| Income taxes                                 | 57.6                         | 73.9       | 27.4                           | 39.0       |
| NET EARNINGS                                 | \$ 146.3                     | \$ 152.0   | \$ 84.2                        | \$ 79.2    |
| Earnings Per Share                           |                              |            |                                |            |
| Basic                                        | \$ .78                       | \$ .78     | \$ .45                         | \$ .41     |
| Diluted                                      | \$ .78                       | \$ .78     | \$ .45                         | \$ .41     |
| Cash Dividends Declared                      |                              |            |                                |            |
| Per Share                                    | \$ .33                       | \$ .31     | \$ .17                         | \$ .16     |
| Average Shares Outstanding                   |                              |            |                                |            |
| Basic                                        | 187.3                        | 194.5      | 186.9                          | 193.8      |
| Diluted                                      | 188.1                        | 195.8      | 187.9                          | 195.0      |

See accompanying notes to consolidated condensed financial statements.

## LEGGETT &amp; PLATT, INCORPORATED

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| (Amounts in millions)                                                              | Six Months Ended<br>June 30, |                |
|------------------------------------------------------------------------------------|------------------------------|----------------|
|                                                                                    | 2006                         | 2005           |
| <b>OPERATING ACTIVITIES</b>                                                        |                              |                |
| Net Earnings                                                                       | \$ 146.3                     | \$ 152.0       |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                              |                |
| Depreciation                                                                       | 78.6                         | 78.2           |
| Amortization                                                                       | 9.4                          | 4.4            |
| Asset impairment                                                                   | 3.1                          | .5             |
| (Gain) from sales of assets                                                        | (4.1)                        | (3.6)          |
| Deferred income tax expense (benefit)                                              | .1                           | (6.3)          |
| Stock-based compensation                                                           | 25.1                         | 21.7           |
| Other                                                                              | 2.6                          | (.2)           |
| Other changes, excluding effects from purchase of companies                        |                              |                |
| (Increase) in accounts receivable                                                  | (50.7)                       | (43.1)         |
| (Increase) in inventories                                                          | (31.0)                       | (101.8)        |
| (Increase) in other current assets                                                 | (11.8)                       | (1.8)          |
| Increase in accounts payable                                                       | 32.9                         | 40.5           |
| Increase in accrued expenses and other current liabilities                         | 15.0                         | 16.9           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                   | <b>215.5</b>                 | <b>157.4</b>   |
| <b>INVESTING ACTIVITIES</b>                                                        |                              |                |
| Additions to property, plant and equipment                                         | (79.8)                       | (75.7)         |
| Purchases of companies, net of cash acquired                                       | (64.7)                       | (50.3)         |
| Proceeds from sales of assets                                                      | 11.1                         | 8.3            |
| Other                                                                              | (1.2)                        | 5.1            |
| <b>NET CASH USED FOR INVESTING ACTIVITIES</b>                                      | <b>(134.6)</b>               | <b>(112.6)</b> |
| <b>FINANCING ACTIVITIES</b>                                                        |                              |                |
| Additions to debt                                                                  | 152.2                        | 66.1           |
| Payments on debt                                                                   | (86.0)                       | (380.7)        |
| Dividends paid                                                                     | (59.0)                       | (57.6)         |
| Issuances of common stock                                                          | 5.1                          | 6.1            |
| Purchases of common stock                                                          | (66.9)                       | (96.5)         |
| Other                                                                              | 1.0                          |                |
| <b>NET CASH USED FOR FINANCING ACTIVITIES</b>                                      | <b>(53.6)</b>                | <b>(462.6)</b> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                                     | <b>2.6</b>                   | <b>(2.1)</b>   |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                            | <b>29.9</b>                  | <b>(419.9)</b> |
| CASH AND CASH EQUIVALENTS - January 1,                                             | 64.9                         | 491.3          |
| <b>CASH AND CASH EQUIVALENTS - June 30,</b>                                        | <b>\$ 94.8</b>               | <b>\$ 71.4</b> |

See accompanying notes to consolidated condensed financial statements.

## LEGGETT &amp; 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, 2005.

**2. NEW ACCOUNTING STANDARDS**

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155). SFAS 155 establishes, among other things, the accounting for certain derivatives embedded in other financial instruments. This statement permits fair value remeasurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation. It also requires that beneficial interests in securitized financial assets be accounted for in accordance with SFAS No. 133. SFAS 155 is effective for fiscal years beginning after September 15, 2006, and is not expected to have a material impact on our financial reporting and disclosures.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation clarified the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS No. 109). Specifically, FIN 48 clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods of income taxes, as well as disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of analyzing FIN 48 as it applies to the Company's operations, and presumes that the adoption of FIN 48 is likely to have a significant impact on our financial reporting and disclosures.

**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, |
|----------------------------|----------|--------------|
|                            | 2006     | 2005         |
| At FIFO cost               |          |              |
| Finished goods             | \$ 418.3 | \$ 391.2     |
| Work in process            | 104.6    | 97.7         |
| Raw materials and supplies | 349.0    | 341.9        |

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|              |          |          |
|--------------|----------|----------|
|              | 871.9    | 830.8    |
| LIFO reserve | (65.7)   | (63.7)   |
|              | \$ 806.2 | \$ 767.1 |

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

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 to actual inventory levels at year-end being different than estimated levels.

## 4. PROPERTY, PLANT &amp; EQUIPMENT

Property, plant and equipment is comprised of the following:

|                                        | June 30,<br>2006 | December 31,<br>2005 |
|----------------------------------------|------------------|----------------------|
| Property, plant and equipment, at cost | \$ 2,324.5       | \$ 2,280.7           |
| Less accumulated depreciation          | (1,354.1)        | (1,309.6)            |
|                                        | \$ 970.4         | \$ 971.1             |

## 5. COMPREHENSIVE INCOME

The following table recaps the composition of Accumulated Other Comprehensive Income and Comprehensive Income for the periods presented.

|                                          | Accumulated Other<br>Comprehensive Income |                      | Comprehensive<br>Income/(Loss)<br>Six Months Ended |                  |
|------------------------------------------|-------------------------------------------|----------------------|----------------------------------------------------|------------------|
|                                          | June 30,<br>2006                          | December 31,<br>2005 | June 30,<br>2006                                   | June 30,<br>2005 |
| Foreign currency translation adjustments | \$ 97.6                                   | \$ 71.3              | \$ 26.3                                            | \$ (23.6)        |
| Fair market value of natural gas hedges  | .1                                        | 3.5                  | (3.4)                                              |                  |
| Minimum pension liability adjustments    | (8.7)                                     | (8.5)                | (.2)                                               | .1               |
|                                          | \$ 89.0                                   | \$ 66.3              | \$ 22.7                                            | \$ (23.5)        |
| Net earnings                             |                                           |                      | 146.3                                              | 152.0            |
| Comprehensive income                     |                                           |                      | \$ 169.0                                           | \$ 128.5         |

|  | Accumulated Other<br>Comprehensive Income |                   | Comprehensive<br>Income/(Loss)<br>Three Months Ended |                  |
|--|-------------------------------------------|-------------------|------------------------------------------------------|------------------|
|  | June 30,<br>2006                          | March 31,<br>2006 | June 30,<br>2006                                     | June 30,<br>2005 |

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|                                          | 2006    |         | June 30,<br>2006 | 2005      |
|------------------------------------------|---------|---------|------------------|-----------|
| Foreign currency translation adjustments | \$ 97.6 | \$ 74.1 | \$ 23.5          | \$ (20.4) |
| Fair market value of natural gas hedges  | .1      | 1.1     | (1.0)            |           |
| Minimum pension liability adjustments    | (8.7)   | (8.5)   | (.2)             | .1        |
|                                          | \$ 89.0 | \$ 66.7 | \$ 22.3          | \$ (20.3) |
| Net earnings                             |         |         | 84.2             | 79.2      |
| Comprehensive income                     |         |         | \$ 106.5         | \$ 58.9   |

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

6. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

|                                                                                               | Six Months Ended<br>June 30, |          | Three Months<br>Ended June 30, |         |
|-----------------------------------------------------------------------------------------------|------------------------------|----------|--------------------------------|---------|
|                                                                                               | 2006                         | 2005     | 2006                           | 2005    |
| <b>Basic</b>                                                                                  |                              |          |                                |         |
| Weighted average shares outstanding, including shares issuable for little or no cash          | 187.3                        | 194.5    | 186.9                          | 193.8   |
| Net earnings                                                                                  | \$ 146.3                     | \$ 152.0 | \$ 84.2                        | \$ 79.2 |
| Earnings per share - basic                                                                    | \$ .78                       | \$ .78   | \$ .45                         | \$ .41  |
| <b>Diluted</b>                                                                                |                              |          |                                |         |
| Weighted average shares outstanding, including shares issuable for little or no cash          | 187.3                        | 194.5    | 186.9                          | 193.8   |
| Additional dilutive shares principally from the assumed exercise of outstanding stock options | .8                           | 1.3      | 1.0                            | 1.2     |
|                                                                                               | 188.1                        | 195.8    | 187.9                          | 195.0   |
| Net earnings                                                                                  | \$ 146.3                     | \$ 152.0 | \$ 84.2                        | \$ 79.2 |
| Earnings per share - diluted                                                                  | \$ .78                       | \$ .78   | \$ .45                         | \$ .41  |

7. 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 possibility of a material adverse effect on the Company's consolidated financial position, results of operations and cash flows from claims and proceedings is remote.

*Countervailing and Anti-Dumping Duties*

In April 2001, the Coalition for Fair Lumber Imports filed two petitions with the U.S. Department of Commerce (Commerce) and the International Trade Commission (ITC), claiming that production of softwood lumber in Canada was being subsidized by Canada and that imports from Canada were being dumped into the U.S. market (sold at less than fair value). As a result, beginning in May 2002, Commerce began imposing countervailing duty (CVD) and anti-dumping (AD) tariffs on softwood lumber imported from Canada.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

7. CONTINGENCIES (continued)

The CVD and AD tariff rates are determined by Commerce on an annual basis, with the actual final rate established at the end of each rate period via an annual review process. The annual CVD periods run from April 1 through March 31 and the annual AD periods run from May 1 through April 30. Any difference between the deposit rates and the final rates are to be settled at the time of finalization. Subsequent deposit rates are subject to adjustment by Commerce based on the findings of the most recent administrative review. The annual review process will be repeated in successive one-year periods for five years ending April 30, 2007. At that time, both the CVD and AD orders will be automatically reviewed in a sunset proceeding to determine whether the tariffs should be continued or revoked.

As noted above, the Company began making cash deposits relating to the CVD and AD actions beginning in May 2002. The Company's initial combined deposit rate for the CVD and AD tariffs was 27.22% for the first and second administrative review periods. Based upon the results of the first and second administrative reviews, the Company's combined duty rates have been finalized at 21.15% for the first administrative review period and 11.35% for the second administrative review period.

The final rate determinations of both the first and second administrative reviews have been appealed to the Court of International Trade by both sides. In addition, the Canadian government and other Canadian companies appealed the ITC's 2002 injury determination in a separate appeal under the North American Free Trade Agreement.

The appeal and challenge processes are on-going and the parties, primarily the U.S. and Canadian governments, continue to discuss the possibility of a negotiated settlement. Until this dispute is ultimately resolved, the Company cannot be entirely certain what the ultimate costs to the Company will be, if any. The Company believes that whatever the ultimate resolution is, the CVD and AD rates for the periods covered by the first and second administrative reviews will be no higher than the final rates that have been set by Commerce in those reviews. As such, in 2005 the Company recorded \$4.8 as a receivable and a partial reversal of the previously recorded expense which represents the difference between the deposit rates and final rates for the 2002 through 2004 periods covered by the first and second administrative reviews.

On April 27, 2006, the U.S. and Canada jointly announced that they had reached an agreement on the core terms of a potential accord which would settle this dispute. Although the proposed terms include the return of 78% of the duty deposits which have been paid to date, subsequent negotiations have yet to result in a final resolution. Consistent with our prior practice, the future recognition of any additional estimated duty refund receivable will depend on the official outcome of future administrative reviews and/or settlement negotiations. As of June 30, 2006, the Company has paid a total of \$22.1 of countervailing duty and anti-dumping duty deposits. As noted above, to date we have recorded a refund receivable for \$4.8 of this amount.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

8. SEGMENT INFORMATION

Reportable segments are primarily 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 Leggett segments. Specialized Products derives its revenues from the automotive components industry, specialized machinery and equipment, and van interiors and truck bodies.

A summary of segment results for the three and six months periods ended June 30, 2006 and 2005 are shown in the following tables. Segment figures for 2005 have been restated for an organizational change, effective January 1, 2006, that moved van upfitting operations from Commercial Fixturing & Components to Specialized Products and a small office components operation from Specialized Products to Commercial Fixturing & Components.

The impact of this organizational change on reported results for the six months ended June 30, 2005 was to move \$42.9 of external sales and (\$1.7) of EBIT from the Commercial Fixturing & Components segment to the Specialized Products segment. In addition, for the six month period ended June 30, 2005, intersegment sales for Commercial Fixturing & Components increased \$3.9, resulting in a net reduction in total sales of \$39.0. Intersegment sales for Specialized Products decreased \$1.9 resulting in a net increase of \$41.0 in total sales.

The impact of the organizational change on reported results for the second quarter ended June 30, 2005 was to move \$21.9 of external sales and (\$0.7) of EBIT from the Commercial Fixturing & Components segment to the Specialized Products segment. In addition, for the quarter ended June 30, 2005, intersegment sales for Commercial Fixturing & Components increased \$2.4, resulting in a net reduction in total sales of \$19.5. Intersegment sales for Specialized Products decreased \$1.3 resulting in a net increase of \$20.6 in total sales.

|                                   | Inter-     |          |            |          |
|-----------------------------------|------------|----------|------------|----------|
|                                   | External   | Segment  | Total      |          |
|                                   | Sales      | Sales    | Sales      | EBIT     |
| Six Months ended June 30, 2006    |            |          |            |          |
| Residential Furnishings           | \$ 1,380.3 | \$ 13.2  | \$ 1,393.5 | \$ 119.5 |
| Commercial Fixturing & Components | 507.5      | 7.1      | 514.6      | 32.0     |
| Aluminum Products                 | 297.7      | 7.0      | 304.7      | 31.1     |
| Industrial Materials              | 241.7      | 138.1    | 379.8      | 30.8     |
| Specialized Products              | 353.1      | 23.4     | 376.5      | 16.1     |
| Intersegment eliminations         |            |          |            | (.3)     |
| Change in LIFO reserve            |            |          |            | (2.0)    |
|                                   | \$ 2,780.3 | \$ 188.8 | \$ 2,969.1 | \$ 227.2 |

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 8. SEGMENT INFORMATION (continued)

|                                   | External   | Inter-Segment | Total      |          |
|-----------------------------------|------------|---------------|------------|----------|
|                                   | Sales      | Sales         | Sales      | EBIT     |
| Six Months ended June 30, 2005    |            |               |            |          |
| Residential Furnishings           | \$ 1,268.8 | \$ 11.5       | \$ 1,280.3 | \$ 103.9 |
| Commercial Fixturing & Components | 503.2      | 9.8           | 513.0      | 29.4     |
| Aluminum Products                 | 283.1      | 7.8           | 290.9      | 23.4     |
| Industrial Materials              | 262.4      | 171.6         | 434.0      | 54.0     |
| Specialized Products              | 293.6      | 28.0          | 321.6      | 21.1     |
| Intersegment eliminations         |            |               |            | (6.8)    |
| Change in LIFO reserve            |            |               |            | 20.0     |
|                                   | \$ 2,611.1 | \$ 228.7      | \$ 2,839.8 | \$ 245.0 |
| Quarter ended June 30, 2006       |            |               |            |          |
| Residential Furnishings           | \$ 687.0   | \$ 6.9        | \$ 693.9   | \$ 62.0  |
| Commercial Fixturing & Components | 260.9      | 3.5           | 264.4      | 21.3     |
| Aluminum Products                 | 153.4      | 3.6           | 157.0      | 17.5     |
| Industrial Materials              | 117.4      | 65.8          | 183.2      | 13.6     |
| Specialized Products              | 183.9      | 11.0          | 194.9      | 10.3     |
| Intersegment eliminations         |            |               |            | .8       |
| Change in LIFO reserve            |            |               |            | (2.0)    |
|                                   | \$ 1,402.6 | \$ 90.8       | \$ 1,493.4 | \$ 123.5 |
| Quarter ended June 30, 2005       |            |               |            |          |
| Residential Furnishings           | \$ 628.3   | \$ 5.7        | \$ 634.0   | \$ 48.2  |
| Commercial Fixturing & Components | 259.5      | 5.1           | 264.6      | 16.4     |
| Aluminum Products                 | 145.8      | 3.9           | 149.7      | 11.5     |
| Industrial Materials              | 126.2      | 82.0          | 208.2      | 22.0     |
| Specialized Products              | 150.0      | 12.6          | 162.6      | 11.6     |
| Intersegment eliminations         |            |               |            | (2.0)    |
| Change in LIFO reserve            |            |               |            | 20.0     |
|                                   | \$ 1,309.8 | \$ 109.3      | \$ 1,419.1 | \$ 127.7 |

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 8. SEGMENT INFORMATION (continued)

Average asset information for the Company's segments at June 30, 2006 and December 31, 2005 is shown in the following table. As a result of the organizational change discussed above, \$84.5 of the December 31, 2005 average asset balance was moved from the Commercial Fixturing & Components segment to the Specialized Products segment.

|                                             | June 30,<br>2006 | December 31,<br>2005 |
|---------------------------------------------|------------------|----------------------|
| Assets                                      |                  |                      |
| Residential Furnishings                     | \$ 1,584.0       | \$ 1,504.4           |
| Commercial Fixturing & Components           | 857.7            | 885.4                |
| Aluminum Products                           | 423.0            | 387.2                |
| Industrial Materials                        | 300.3            | 338.2                |
| Specialized Products                        | 719.7            | 614.7                |
| Unallocated assets                          | 266.9            | 218.9                |
| Adjustment to period-end vs. average assets | 124.5            | 103.8                |
|                                             | \$ 4,276.1       | \$ 4,052.6           |

## 9. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R) Share-Based Payment (SFAS No. 123R) which clarifies and expands the provisions of SFAS 123 Accounting of Stock-Based Compensation. The Company adopted SFAS 123R using the modified-prospective method and, as such, results for prior periods have not been restated. Because the Company had previously adopted, as of January 1, 2003, the fair value recognition provisions of SFAS 123 under the prospective transition method, the adoption of SFAS No. 123R has not had a significant effect on 2006 results, nor is it expected to have a significant effect on future periods. In addition, the impact to the cash flow statement is immaterial. No modifications have been made to options granted prior to the adoption of SFAS 123R, nor have we made any changes in the valuation methods from those used under SFAS 123.

The cost of stock-based compensation that was recognized in income during the three and six month periods ended June 30, 2006 was \$5.0 and \$11.2, respectively; the related recognized tax benefit was \$2.0 and \$4.4, respectively. The cost recognized includes the amortization of the fair value of stock options, the Company's match in stock-based retirement plans and discounts provided to employees on common stock and stock units. In addition, during the six months ended June 30, 2006, employees earned approximately \$14.2 of otherwise payable cash compensation which, by participation in one or more of the Company's stock-based plans, they have elected to receive in the form of stock-based compensation.

When the tax deduction for an exercised stock option or converted stock unit exceeds the compensation cost that has been recognized in income, a "windfall" tax benefit is created. The windfall benefit is not recognized in income, but rather on the balance sheet as additional paid-in capital. The additional windfall tax benefit realized from exercises and conversions for the three and six months ended June 30, 2006 were \$.2 and \$.9, respectively.

The Company utilizes various forms of share-based compensation within its stock-based programs which are summarized below. Awards are provided in the form of common stock,



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LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. STOCK-BASED COMPENSATION (continued)

stock options, stock units and restricted stock. One stock unit is considered equivalent to one common share for accounting and earnings per share purposes. The Company has only granted restricted stock to non-employee directors and these grants have not been material.

Stock options and stock units are issued pursuant to the Company's Flexible Stock Plan. At June 30, 2006, a total of 22,737,082 common shares were authorized for issuance under the Flexible Stock Plan. This amount represents 13,338,493 unexercised options, 2,468,211 outstanding stock units, and 6,930,378 shares that remain available for grant.

The Company issues shares from treasury for stock option exercises and stock unit conversions, as well as for employee purchases of common stock made through the Discount Stock Plan and Stock Bonus Plan. The Company typically repurchases shares to replace those issued for employee stock plans, however, there is no specific repurchase schedule or policy. The level of share repurchases primarily depends on the cash resources available after funding current growth opportunities and dividends and other factors.

**Stock Option Grants**

The Company typically grants stock options annually on a discretionary basis to a broad group of employees and outside directors. Options generally become exercisable over 42 months in one-third increments beginning 18 months after the date of grant, have a maximum term of ten years, and are issued with exercise prices equal to the market price of Leggett common stock on the grant date. The Company's non-employee stock options are not significant. During the first six months of 2006, discretionary grants totaled 1.5 million options with an aggregate grant date fair value under the Black-Scholes method of \$8.6.

**Deferred Compensation Program**

The Company offers a deferred compensation program under which key managers and outside directors may elect to receive stock options and/or stock units in lieu of cash compensation. Prior to the 2005 program year, options granted under the deferred compensation program were below market and had 15-year terms. Options granted for deferrals made after December 31, 2003, have a maximum term of ten years and all units issued under the program must be converted within ten years of deferral. In 2005, the Company began to grant at market stock options instead of discount options under the program. Stock options under this program are granted in December of the year immediately prior to the year the compensation is earned. Options granted under the program vest as the associated compensation is earned and are exercisable beginning 15 months after the date of grant.

Stock units under this program are issued bi-weekly (when the compensation otherwise would have been paid) at a 20% discount to the market price of the Company's common stock and immediately vest. Stock units earn dividends in the form of additional units at the same rate as cash dividends paid on the Company's common stock. Dividend units are also issued at a 20% discount.

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LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. STOCK-BASED COMPENSATION (continued)

Cash compensation deferred during the first half of 2006 as either stock options or stock units totaled approximately \$4.2, of which \$1.5 related to bonuses accrued and expensed in 2005. In addition, approximately \$.8 of 2006 bonuses accrued and expensed in the first six months are subject to employee deferral elections and will be paid in the form of stock options or stock units. Options and units associated with bonuses officially vest as of December 31 of the year earned.

Approximately 263,000 stock options with a total grant date fair value of \$1.5, and 71,000 stock units with a total grant date value of \$1.7, were earned and vested during the first six months under the Deferred Compensation Program. An additional 114,000 stock options with an aggregate grant date fair value of \$.6, and 49,000 stock units with an aggregate value of \$1.2, were earned and vested in association with 2005 bonuses that were distributed in the first quarter of 2006.

**Stock-Based Retirement Plans**

The Company has two stock-based retirement plans: the tax-qualified Stock Bonus Plan (SBP) and the non-qualified Executive Stock Unit Program (ESUP). The Company makes matching contributions of 50% of the amount of employee contributions under both plans. In addition, the Company makes another 50% matching contribution on an annual basis if certain profitability levels, as defined in the SBP and the ESUP, are attained. The first 50% matching contribution is expensed as incurred. The additional 50% match is accrued and expensed when it is more likely than not that the required profitability levels will be met, while the contribution itself is not made until the year's results have been finalized. Company matches in the SBP and ESUP fully vest upon three and five years, respectively, of cumulative service, subject to certain participation requirements.

Contributions to the ESUP are used to acquire stock units at 85% of the common stock market price while contributions to the SBP are primarily used to purchase the Company's common stock at market prices. Employees in the SBP are allowed to diversify their accounts upon reaching certain age and participation requirements. Stock units earn dividends in the form of additional units at the same rate as cash dividends paid on the Company's common stock. Stock units are converted to common stock at a 1-to-1 ratio upon distribution from the plan. Distributions under both plans are triggered by an employee's retirement, death, disability or separation from the Company.

During the first half of 2006, a total of approximately \$4.7 of employee contributions were made into these plans, including \$.8 related to 2005 bonuses paid in 2006. The Company match expensed in the first half of 2006 totaled \$4.8 and the discount expense on stock units was \$1.1.

**Discount Stock Plan**

Under the Discount Stock Plan (DSP), eligible employees may purchase shares of Company common stock at 85% of the closing market price on the last business day of each month. Shares purchased by employees under the DSP during the first half of 2006 totaled 303,362 and were made at an average purchase price of \$21.08 per share, net of the discount. In the first six months of 2006, the total discount expense related to the DSP was approximately \$1.3. Since inception of the DSP in 1982, a total of 19,587,410 shares have been purchased by employees. Eligible employees may purchase a maximum of 23,000,000 shares under the plan.

**COMPENSATION COST NOT YET RECOGNIZED**

As of June 30, 2006, the unrecognized cost of non-vested stock-based compensation was \$12.6, all of which relates to non-vested stock options. Of this amount, \$.3 relates to the Deferred Compensation Program (the excess grant date fair value over the underlying compensation deferred) and is expected to be recognized in income evenly over the course of the current year. The remaining \$12.3 relates to the grant date fair value of our discretionary stock option grants and is expected to be recognized over a weighted-average period of 1.5 years.



## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 9. STOCK-BASED COMPENSATION (continued)

## STOCK OPTIONS

A summary of the Company's employee stock option activity for the six months ended June 30, 2006, is as follows:

|                                               |            | Weighted Average<br>Exercise Price |
|-----------------------------------------------|------------|------------------------------------|
|                                               | Shares     | per Share                          |
| Outstanding at January 1, 2006                | 12,282,810 | \$ 16.75                           |
| Granted                                       | 1,518,261  | 23.12                              |
| Exercised                                     | (496,469)  | 12.83                              |
| Expired                                       | (21,101)   | 19.86                              |
| Forfeited                                     | (111,878)  | 22.99                              |
| Outstanding at June 30, 2006                  | 13,171,623 | \$ 17.57                           |
| Options vested & exercisable at June 30, 2006 | 8,589,094  | \$ 14.41                           |

The total intrinsic value (market price in excess of exercise price) of options exercised during the three and six months ended June 30, 2006 was \$2.0 and \$6.0, respectively; and the cash received from option exercises was \$3.5 and \$6.4, respectively.

Of the 13,171,623 total employee stock options outstanding at June 30, 2006, the following table summarizes those employee stock options that either have or are expected to vest (net of expected forfeitures):

| Range of<br>Exercise Prices | Number<br>Outstanding | Options Vested and Expected to Vest |                                              |                                           | Aggregate<br>Intrinsic<br>Value* |
|-----------------------------|-----------------------|-------------------------------------|----------------------------------------------|-------------------------------------------|----------------------------------|
|                             |                       | Weighted-<br>Average                | Remaining<br>Contractual<br>Life<br>In Years | Weighted-<br>Average<br>Exercise<br>Price |                                  |
|                             |                       |                                     |                                              |                                           |                                  |
| \$ .01 - \$.25              | 933,761               | 5.1                                 | \$ .06                                       |                                           | 23,273,731                       |
| 3.09 - 4.70                 | 2,133,441             | 10.0                                | 3.89                                         |                                           | 44,992,792                       |
| 10.00 - 15.00               | 17,500                | 4.8                                 | 14.01                                        |                                           | 192,025                          |
| 15.31 - 20.00               | 3,477,846             | 4.3                                 | 18.80                                        |                                           | 21,479,826                       |
| 20.03 - 28.67               | 6,498,631             | 8.0                                 | 23.82                                        |                                           | 7,506,458                        |
| \$ .01 - \$28.67            | 13,061,179            | 7.1                                 | \$ 17.52                                     |                                           | 97,444,832                       |

\* Number outstanding times the excess of the June 30, 2006 market price over the option exercise price.

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 9. STOCK-BASED COMPENSATION (continued)

The following table summarizes employee stock options that are exercisable at June 30, 2006:

| Range of<br>Exercise Prices | Number<br>Outstanding | Options Exercisable                                                  |                                           | Aggregate<br>Intrinsic<br>Value |
|-----------------------------|-----------------------|----------------------------------------------------------------------|-------------------------------------------|---------------------------------|
|                             |                       | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life<br>In Years | Weighted-<br>Average<br>Exercise<br>Price |                                 |
| \$ .01 - \$.25              | 933,761               | 5.1                                                                  | \$ .06                                    | 23,273,731                      |
| 3.09 - 4.70                 | 2,133,441             | 10.0                                                                 | 3.89                                      | 44,992,792                      |
| 10.00 - 15.00               | 17,500                | 4.8                                                                  | 14.01                                     | 192,025                         |
| 15.31 - 20.00               | 3,109,141             | 4.0                                                                  | 18.92                                     | 18,852,419                      |
| 20.03 - 28.67               | 2,395,251             | 6.5                                                                  | 23.52                                     | 3,491,870                       |
| \$ .01 - \$28.67            | 8,589,094             | 6.3                                                                  | \$ 14.41                                  | 90,802,837                      |

The weighted-average per-share fair value of the options granted during the three and six month periods ended June 30, 2006 was \$7.54 and \$5.68, respectively. The estimated grant date fair value of options is amortized to expense by the straight line method over the options' total vesting period.

The following table summarizes the weighted-average assumptions used to calculate the grant date fair value of options granted during the three and six months ended June 30, 2006 and 2005. Fair values were calculated using the Black-Scholes option pricing model.

|                                              | Six Months Ended<br>June 30, |       | Three Months Ended<br>June 30, |       |
|----------------------------------------------|------------------------------|-------|--------------------------------|-------|
|                                              | 2006                         | 2005  | 2006                           | 2005  |
| Principal assumptions:                       |                              |       |                                |       |
| Risk-free interest rate                      | 4.4%                         | 3.7%  | 5.1%                           | 3.8%  |
| Expected life in years                       | 6.7                          | 5.9   | 7.7                            | 5.4   |
| Expected volatility (over expected life)     | 27.3%                        | 25.0% | 27.1%                          | 25.8% |
| Expected dividend yield (over expected life) | 3.2%                         | 3.2%  | 2.9%                           | 3.3%  |

The risk free rate is determined based on U.S. Treasury yields in effect at the time of grant for maturities equivalent to the expected life of the option. The expected life of the option (estimated average period of time the option will be outstanding) is estimated based on the historical exercise behavior of employees, with executives displaying somewhat longer holding periods than other employees. Expected volatility is based on historical volatility measured daily for a time period equal to the option's expected life, ending on the day of grant. The expected dividend yield is estimated based on the dividend yield at the time of grant, adjusted for expected dividend increases and historical payout policy.



## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 9. STOCK-BASED COMPENSATION (continued)

## STOCK UNITS

A summary of the status of stock units outstanding at June 30, 2006 and changes during the six months then ended is presented below:

|                              |           | Weighted<br>Average<br>Grant Date Fair<br>Value |
|------------------------------|-----------|-------------------------------------------------|
|                              | Units     | per Unit                                        |
| Nonvested at January 1, 2006 | 49,395    | \$ 24.67                                        |
| Granted                      | 445,978   | 24.13                                           |
| Vested                       | (438,176) | 24.11                                           |
| Forfeited                    | (3,465)   | 25.56                                           |
| Nonvested at June 30, 2006   | 53,732    | \$ 24.74                                        |

At June 30, 2006, there were 1,728,850 of fully vested stock units outstanding with an aggregate intrinsic value of \$43.2. The intrinsic value of nonvested stock units, all of which relate to the Executive Stock Unit Program and are expected to vest, was \$1.3 at June 30, 2006. The total intrinsic value of stock units converted to common stock during the three and six months ended June 30, 2006 was \$.2 and \$1.0, respectively.

## 10. EMPLOYEE BENEFIT PLANS

The following table provides interim information at June 30, 2006 and 2005 as to the Company's sponsored domestic and foreign defined benefit pension plans. Expected 2006 employer contributions are not significantly different than the \$2.1 previously reported at year-end 2005.

|                                      | Six Months Ended<br>June 30, |        | Three Months Ended<br>June 30, |        |
|--------------------------------------|------------------------------|--------|--------------------------------|--------|
|                                      | 2006                         | 2005   | 2006                           | 2005   |
| Components of Net Pension Expense    |                              |        |                                |        |
| Service cost                         | \$ 3.6                       | \$ 2.4 | \$ 1.8                         | \$ 1.2 |
| Interest cost                        | 6.0                          | 5.2    | 3.0                            | 2.6    |
| Expected return on plan assets       | (8.0)                        | (7.0)  | (4.0)                          | (3.5)  |
| Amortization of net transition asset |                              | .2     |                                | .1     |
| Recognized net actuarial loss        | 1.4                          | .4     | .7                             | .2     |
| Net pension expense                  | \$ 3.0                       | \$ 1.2 | \$ 1.5                         | \$ .6  |



## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 11. 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. Net of realized gains, we incurred \$54.9 of restructuring-related costs in 2005, \$10.4 in the first quarter of 2006 and \$6.1 in the second quarter of 2006. To complete these activities, we expect to incur another \$2.3 in the third quarter of 2006, bringing the total estimated cost of recent restructuring activities to approximately \$74, excluding any future gains on the sale of related assets.

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, 2006 and June 30, 2005 were comprised of:

|                                                        | Six Months Ended<br>June 30, |               | Three Months Ended<br>June 30, |               |
|--------------------------------------------------------|------------------------------|---------------|--------------------------------|---------------|
|                                                        | 2006                         | 2005          | 2006                           | 2005          |
| Severance and other restructuring costs                | \$ 12.3                      | \$ 3.1        | \$ 3.6                         | \$ .9         |
| Asset impairment charges                               | 3.1                          | .5            | 1.1                            |               |
| Inventory obsolescence and other                       | 3.0                          | 1.5           | 2.4                            | .5            |
| (Gain) from sales of assets                            | (1.9)                        |               | (1.0)                          |               |
| <b>Total restructuring &amp; other special charges</b> | <b>\$ 16.5</b>               | <b>\$ 5.1</b> | <b>\$ 6.1</b>                  | <b>\$ 1.4</b> |

*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. As a result, management identified 36 operations to be closed, consolidated or sold which currently constitute the 2005 Closure and Consolidation Initiative. The Company's current estimate of the charges it expects to incur in connection with this plan is \$53.3, excluding any future gains on the sale of related assets. Of this amount, \$40.3 was incurred in 2005, \$10.7 in the first six months of 2006, and the remaining \$2.3 is expected to be incurred in the third quarter of 2006.

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 11. RESTRUCTURING AND OTHER SPECIAL CHARGES (continued)

The following table contains, by each major type of cost associated with the 2005 Closure and Consolidation Initiative, the total amount of costs expected to be incurred and the cumulative amount incurred to date:

| Type of charge:                                                | Total Amount<br>Incurred in 2005 | Amount<br>Incurred in<br>the First Six<br>Mos. of<br>2006 | Total Remaining<br>Amount<br>Expected<br>to be<br>Incurred | Total Amount<br>Expected to<br>be Incurred |
|----------------------------------------------------------------|----------------------------------|-----------------------------------------------------------|------------------------------------------------------------|--------------------------------------------|
| Employee termination costs                                     | \$ 8.4                           | \$ 3.4                                                    | \$ 1.0                                                     | \$ 12.8                                    |
| Contract termination costs                                     | .8                               | .1                                                        | .4                                                         | 1.3                                        |
| Other exit costs, primarily plant closure and asset relocation | 2.7                              | 3.6                                                       | .9                                                         | 7.2                                        |
| Total restructuring costs(1)                                   | 11.9                             | 7.1                                                       | 2.3                                                        | 21.3                                       |
| Asset impairment charges (2)                                   | 16.0                             | 2.9                                                       |                                                            | 18.9                                       |
| Inventory obsolescence and other (3)                           | 12.4                             | 2.6                                                       |                                                            | 15.0                                       |
| (Gain) from sales of assets                                    |                                  | (1.9)                                                     |                                                            | (1.9)                                      |
| Total costs                                                    | \$ 40.3                          | \$ 10.7                                                   | \$ 2.3                                                     | \$ 53.3                                    |

- (1) Restructuring costs associated with the 2005 Closure and Consolidation Initiative are reported on the Statement of Earnings in Other expense, net.
- (2) Asset impairment charges relate primarily to the write down of property, plant and equipment at the impacted facilities. These facilities include six in the Fixture & Display group; five in Bedding; four in Fabric, Foam & Fiber; four in Wire; three in Home Furniture & Consumer Products; two in Automotive; and one 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. Other than the inventory obsolescence and asset impairment charges, the costs associated with the 2005 Closure and Consolidation Initiative primarily represent cash charges. The Company currently anticipates that the remaining \$2.3 will be incurred by the end of 2006, at which time the 2005 Closure and Consolidation Initiative is expected to be essentially complete.

## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 11. RESTRUCTURING AND OTHER SPECIAL CHARGES (continued)

The following table contains information, by segment, regarding the total amount of costs expected to be incurred in connection with the 2005 Closure and Consolidation Initiative and the amount incurred in the current year:

|                                   | Amounts Incurred in                    |                          |                                |                                                                      |                                                     |                                             |
|-----------------------------------|----------------------------------------|--------------------------|--------------------------------|----------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------|
|                                   | Total<br>Amount<br>Incurred<br>in 2005 | Restructuring<br>Charges | Asset<br>Impairment<br>Charges | 2006<br>Inventory<br>Obsolescence<br>and Other<br>Charges<br>(Gains) | Total<br>Amount<br>Incurred<br>Year-to-Date<br>2006 | Total<br>Estimated<br>Cost at<br>Completion |
| Residential Furnishings           | \$ 15.9                                | \$ 2.9                   | \$ 2.6                         | \$ .4                                                                | \$ 5.9                                              | \$ 22.8                                     |
| Commercial Fixturing & Components | 14.6                                   | 1.3                      | .1                             | (1.6)                                                                | (.2)                                                | 15.3                                        |
| Aluminum Products                 |                                        |                          |                                |                                                                      |                                                     |                                             |
| Industrial Materials              | 3.2                                    | .7                       |                                | (.2)                                                                 | .5                                                  | 4.1                                         |
| Specialized Products              | 6.6                                    | 2.2                      | .2                             | 2.1                                                                  | 4.5                                                 | 11.1                                        |
| Total                             | \$ 40.3                                | \$ 7.1                   | \$ 2.9                         | \$ .7                                                                | \$ 10.7                                             | \$ 53.3                                     |

At June 30, 2006, the accrued liability associated with the 2005 Closure and Consolidation Initiative consisted of the following:

|                            | Balance at<br>December 31,<br>2005 | Additional<br>Charges | Payments  | Balance<br>at<br>June 30,<br>2006 |
|----------------------------|------------------------------------|-----------------------|-----------|-----------------------------------|
| Termination benefits       | \$ 6.7                             | \$ 3.4                | \$ (7.3)  | \$ 2.8                            |
| Contract termination costs | .7                                 | .1                    | (.7)      | .1                                |
| Other restructuring costs  | 1.4                                | 3.6                   | (3.8)     | 1.2                               |
|                            | \$ 8.8                             | \$ 7.1                | \$ (11.8) | \$ 4.1                            |

All remaining payments relating to the 2005 Closure and Consolidation Initiative are expected to be paid in 2006.

*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. For the full year 2005, the Company incurred \$14.6 of costs for these various initiatives. In the first six months of 2006, the Company incurred an additional \$5.6, primarily composed of employee termination costs, which materially completed the other 2005 initiatives. Year-to-date, \$.2 has been incurred for restructuring activities initiated in 2006. The total cost remaining to complete current 2006 initiated activities is estimated to be less than \$.5. Total costs associated with these other initiatives have had the following impact on the Company's financial statements:



## LEGGETT &amp; PLATT, INCORPORATED

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 11. RESTRUCTURING AND OTHER SPECIAL CHARGES (continued)

|                                            | Six Months ended<br>June 30, | Six Months ended<br>June 30, | Quarter ended<br>June 30, | Quarter ended<br>June 30, |
|--------------------------------------------|------------------------------|------------------------------|---------------------------|---------------------------|
|                                            | 2006                         | 2005                         | 2006                      | 2005                      |
| Charged to other expense, net:             |                              |                              |                           |                           |
| Severance and other restructuring costs    | \$ 5.2                       | \$ 3.1                       | \$ .4                     | \$ .9                     |
| Write-downs of property, plant & equipment | .2                           |                              |                           |                           |
|                                            | \$ 5.4                       | \$ 3.1                       | \$ .4                     | \$ .9                     |
| Charged to cost of goods sold:             |                              |                              |                           |                           |
| Write-down of property, plant & equipment  | \$ .4                        | \$ .5                        | \$ .4                     | \$ .5                     |
| Inventory obsolescence and other           | .4                           | 1.5                          |                           | .5                        |
|                                            | \$ .4                        | \$ 2.0                       | \$ .4                     | \$ .5                     |
| Total of Other Initiatives                 | \$ 5.8                       | \$ 5.1                       | \$ .4                     | \$ 1.4                    |
| Restructuring liabilities at June 30       | \$ 1.7                       | \$ 1.7                       | \$ 1.7                    | \$ 1.7                    |

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

## 12. INCOME TAX MATTERS

The reported 2006 second quarter and year-to-date consolidated effective tax rates of 24.6% and 28.2% include a non-recurring benefit from the tax write-off of subsidiary stock, which impacted the Company's effective tax rate by 9.6% and 5.3%, respectively.

## 13. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year's consolidated condensed financial statements and footnotes to conform to the current year presentation as follows:

In the Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2005:

Stock-based compensation is now disclosed as a separate line item in the Operating Activities section. Stock-based compensation was previously included as a change in Accrued expenses and other current liabilities in the Operating Activities section.

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Asset impairment and (Gain) from sales of assets are now presented as separate line items in the Operating Activities section.

Previously these were both included in Other in the Operating Activities section.

In the segment restatement section of Footnote 8:

Prior year segment information has been recast to reflect an organizational change that moved certain operations between two segments. The impact of this change is described in Footnote 8.

### **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 broad range of engineered components and products that can be found in many 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 123-year-old company is composed of 29 business units under five reportable segments, with approximately 34,000 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, and other finished products. This segment has generated between 45% to 46% of the Company's total sales during the past two years.

**Commercial Fixturing & Components:** Operations in this segment, which has contributed approximately 18% to 19% 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.

Effective January 1, 2006, the portion of the Commercial Vehicle Products unit historically included in the Commercial Fixturing & Components segment was moved to the Specialized Products segment and combined with the new Commercial Vehicle Products group that was established in that segment upon the acquisition of America's Body Company.

**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, gas barbeque grills, appliances, power tools, and consumer electronics, among others.

**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 15% of our total sales in each of 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, cabinets, etc. 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 around 12% of total sales during the past two years.

## **Customers**

We serve a broad suite of customers, with no single one representing 5% or more 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.

## **Major Factors That Impact Our Business**

Many factors impact our business every year, 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 many broad economic factors, including consumer confidence, employment levels, housing turnover, energy costs, and interest rates. These factors influence consumer spending on durable goods, and therefore affect demand for our components and products. Some of these factors also influence the level of business spending on facilities and equipment, which impacts approximately one-quarter of our sales. Market demand can also be affected by inflation in raw materials when cost increases cause customers to change the design of their products (and the type of components they use) to offset higher costs.

Currently, demand in the majority of our markets is relatively stable. Consumer confidence remains at or above levels of the past few years, unemployment is relatively low, and interest rates are still below historical levels.

### *Raw Materials*

In many of our businesses we have 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) increase and decrease.

Purchasing arrangements vary considerably across the company. Because we typically have short-term commitments from vendors, our raw material costs generally fluctuate with the market. In certain of our businesses we have longer-term contracts with pricing terms that provide stability under reasonable market conditions. However, when commodities experience extreme inflation, vendors may not honor those contracts. This situation occurred in 2004 when steel costs nearly doubled, and again in 2005 when the cost of chemicals, fibers, and resins increased significantly. Vendors were unable to honor the pricing terms in purchase contracts due to extreme market conditions.

Our ability to recover higher costs (through selling price increases) is a critical factor when we experience inflation. We have few long-term, fixed-pricing contracts with customers. When we experience significant increases in raw material costs, we often implement price increases to recover the higher costs. Although we are generally able to pass through most cost increases, we encounter greater difficulty 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 impact our earnings.

Higher raw material costs have led some of our customers to modify certain product designs, changing the quantity and mix of our components in their finished goods. In some cases, our higher priced components were replaced with lower priced components. Such changes have impacted product mix and pressured profit margins.

Steel is our most significant raw material. In 2005, market prices for most types of steel were slightly lower at the end of the year than at the beginning of the year. Steel costs began to increase in the second quarter of 2006, and are expected to be higher in the third quarter. In response, we are implementing price increases in certain businesses to recover some of these higher costs.

Unprecedented price increases in the steel market during 2004 led to an above average spread between scrap costs and rod prices. This spread continued throughout 2005, enhancing the earnings of our steel rod mill. While we expect the average spread to be lower in 2006, scrap costs have been volatile and the spread is difficult to predict.

In 2005, we experienced significant inflation in chemicals, fibers, and resins (generally driven by changes in oil prices). These costs remained relatively flat for the first six months of 2006, and the majority of the 2005 cost increases are now reflected in our selling prices.

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

#### *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. In addition, certain of our sales are made under terms requiring us to incur the fuel cost associated with delivering the product to our customer's facility. Our ability to respond to these cost increases (by raising selling prices) affects our operating results.

Energy costs increased throughout 2005 but especially in the last half of the year, in part due to hurricane related supply disruptions. We continuously monitor natural gas price trends and have hedged a portion of our natural gas requirements for the next three years. The details of those arrangements are discussed under *Derivative Financial Instruments* (on page 32).

In 2006, higher energy prices have impacted consumer demand in certain markets. Bedding demand has been soft in recent quarters, and we believe this is partially due to the impact higher gas prices are having on the consumer. Higher energy costs leave less disposable income available to purchase products that contain our components.

#### *Competition*

Most of our markets are highly competitive with the number of competitors varying by product line (they 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, long-lived relationships with customers, 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 face increasing pressure from foreign competitors as some of our customers source a portion of their components or finished products from Asia. When prices for key materials (such as steel, aluminum, and chemicals) are relatively level throughout the world, we can generally produce our components at a lower cost in the U.S. (because many of our products have low labor content). 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, 2006, Leggett operated 14 facilities in China.

Asian manufacturers are currently thought to benefit from lower commodity costs (we believe certain commodities are sometimes subsidized by Asian governments), lenient attitudes toward safety and environmental matters, and currency rates that are pegged to the U.S. dollar rather than free floating. However, when exporting to the U.S., Asian manufacturers must overcome higher transportation costs, increased working capital needs, and difficulty matching U.S. manufacturers' level of service, flexibility, and logistics.

### Restructuring and Asset Impairments

In the second quarter of 2006, we incurred restructuring-related and asset impairment charges of \$7.1 million. Offsetting this amount was \$1.0 million in gains on sales of assets, resulting in a total net cost of \$6.1 million, compared to \$1.4 million in the second quarter of 2005. In the third quarter of 2005, we launched a significant broad-based restructuring project (Restructuring Plan) to reduce excess capacity and improve performance in a number of our businesses. We had maintained spare capacity for several years expecting market demand to increase, but that incremental demand has not materialized.

As part of the Restructuring Plan, we identified 36 underutilized or underperforming facilities to be closed, consolidated, or sold (the 2005 Closure and Consolidation Initiative). We also took a more critical look at other underperforming operations; as a result, we modified or accelerated restructuring activities that were previously underway, and identified other operations with impaired assets.

Total expenses associated with the Restructuring Plan should approximate \$74 million, of which about half will be non-cash charges. These expenses include the cost of plant closures (building cleanup and repair), equipment relocation, employee severance pay, asset impairment, inventory obsolescence, and similar items. We incurred \$54.9 million of these costs in 2005 and \$16.5 million in the first half of 2006. We expect to sustain the remaining \$2.3 million in third quarter 2006. The incurred amounts include gains on the sale of assets of \$3.5 million in 2005 and \$1.9 million in the first half of 2006. Total additional future gains from the sale of assets are currently estimated to range from \$10 million to \$20 million. Timing of the gains is uncertain and the actual amount realized could fall outside the range due to unknown factors and changes in circumstances.

| (Dollar amounts in millions)                  | Amount  | Cash    | Non-Cash |
|-----------------------------------------------|---------|---------|----------|
| 2005 Closure & Consolidation Initiative Costs | \$ 40.3 | \$ 13.6 | \$ 26.7  |
| Costs related to other activity               | 14.6    | 9.8     | 4.8      |
| 2005 costs for Restructuring Plan             | 54.9    | 23.4    | 31.5     |
| Total first quarter 2006 costs                | 10.4    | 7.9     | 2.5      |
| <b>Second quarter 2006 costs incurred:</b>    |         |         |          |
| Restructuring charges                         | 3.6     |         |          |
| Asset impairment charges                      | 1.1     |         |          |
| Inventory obsolescence and other costs        | 2.4     |         |          |
| (Gains) from sales of assets                  | (1.0)   |         |          |
| Total second quarter 2006 costs               | 6.1     | 2.6     | 3.5      |
| Remaining 2006 expected costs                 | 2.3     | 2.3     |          |
| Total anticipated Restructuring Plan costs    | \$ 73.7 | \$ 36.2 | \$ 37.5  |

Of the 36 facilities under the 2005 Closure and Consolidation Initiative, about half are in Residential Furnishings, one-quarter are in Commercial Fixturing & Components, and the remainder are in Industrial Materials and Specialized Products. These operations were generating total revenue of roughly \$400 million per year. Most of this volume is shifting to other facilities, but a \$90 million sales reduction is expected as we divest small, non-core operations and walk away from unprofitable business. The majority of this volume reduction should occur in the Residential and Commercial segments. During the second quarter of 2006, the Company estimates the loss in volume due to restructuring activities was approximately \$19 million.

Once completed, restructuring and consolidation activity is expected to eventually increase annual earnings by \$0.10 to \$0.12 per share, and we expect to realize about half of this benefit in 2006.

### **Fixture & Display Performance**

In the second quarter of 2006, volume in our Fixture & Display businesses was relatively stable and margins, although still not at desired levels, improved sequentially and over the same period last year. Improving the performance of this unit remains one of our top priorities. We expect to achieve margin gains through our current restructuring efforts, which include a significant reduction of the underutilized capacity in this business. However, earnings must continue to improve appreciably from current levels or further restructuring may be initiated.

### **Acquisitions**

We completed two acquisitions in the second quarter of 2006. These acquisitions should add about \$50 million in annual sales to the Residential Furnishings segment. In early April, the Company acquired a producer of rubber carpet cushioning with annual sales of about \$47 million. This transaction should significantly enhance Leggett's position in the carpet underlay industry. We are the largest provider of carpet underlay in North America, and the only manufacturer of all major types of carpet cushioning material. In total, carpet underlay represents approximately 6% of the Company's revenues. During the quarter the Company also purchased a small bed spring operation in Australia with approximately \$3 million in annual sales.

## **RESULTS OF OPERATIONS**

### *Discussion of Consolidated Results*

We achieved record quarterly sales of \$1.40 billion in the second quarter of 2006, exceeding the prior year second quarter by 7.1%. This increase was primarily due to recent acquisitions and higher same location sales of about 2%. (Same location sales are defined as sales from businesses owned and operated during all of the respective current and prior year periods presented and sales from internal business expansion). Acquisitions increased sales by about 6%, but were partially offset by a 1% decline in sales due to restructuring activity.

Earnings for the quarter were \$.45 per diluted share, including a six cent per share tax benefit associated with the write-off of the tax basis of an acquired company's stock, and an offsetting three cents per share for restructuring-related expenses. Per share earnings for the second quarter of 2005 were \$.41.

### LIFO/FIFO and the effect of Changing Prices

All of our segments use the first-in, first-out (FIFO) method for valuing inventory. In 2005, declining steel costs resulted in lower segment margins (mainly in Residential and Industrial) under the FIFO method as our average selling prices decreased faster than previously acquired higher cost product was relieved from 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. For the full year of 2005, LIFO income totaled \$23.9 million. In the second quarter of 2005, the Company recorded \$20 million of income associated with this LIFO adjustment. That income adjustment did not recur in the second quarter of 2006; instead there was a \$2 million expense.

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

### Income Taxes

The reported second quarter consolidated worldwide effective tax rate of 24.6% is less than 2005's annual rate by approximately 4.8%, primarily due to non-recurring benefits recognized during the quarter related to the tax write-off of subsidiary stock. We expect the effective rate for the remainder of 2006 to return to a level closer to 32.5%, but the rate will vary depending on such factors as the overall profitability of the Company, the mix of earnings among taxing jurisdictions, the ongoing rationalization of certain operations, the change in valuation allowances for certain tax assets, and the effect of tax law changes.

### Discussion of Segment Results

#### Second Quarter Discussion

A description of the products included in each segment, along with segment financial data, appear in Note 8 of the Notes to Consolidated Condensed Financial Statements.

A summary of our segment results for the quarters ended June 30, 2006 and June 30, 2005 are shown in the following tables. Effective January 1, 2006, the prior Commercial Vehicle Products unit was moved from the Commercial Fixturing & Components segment to the new Commercial Vehicle Products group in the Specialized Products segment.

|                                   | 2nd Qtr. 2006 | 2nd Qtr. 2005 | Change in Sales |        | % Change in Same Location Sales |
|-----------------------------------|---------------|---------------|-----------------|--------|---------------------------------|
|                                   |               |               | \$              | %      |                                 |
| Residential Furnishings           | \$ 693.9      | \$ 634.0      | \$ 59.9         | 9.4    | 2.7                             |
| Commercial Fixturing & Components | 264.4         | 264.6         | (.2)            | (.1)   | 1.1                             |
| Aluminum Products                 | 157.0         | 149.7         | 7.3             | 4.9    | 5.1                             |
| Industrial Materials              | 183.2         | 208.2         | (25.0)          | (12.0) | (11.1)                          |
| Specialized Products              | 194.9         | 162.6         | 32.3            | 19.9   | 2.3                             |
| Total                             | \$ 1,493.4    | \$ 1,419.1    | \$ 74.3         | 5.2    | 2.1                             |

|                                   | 2nd Qtr. 2006 | 2nd Qtr. 2005 | Change in EBIT |        | EBIT Margins  |               |
|-----------------------------------|---------------|---------------|----------------|--------|---------------|---------------|
|                                   |               |               | \$             | %      | 2nd Qtr. 2006 | 2nd Qtr. 2005 |
| Residential Furnishings           | \$ 62.0       | \$ 48.2       | \$ 13.8        | 28.6   | 8.9%          | 7.6%          |
| Commercial Fixturing & Components | 21.3          | 16.4          | 4.9            | 29.9   | 8.1%          | 6.2%          |
| Aluminum Products                 | 17.5          | 11.5          | 6.0            | 52.2   | 11.1%         | 7.7%          |
| Industrial Materials              | 13.6          | 22.0          | (8.4)          | (38.2) | 7.4%          | 10.6%         |
| Specialized Products              | 10.3          | 11.6          | (1.3)          | (11.2) | 5.3%          | 7.1%          |

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|                           |          |          |          |       |      |      |
|---------------------------|----------|----------|----------|-------|------|------|
| Intersegment eliminations | .8       | (2.0)    | 2.8      |       |      |      |
| LIFO                      | (2.0)    | 20.0     | (22.0)   |       |      |      |
| Total                     | \$ 123.5 | \$ 127.7 | \$ (4.2) | (3.3) | 8.8% | 9.7% |

### *Residential Furnishings*

Total sales for the quarter increased \$59.9 million, with acquisitions (net of divestitures) contributing \$56 million of the increase, and restructuring activity eliminating \$13 million in revenue. Same location sales increased 2.7% due to inflation. Demand trends were mixed in the segment. We saw continued improvement in upholstered furniture components, however bedding volume declined in the mid-single digits. Significant inflation in chemical costs over the past year led to higher sales in our foam operations. Our newly-formed geo-components business is growing through both geographic and product line expansion and continues to perform very well.

EBIT (earnings before interest and income taxes) increased \$13.8 million, or 28.6% over the prior year's second quarter. Higher sales and operating improvements were primarily responsible for the EBIT increase; these were partially offset by higher energy costs and restructuring related expenses of \$2.6 million. Due to the above factors, Residential segment margins improved 130 basis points in the second quarter despite the impact of restructuring-related costs.

### *Commercial Fixturing & Components*

Total sales were essentially unchanged from the prior year, with 1.1% same location sales growth offset by a restructuring-related reduction of \$4 million in sales. EBIT increased \$4.9 million, with gains from operational improvements and higher same location sales partially offset by restructuring-related costs of \$.7 million.

Our office furniture components business continued to perform well, posting strong volume gains in the second quarter. Market demand in this business has steadily improved since late 2003. Volume in our Fixture & Display group was relatively stable in comparison with last year. Though still not at desired levels, this group posted the best second quarter margins we've seen in six years. We believe this business represents an excellent strategic opportunity for the Company and are encouraged by recent improvements in operating performance. We are well positioned with a broad base of customers and see opportunities to grow this business in new markets. Although our near-term focus is on accomplishing margin improvements, we continue to consider attractive opportunities for growth.

### *Aluminum Products*

Total sales for the second quarter increased \$7.3 million due to inflation. There have been no acquisitions within the last 12 months. Higher sales resulted primarily from the pass-through of aluminum and zinc cost increases.

EBIT increased \$6.0 million, or 52.2%, due to higher sales and operational improvements. We have made significant operational progress over the past year, with performance improving at several locations. Our second quarter earnings and margins reflect this progress. Margins exceeded 11% for the quarter despite the pass-through of raw material inflation and start-up costs (as anticipated) at the new die-casting facility in Auburn, Alabama.

We continue to focus on deverticalization (providing components to our customers they would otherwise have produced for themselves) as a primary growth strategy. In addition to the program with Briggs & Stratton we have discussed in prior quarters, we have recently been awarded a program with Black & Decker for components they previously manufactured for themselves. We are in the process of installing equipment in our existing Saltillo, Mexico operation to manufacture these parts. This new program should be ramped up by the end of this year.

### *Industrial Materials*

Total sales decreased \$25.0 million during the quarter due to both lower unit volume and selling price declines. There have been no acquisitions within the last 12 months. Volume in our wire and tubing operations decreased reflecting softness in the bedding and U.S. automotive industries.

Steel costs began to increase in the second quarter and are expected to be higher in the third quarter. We are implementing price increases to pass along some of these higher costs.

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EBIT declined \$8.4 million, as a result of lower revenue, higher scrap steel costs, new equipment start-up expenses at our steel rod mill, and restructuring-related costs of \$.3 million.

The Company anticipates lower margins in this segment in 2006. For the past two years, margins have been above our long-range, targeted levels mainly due to a higher scrap-to-rod market spread. In the second quarter of 2006, the spread was lower than a year ago, and this impacted our margins as anticipated. Second quarter 2006 margins were also impacted by lower sales and new equipment startup expenses at our steel rod mill.

### *Specialized Products*

Total sales for the quarter increased \$32.3 million. Acquisitions (net of divestitures and restructuring) contributed \$29 million to sales, and were augmented by a 2.3% increase in same location sales.

Automotive volume in the second quarter increased slightly versus the same quarter last year. Strength in Asia has helped offset market weakness in North America, particularly in larger vehicles that contain more seats with higher-end features. Although machinery volume was fairly stable in comparison with last year, orders for our machinery have been improving, and we expect volume to increase in the coming quarters.

While our Commercial Vehicle Products group is experiencing some market softness for its commercial truck equipment and van interiors, we continue to be satisfied with the integration and performance of America's Body Company (the commercial vehicle upfitting business that we acquired late in 2005). Geographic service expansion is one of our largest growth opportunities in the commercial vehicle market. We are currently starting up a facility in Texas that will enable us to better serve this large market.

EBIT declined \$1.3 million, with the contribution from higher same location sales more than offset by changes in currency rates and restructuring-related costs of \$3.5 million. Lower segment margins in the quarter primarily reflect restructuring charges and the impact from last year's acquisition of ABC, which will be modestly dilutive to margins. We are expecting improvements in the coming quarters, however, and should end the year with segment margins above those reported last year.

### **Six-Month Discussion**

A summary of the segment results for the six months ended June 30, 2006 and June 30, 2005 are shown in the following tables. Effective January 1, 2006, the prior Commercial Vehicle Products unit was moved from the Commercial Fixturing & Components segment to the new Commercial Vehicle Products group in the Specialized Products segment.

|                                   | Six Months<br>ended<br>June 30, 2006 | Six Months<br>ended<br>June 30, 2005 | Change in Sales |        | %<br>Change<br>in Same<br>Location<br>Sales |
|-----------------------------------|--------------------------------------|--------------------------------------|-----------------|--------|---------------------------------------------|
|                                   |                                      |                                      | \$              | %      |                                             |
| Residential Furnishings           | \$ 1,393.5                           | \$ 1,280.3                           | \$ 113.2        | 8.8    | 3.0                                         |
| Commercial Fixturing & Components | 514.6                                | 513.0                                | 1.6             | .3     | .8                                          |
| Aluminum Products                 | 304.7                                | 290.9                                | 13.8            | 4.7    | 4.9                                         |
| Industrial Materials              | 379.8                                | 434.0                                | (54.2)          | (12.5) | (12.1)                                      |
| Specialized Products              | 376.5                                | 321.6                                | 54.9            | 17.1   | (1.2)                                       |
| Total                             | \$ 2,969.1                           | \$ 2,839.8                           | \$ 129.3        | 4.6    | 1.6                                         |

|                                   | Six Months ended |               | Change in EBIT |        | EBIT Margins  |               |
|-----------------------------------|------------------|---------------|----------------|--------|---------------|---------------|
|                                   | June 30, 2006    | June 30, 2005 |                |        | June 30, 2006 | June 30, 2005 |
|                                   | EBIT             | EBIT          | \$             | %      | EBIT          | EBIT          |
| Residential Furnishings           | \$ 119.5         | \$ 103.9      | \$ 15.6        | 15.0   | 8.6%          | 8.1%          |
| Commercial Fixturing & Components | 32.0             | 29.4          | 2.6            | 8.8    | 6.2%          | 5.7%          |
| Aluminum Products                 | 31.1             | 23.4          | 7.7            | 32.9   | 10.2%         | 8.0%          |
| Industrial Materials              | 30.8             | 54.0          | (23.2)         | (43.0) | 8.1%          | 12.4%         |
| Specialized Products              | 16.1             | 21.1          | (5.0)          | (23.7) | 4.3%          | 6.6%          |
| Intersegment eliminations         | (.3)             | (6.8)         | 6.5            |        |               |               |
| LIFO                              | (2.0)            | 20.0          | (22.0)         |        |               |               |
| Total                             | \$ 227.2         | \$ 245.0      | \$ (17.8)      | (7.3)  | 8.2%          | 9.4%          |

#### *Residential Furnishings*

Total sales increased \$113.2 million, with acquisitions (net of divestitures) contributing \$99 million of the increase, and restructuring activity reducing sales by \$27 million. Same location sales increased 3.0% due to inflation. Demand trends were mixed in the segment. Bedding volume was soft, but upholstered furniture components experienced continued growth. In addition, the pass through of significant inflation in chemical costs over the past year led to higher sales in our foam operations.

EBIT (earnings before interest and income taxes) increased \$15.6 million over the prior year, due to higher sales and operating improvements, partially offset by higher energy costs and restructuring-related expenses of \$11.3 million.

#### *Commercial Fixturing & Components*

Total sales increased \$1.6 million for the six months, with .8% increase in same location sales growth offset by a restructuring-related reduction of \$4 million in sales. EBIT increased \$2.6 million, or 8.8%, with gains from operational improvements and higher same location sales partially offset by restructuring-related costs of \$1.7 million.

#### *Aluminum Products*

Total sales for the six months increased \$13.8 million. There have been no acquisitions within the last 12 months. Higher sales resulted from a combination of inflation and volume growth. Aluminum and zinc costs increased significantly during the first half of 2006, but the pricing arrangements we have with our customers allowed for a timely pass-through of these higher costs.

EBIT increased \$7.7 million, as gains from higher sales and operational improvements were partially offset by higher energy expenses and start up costs (as anticipated) at the new die-casting facility in Auburn, Alabama.

#### *Industrial Materials*

Total sales decreased \$54.2 million during the first six months of 2006, due to both lower unit volume and selling price declines. There have been no acquisitions within the last 12 months. Volume in our wire and tubing operations decreased reflecting softness in the bedding and automotive industries.

EBIT declined \$23.2 million, as a result of lower revenue, higher scrap steel costs, equipment start-up costs at our steel rod mill, increased energy and transportation costs, and restructuring-related expenses of \$.8 million.

#### *Specialized Products*

Total sales for the six months increased \$54.9 million. Acquisitions (net of divestitures) contributed \$66 million to sales. Same location sales declined during the period, primarily in automotive and machinery. The declines in automotive reflect

softness in North America, particularly in larger vehicles that contain more seats with higher-end features. Lower machinery volume reflects reduced spending by bedding manufacturers as well as our own operations in response to soft bedding demand over the past year. The amount of orders for our machinery is improving, and we expect volume to increase in the coming quarters.

EBIT declined \$5.0 million, due primarily to reduced same location sales, currency exchange rates, and restructuring-related costs of \$4.5 million.

## **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. In 2005, we also increased net debt and used excess cash to fund a portion of these items, including higher levels of acquisitions and share repurchases. 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. Net debt to net capital has increased from 21.9% at the beginning of 2005 to 28.4% as of June 30, 2006.

### **Uses of Cash**

#### ***Finance Growth***

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

Capital expenditures are investments we make to modernize, maintain, and expand manufacturing capacity. We expect 2006 capital spending to approximate \$175 million, compared to 2005 which totaled \$164.2 million.

Acquisitions add to our business by expanding our markets, product lines, or manufacturing capabilities. Our level of spending increased 28.6% in the first six months of 2006 compared to the same period of 2005. Cash used for acquisitions for the remainder of the year will vary depending on the timing of opportunities.

#### ***Pay Dividends***

Our second quarter 2006 dividend was 6% higher than in 2005 and, annualized, extends Leggett's string of consecutive annual dividend increases to 35 years. Over the last three years, dividends have grown at an 8% compound annual rate. Our long-term target for dividend payout is approximately one-third of the prior three years' average earnings. We've been well above those levels in recent years, but as earnings grow, we expect to move back toward that target.

***Repurchase Stock***

In 2005, the Company used \$227 million to purchase 10.3 million shares of its stock, considerably more than in any previous year. The cost, on average, was about \$23 per share. Shares outstanding declined by 8.3 million shares, or 4.3%, to 182.6 million shares at year end. During the second quarter of 2006, the Company purchased an

additional 1.7 million shares of its stock; this was partially offset by the issuance of .3 million shares through benefit plans. During the first half of 2006, the Company purchased a total of 2.7 million shares. Shares outstanding have declined to 180.8 million as of June 30, 2006, a 4.1% decrease versus the 188.6 million shares that were outstanding twelve months earlier. Share repurchases should be lower in 2006 (versus 2005), in part because we do not expect as large an increase in our net debt levels.

As we first mentioned in September 2004, we planned to increase our net debt levels toward the lower end of our targeted range and use the cash to fund growth, pay dividends, and repurchase shares. Going forward, 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 2006.

### 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 2006 was \$217 million, a 38% improvement over last year primarily due to our ongoing working capital initiatives. Inventory levels increased in the first quarter of 2005 due largely to an inventory restocking following an intentional reduction of year-end 2004 inventory levels in response to higher steel costs. That rebuild did not recur in the first six months of 2006, as inventory levels remained relatively flat compared to year-end 2005 levels.

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, 2006 and December 31, 2005.

| (Dollar amounts in millions)                | June 30,<br>2006 | December 31,<br>2005 |
|---------------------------------------------|------------------|----------------------|
| Long-term debt outstanding:                 |                  |                      |
| Scheduled maturities                        | \$ 893.6         | \$ 921.6             |
| Average interest rates*                     | 4.8%             | 5.0%                 |
| Average maturities in years*                | 7.9              | 7.8                  |
| Revolving credit/commercial paper           | 138.6            |                      |
| Total long-term debt                        | 1,032.2          | 921.6                |
| Deferred income taxes and other Liabilities | 161.7            | 144.0                |
| Shareholders' equity                        | 2,327.8          | 2,249.0              |
| Total capitalization                        | \$ 3,521.7       | \$ 3,314.6           |
| Unused committed credit:                    |                  |                      |
| Long-term                                   | \$ 261.4         | \$ 400.0             |
| Short-term                                  |                  |                      |
| Total unused committed credit               | \$ 261.4         | \$ 400.0             |
| Current maturities of long-term debt        | \$ 50.7          | \$ 98.6              |
| Cash and cash equivalents                   | \$ 94.8          | \$ 64.9              |
| Ratio of earnings to fixed charges**        | 6.7x             | 6.7x                 |

\* *Including current maturities and excluding commercial paper.*

\*\* *Fixed charges include interest expense, capitalized interest, plus implied interest included in operating leases.*

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The next table shows the percent of long-term debt to total capitalization at June 30, 2006 and December 31, 2005. 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 total cash and increased by current maturities of long-term debt. We believe that adjusting this measure for cash and current maturities allows more meaningful comparison to recent periods, during which cash has ranged from \$65 million to \$491 million. We use these adjusted measures to monitor our financial leverage.

| (Amounts in millions)                      | June 30,<br>2006  | December 31,<br>2005 |
|--------------------------------------------|-------------------|----------------------|
| Debt to total capitalization:              |                   |                      |
| Long-term debt                             | \$ 1,032.2        | \$ 921.6             |
| Current debt maturities                    | 50.7              | 98.6                 |
| Cash and cash equivalents                  | (94.8)            | (64.9)               |
| <b>Net debt</b>                            | <b>\$ 988.1</b>   | <b>\$ 955.3</b>      |
| <br>Total Capitalization                   | <br>\$ 3,521.7    | <br>\$ 3,314.6       |
| Current debt maturities                    | 50.7              | 98.6                 |
| Cash and cash equivalents                  | (94.8)            | (64.9)               |
| <b>Net capitalization</b>                  | <b>\$ 3,477.6</b> | <b>\$ 3,348.3</b>    |
| <br>Long-term debt to total capitalization | <br>29.3%         | <br>27.8%            |
| Net debt to net capitalization             | 28.4%             | 28.5%                |

Total debt (which includes long-term debt and current debt maturities) was higher than year-end 2005 levels. Approximately \$75 million in notes matured during the second quarter of 2006; however this amount was more than offset by commercial paper borrowings in the amount of \$138.6 million that remained outstanding at the end of the quarter.

Since 2003, we've issued \$730 million of fixed rate debt with an average remaining life at June 30, 2006 of 9.0 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 \$400 million in commercial paper through a program that is backed by a \$400 million, five year revolving credit commitment. We expect any commercial paper issued under this agreement to be 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, 2006, \$138.6 million in commercial paper was outstanding.

Considering 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, 2006, this debt consisted primarily of term notes. Our term notes and public debt currently carry a Moody's rating of A2 and a Standard & Poor's rating of A+. Our commercial paper program carries a Moody's rating of P-1 and a Standard & Poor's rating of A-1. We have maintained a single A rating on our debt for over a decade.

### ADOPTION OF SFAS 123(R) AND COMPENSATION COST NOT YET RECOGNIZED

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R) Share-Based Payment (SFAS No. 123R) which clarifies and expands the provisions of SFAS 123 Accounting of Stock-Based Compensation. The Company adopted SFAS 123R using the modified-prospective method and, as such, results for prior periods have not been restated. Because the Company had previously adopted, as of January 1, 2003, the fair value recognition provisions of SFAS 123 under the prospective transition method, the



adoption of SFAS No. 123R did not have a significant effect on the first six months of 2006 results, nor is it expected to have a significant effect on future periods. In addition, the impact to the cash flow statement is immaterial. No modifications have been made to options granted prior to the adoption of SFAS 123R, nor have we made any changes in the valuation methods from those used under SFAS 123. As of June 30, 2006, the unrecognized cost of non-vested stock-based compensation was \$12.6 million, and relates to non-vested stock options. Essentially all of this amount is expected to be recognized over a weighted-average period of 1.5 years.

## NEW ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155). SFAS 155 establishes, among other things, the accounting for certain derivatives embedded in other financial instruments. This statement permits fair value remeasurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation. It also requires that beneficial interests in securitized financial assets be accounted for in accordance with SFAS No. 133. SFAS 155 is effective for fiscal years beginning after September 15, 2006, and is not expected to have a material impact on our financial reporting and disclosures.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation clarified the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS No. 109). Specifically, FIN 48 clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods of income taxes, as well as the disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of analyzing FIN 48 as it applies to the Company's operations and presumes that the adoption of FIN 48 is likely to have a significant impact on our financial reporting and disclosures.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Company's risk management strategies include the use of derivative instruments to manage the fixed/variable interest rate mix of our debt portfolio, to hedge our exposure to fluctuating natural gas prices, and to hedge against exposure to variability in interest and foreign exchange rates. It is the Company's policy not to speculate in derivative instruments.

### *Interest Rates*

Substantially all of the Company's debt is denominated in United States dollars. The fair value for fixed rate debt was less than its carrying value by \$78.5 million at June 30, 2006, and less than its carrying value by \$23.5 million at December 31, 2005. 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, 2006 and December 31, 2005 for similar remaining maturities, plus an estimated spread over such Treasury securities representing the Company's interest costs.

### *Exchange Rates*

The Company occasionally hedges firm specific commitments or other anticipated foreign currency cash flows. The decision by management to hedge any such transactions is made on a case-by-case basis.

The amount of forward contracts outstanding at June 30, 2006 was approximately \$38.0 million (primarily composed of \$20.5 million Pay USD/Receive MXN; \$14.6 million Pay USD/Receive CAD; and \$.9 million Pay AUD/Receive USD). These contracts are primarily used to hedge certain expected Mexican peso needs of our U.S. based subsidiaries for fiscal 2006, the receipt of certain USD receivables in Canada, and USD payables in Australia.

The Company views its investment in foreign subsidiaries as a long-term commitment, and, except for the cross-currency swap agreement disclosed below, does not hedge translation exposures. 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 \$821.7 million at



June 30, 2006, compared to \$780.8 million at December 31, 2005. The increase in net investment was due primarily to increased capital contributions to certain subsidiaries in Western Europe and China.

#### *Cross-Currency Swap Agreement*

In December 2003, the Company entered into a 38.3 million Swiss Francs (CHF) five-year cross-currency swap agreement with Wachovia Bank, N.A. This agreement is designated as a net investment hedge. The purpose of this swap is to hedge CHF denominated assets, thereby reducing exposure to volatility in the exchange rate. In addition, the terms of this agreement include that the Company will receive interest on \$30 million USD at a fixed rate of 6.35% and pay interest on 38.3 million CHF at a fixed rate of 4.71%.

During the first six months of 2006, the Company paid interest of \$.7 million on the CHF portion and received interest of \$1.0 million on the USD portion of the agreement. At June 30, 2006, the unrealized loss recorded in other comprehensive income on the cross-currency swap was approximately \$1.5 million, net of tax.

#### *Commodity Price*

At June 30, 2006, approximately \$24.2 million of natural gas forward contracts were outstanding at an average price of \$8.27 per mmbtu. On June 30, 2006 the Company had contracts hedging approximately 55% to 70% of its anticipated monthly natural gas consumption for the 6-month period beginning July 2006, approximately 20% of its anticipated monthly consumption for calendar 2007, and approximately 5% to 15% of its anticipated monthly consumption for 2008. At June 30, 2006, the total unrealized gain recorded in other comprehensive income on natural gas contracts was approximately \$.1 million, net of tax.

### **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, estimates of the amounts and timing of charges resulting from our Restructuring Plan, as described beginning on page 23, and related reductions in revenues and the number of facilities to be closed pursuant to this plan; 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 our future operations or performance of the Company, 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:

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

factors that could impact raw material 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 and 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

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

our ability to capture anticipated savings from our Restructuring Plan, and maintain market share within the affected operations

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 (particularly our Fixture & Display group) that could result in goodwill impairment

future growth of acquired companies

our ability to increase debt and maintain our current public debt and commercial paper credit ratings

our ability to bring start up operations on line as budgeted in terms of expense and timing

litigation risks, including litigation regarding product liability and warranty, intellectual property and workers compensation expense

risks and uncertainties 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 business capital spending

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.

This MD&A contains a disclosure on page 31 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 "Derivative Financial Instruments" 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, 2006 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, 2006, 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.

In the second quarter of 2005, the Company began the rollout of a redesigned procurement process. Spanning the purchasing, receiving and accounts payable processes, this initiative will centralize purchasing information for 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. Approximately twenty percent of the Company's operations in the United States and Canada were converted as of June 30, 2006. Based upon our experience converting the initial branches, the Company anticipates that 30% to 40% of United States and Canada branches will be converted in 2006. The rollout is expected to be completed by the end of 2007.

There were no other changes in the Company's internal control over financial reporting that occurred during the quarter ending June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 7 to the Company's Consolidated Condensed Financial Statements included in Item 1 to this Report and found on page 7 is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

Our 2005 Annual Report on Form 10-K filed March 1, 2006 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. Steel is our largest raw material. During 2004 the price of certain types of steel nearly doubled. In 2005, market prices for most types of steel were slightly lower at the end of the year than at the beginning of the year. Although we anticipate the costs for steel to stabilize, the future pricing of steel is uncertain and could increase in 2006 even beyond current levels.

The price increases in the steel market during 2004 led to an above average spread between scrap costs and rod prices. This spread continued throughout 2005, enhancing the earnings of our rod mill. Steel costs began to increase in the second quarter of 2006, and are expected to be higher in the third quarter. We expect that the spread between the price of steel rod and steel scrap will narrow in 2006. If this occurs, it will negatively impact our results of operations.

Our operations can also be impacted by other raw materials, including those affected by changes in oil prices, such as chemicals, fibers and resins, as well as aluminum and lumber. Throughout 2005, but particularly in the last half of the year, we experienced higher costs associated with the oil based raw materials.

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. We may not be able to pass along future cost increases through selling price increases.

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.



In some cases, our higher priced components were replaced with lower priced components. This has impacted our Residential Furnishings product mix and decreased profit margins. We expect this to continue to be an issue in 2006 and could negatively impact our results of operations.

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

Our Fixture & Display group has experienced deterioration in profitability in recent years. We were hampered in our efforts to improve operating margins in 2005 by new program start-up costs and integration inefficiencies associated with the RHC Spacemaster acquisition. In September 2005, we announced a Restructuring Plan where eight facilities in the Fixture & Display group have been or will be consolidated, sold, or closed. We have estimated that our Fixture & Display group productive capacity will be reduced by approximately \$100 million pursuant to the Restructuring Plan.

Volume in our Fixture & Display group is relatively stable in comparison with last year. Though still not at desired levels, second quarter profit margins improved sequentially and over the same period last year. However, earnings must continue to improve appreciably from current levels or further restructuring may be initiated.

**Higher energy costs could adversely affect our operating results.**

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. In addition, certain of our sales are made with terms such that we incur the fuel cost associated with delivering the product to our customer's facility. Energy costs increased throughout 2005 but especially in the last half of the year, in part due to supply disruptions caused by hurricanes.

In 2006, higher energy prices have impacted consumer demand in certain markets. Bedding demand has been soft in recent quarters, and we believe this is partially due to the impact higher gas prices are having on the consumer. Higher energy costs leave less disposable income available to purchase products that contain our components. Our inability to respond to these cost increases (by raising selling prices) could negatively affect our operating results.

**We have exposure to economic 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. This market demand is impacted by many broad economic factors, including consumer confidence, employment levels, housing turnover, energy costs and interest rates. These factors influence consumer spending on durable goods, and therefore drive demand for our components and products. Higher energy costs may impact consumer demand for our products. As consumers pay more for fuel and utilities, they have less disposable income available to purchase products that contain our components. Some of these factors also influence the level of 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. Currently, demand in the majority of our markets is relatively stable.

**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, 2006, goodwill and other intangible assets represented approximately \$1.3 billion, or 30.8% 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 reductions in our net income caused by the impairment of goodwill and other intangibles, which, if significant, could materially and adversely affect our results of operations.

As disclosed above, our Fixture & Display group has experienced deterioration in profitability compared to historical levels. We expect that the Restructuring Plan will lead to improved earnings in the Fixture & Display group. About \$280 million of goodwill is associated with the Fixture & Display group. If our earnings in this group do not improve, a goodwill impairment charge against earnings may be required.



**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 2006.

|            | Total Number<br>of Shares<br>Purchased (1) | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased as<br>Part of a<br>Publicly Announced<br>Plan or Program (2) | Maximum Number<br>of Shares that may<br>yet be purchased<br>under the<br>Plans or Programs (2) |
|------------|--------------------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| April 2006 | 110,700                                    | \$ 25.69                        | 94,479                                                                                           | 9,043,847                                                                                      |
| May 2006   | 1,101,550                                  | \$ 25.95                        | 1,092,831                                                                                        | 7,951,016                                                                                      |
| June 2006  | 557,587                                    | \$ 25.21                        | 551,553                                                                                          | 7,399,463                                                                                      |
| Total      | 1,769,837                                  | \$ 25.70                        | 1,738,863                                                                                        |                                                                                                |

- (1) The shares purchased include 30,974 shares surrendered or withheld to cover the exercise price and/or tax withholding obligations in stock option exercises and other benefit plan transactions, as permitted under the Company's Flexible Stock Plan. These shares were not repurchased as part of a publicly announced plan or program.
- (2) 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 10, 2006. 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 2006, 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.

1. 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<br>VOTED FOR | SHARES<br>WITHHELD |
|-------------------------|---------------------|--------------------|
| Raymond F. Bentele      | 163,495,790         | 1,500,569          |
| Ralph W. Clark          | 163,655,110         | 1,341,249          |
| Harry M. Cornell, Jr.   | 163,191,136         | 1,805,223          |
| Robert Ted Enloe, III   | 163,510,574         | 1,485,785          |
| Richard T. Fisher       | 163,517,265         | 1,479,094          |
| Karl G. Glassman        | 163,244,036         | 1,752,323          |
| David S. Haffner        | 163,193,618         | 1,802,741          |
| Joseph W. McClanathan   | 163,621,263         | 1,375,096          |
| Judy C. Odom            | 163,623,878         | 1,372,481          |
| Maurice E. Purnell, Jr. | 163,516,650         | 1,479,709          |
| Phoebe A. Wood          | 163,553,336         | 1,443,023          |
| Felix E. Wright         | 163,394,165         | 1,602,194          |

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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, 2006 was approved with the following vote:

**SHARES VOTED FOR**  
163,365,710

**SHARES VOTED AGAINST**  
669,255

**SHARES ABSTAINING**  
961,394

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**  
34,327,654

**SHARES VOTED AGAINST**  
104,488,528

**SHARES ABSTAINING**  
4,621,722

**BROKER NON-VOTES**  
21,558,455

**ITEM 5. OTHER INFORMATION**

Amendment of Credit Agreement

On July 31, 2006 the Company entered into a First Amendment to Credit Agreement, which amended its \$400 million multi-currency revolving credit agreement, dated August 5, 2005, with all of the banking institutions listed below.

The term of the Credit Agreement was extended one year from July 31, 2010 to July 31, 2011. The Company may extend the term beyond this date for successive one year periods with the written consent of the banking institutions. If banking institutions holding 25% or less of the Revolving Exposure and unused Commitments (each as defined in the Credit Agreement) reject the extension request, then the Company may terminate the participation of each rejecting bank, or request that each rejecting bank assign its interest to a bank selected by the Company and approved by JPMorgan Chase Bank, as administrative agent under the Agreement.

In addition, the Credit Agreement has been amended to exclude the undrawn amount of all letters of credit for the account of the Company and its subsidiaries from the definitions of Funded Debt, Short-Term Debt and Total Indebtedness.

Below is an alphabetical listing of the respective commitments of the participating banking institutions under the Credit Agreement.

| <b>Banking Institutions</b>                | <b>Revolving Credit Commitment</b> |
|--------------------------------------------|------------------------------------|
| 1. Arvest Bank                             | \$ 10,000,000                      |
| 2. Bank of America, N.A.                   | \$ 30,000,000                      |
| 3. Barclays Bank PLC                       | \$ 45,000,000                      |
| 4. JPMorgan Chase Bank, N.A.               | \$ 45,000,000                      |
| 5. LaSalle Bank, National Association      | \$ 25,000,000                      |
| 6. SunTrust Bank                           | \$ 30,000,000                      |
| 7. The Bank of New York                    | \$ 25,000,000                      |
| 8. Toronto Dominion (Texas) LLC            | \$ 25,000,000                      |
| 9. UMB Bank, N.A.                          | \$ 30,000,000                      |
| 10. U.S. Bank, National Association        | \$ 45,000,000                      |
| 11. Wachovia Bank, National Association.   | \$ 45,000,000                      |
| 12. Wells Fargo Bank, National Association | \$ 45,000,000                      |
|                                            | <b>\$ 400,000,000</b>              |

The foregoing is only a summary of certain terms and conditions of the Amendment and is qualified in its entirety by reference to the Amendment itself which is attached as Exhibit 10.1 hereto and is incorporated herein by reference. Reference is made to the Credit Agreement which was filed August 9, 2005 as Exhibit 10.1 to the Company's Current Report on Form 8-K. The Credit Agreement is incorporated herein by reference.

The listed banks and /or their affiliates have provided from time to time, and may continue to provide commercial banking and related services, as well as investment banking, financial advisory and other services to us and our affiliates, for which we have paid, and intend to pay customary fees, and, in some cases, out-of-pocket expenses.

Because this Quarterly Report on Form 10-Q is being filed within four business days from July 31, 2006, the Amendment is being disclosed hereunder rather than under Item 1.01 of Form 8-K.

Management Promotions

The Company recently promoted two executives. Paul R. Hauser, Senior Vice President, was made President of the Residential Furnishings Segment and Dennis S. Park was promoted to Senior Vice President of the Company, and President of the Commercial Fixturing & Components Segment.

**ITEM 6. EXHIBITS**

- Exhibit 10.1 First Amendment to Credit Agreement, dated July 31, 2006, among the Company, JPMorgan Chase Bank, N.A., as administrative agent, and the participating banking institutions named herein.
- Exhibit 10.2 Credit Agreement, dated August 5, 2005, among the Company, Wachovia Bank, N.A., as syndication agent, JPMorgan Chase Bank, N.A., as administrative agent, and the participating banking institutions named therein, filed August 9, 2005 as Exhibit 10.1 to the Company's Current Report on Form 8-K, is incorporated by reference. (SEC File No. 1-7845)
- Exhibit 10.3 David S. Haffner Employment Agreement, dated May 10, 2006, filed May 10, 2006 as Exhibit 10.1 to the Company's Current Report on Form 8-K, is incorporated by reference. (SEC File No. 1-7845)
- Exhibit 10.4 David S. Haffner Severance Benefit Agreement, dated May 10, 2006, filed May 10, 2006 as Exhibit 10.2 to the Company's Current Report on Form 8-K, is incorporated by reference. (SEC File No. 1-7845)
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- Exhibit 10.7 Summary Sheet for Executive Cash Compensation, filed May 10, 2006 as Exhibit 10.5 to the Company's Current Report on Form 8-K, is incorporated by reference. (SEC File No. 1-7845)
- Exhibit 10.8 Summary Sheet of Director Compensation, filed May 16, 2006 as Exhibit 10.1 to the Company's Current Report on Form 8-K, is incorporated by reference. (SEC File No. 1-7845)
- 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 3, 2006.
- 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 3, 2006.
- 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 3, 2006.
- 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 3, 2006.

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 3, 2006

By: /s/ DAVID S. HAFFNER  
David S. Haffner

President and Chief Executive Officer

DATE: August 3, 2006

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

Senior Vice President    Chief Financial Officer

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