

LEGGETT & PLATT INC  
Form 10-Q  
August 05, 2014

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, 2014  
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 001-07845  
LEGGETT & PLATT, INCORPORATED  
(Exact name of registrant as specified in its charter)

Missouri 44-0324630  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

No. 1 Leggett Road 64836  
Carthage, Missouri (Zip Code)  
(Address of principal executive offices)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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 23, 2014: 137,260,265

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

LEGGETT & PLATT, INCORPORATED  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

(Amounts in millions)	June 30, 2014	December 31, 2013
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$304.2	\$272.7
Trade receivables, net	553.5	434.8
Other receivables, net	49.9	32.6
Total receivables, net	603.4	467.4
Inventories		
Finished goods	278.9	270.5
Work in process	58.1	59.3
Raw materials and supplies	263.4	239.4
LIFO reserve	(73.3	) (73.3
Total inventories, net	527.1	495.9
Other current assets	54.8	45.7
Total current assets	1,489.5	1,281.7
<b>PROPERTY, PLANT AND EQUIPMENT—AT COST</b>		
Machinery and equipment	1,220.6	1,184.5
Buildings and other	605.8	612.2
Land	43.8	44.5
Total property, plant and equipment	1,870.2	1,841.2
Less accumulated depreciation	1,287.6	1,266.6
Net property, plant and equipment	582.6	574.6
<b>OTHER ASSETS</b>		
Goodwill	842.1	926.8
Other intangibles, less accumulated amortization of \$124.1 and \$114.4 as of June 30, 2014 and December 31, 2013, respectively	203.5	203.4
Sundry	125.7	121.6
Total other assets	1,171.3	1,251.8
<b>TOTAL ASSETS</b>	<b>\$3,243.4</b>	<b>\$3,108.1</b>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$181.3	\$181.1
Accounts payable	376.7	339.3
Accrued expenses	223.2	229.7
Other current liabilities	83.6	79.4
Total current liabilities	864.8	829.5
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	926.0	688.4
Other long-term liabilities	133.6	127.7
Deferred income taxes	56.6	63.3
Total long-term liabilities	1,116.2	879.4
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Common stock	2.0	2.0
Additional contributed capital	484.3	479.1

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Retained earnings	2,080.5	2,136.4	
Accumulated other comprehensive income	92.9	94.5	
Treasury stock	(1,406.4	) (1,320.7	)
Total Leggett & Platt, Inc. equity	1,253.3	1,391.3	
Noncontrolling interest	9.1	7.9	
Total equity	1,262.4	1,399.2	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$3,243.4</b>	<b>\$3,108.1</b>	

See accompanying notes to consolidated condensed financial statements.

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LEGGETT & PLATT, INCORPORATED  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

(Amounts in millions, except per share data)	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	\$1,920.7	\$1,891.5	\$1,001.6	\$958.8
Cost of goods sold	1,535.5	1,503.5	796.4	759.7
Gross profit	385.2	388.0	205.2	199.1
Selling and administrative expenses	198.3	206.0	99.8	98.8
Amortization of intangibles	9.9	11.1	5.0	5.4
Impairment of goodwill	108.0	—	108.0	—
Other (income) expense, net	(6.6)	(7.0)	(.7)	(3.6)
Earnings (loss) from continuing operations before interest and income taxes	75.6	177.9	(6.9)	98.5
Interest expense	20.8	23.7	10.4	10.9
Interest income	2.8	4.5	1.4	1.8
Earnings (loss) from continuing operations before income taxes	57.6	158.7	(15.9)	89.4
Income taxes	27.0	44.2	7.2	24.3
Earnings (loss) from continuing operations	30.6	114.5	(23.1)	65.1
Earnings from discontinued operations, net of tax	—	6.9	—	6.8
Net earnings (loss)	30.6	121.4	(23.1)	71.9
(Earnings) attributable to noncontrolling interest, net of tax	(1.4)	(1.0)	(.8)	(.6)
Net earnings (loss) attributable to Leggett & Platt, Inc. common shareholders	\$29.2	\$120.4	\$(23.9)	\$71.3
Earnings (loss) per share from continuing operations attributable to Leggett & Platt, Inc. common shareholders				
Basic	\$.21	\$.78	\$(.17)	\$.44
Diluted	\$.20	\$.77	\$(.17)	\$.44
Earnings per share from discontinued operations attributable to Leggett & Platt, Inc. common shareholders				
Basic	\$—	\$.05	\$—	\$.05
Diluted	\$—	\$.05	\$—	\$.05
Net earnings (loss) per share attributable to Leggett & Platt, Inc. common shareholders				
Basic	\$.21	\$.83	\$(.17)	\$.49
Diluted	\$.20	\$.81	\$(.17)	\$.48
Cash dividends declared per share	\$.60	\$.58	\$.30	\$.29
Average shares outstanding				
Basic	141.9	145.9	141.4	145.8
Diluted	143.6	148.0	141.4	148.1

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED  
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (Unaudited)

(Amounts in millions)	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net earnings (loss)	\$30.6	\$121.4	\$(23.1 )	\$71.9
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(4.3 )	(27.5 )	10.8	(11.2 )
Cash flow hedges	1.8	.9	1.9	.1
Defined benefit pension plans	.7	2.5	.1	1.1
Other comprehensive (loss) income	(1.8 )	(24.1 )	12.8	(10.0 )
Comprehensive income (loss)	28.8	97.3	(10.3 )	61.9
Less: comprehensive (income) attributable to noncontrolling interest	(1.2 )	(1.1 )	(.8 )	(.7 )
Comprehensive income (loss) attributable to Leggett & Platt, Inc.	\$27.6	\$96.2	\$(11.1 )	\$61.2

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Amounts in millions)	Six Months Ended June 30,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$30.6	\$121.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	44.7	45.0
Amortization of intangibles and debt issuance costs	13.7	14.1
Provision for losses on accounts and notes receivable	1.8	3.2
Writedown of inventories	4.5	11.4
Goodwill impairment	108.0	—
Long-lived asset impairments	1.0	2.3
Net gain from sales of assets and businesses	(4.7)	(7.7)
Deferred income tax (benefit) expense	(6.1)	10.5
Stock-based compensation	20.2	20.2
Other, net	(4.0)	(3)
Other changes, excluding effects from acquisitions and divestitures:		
Increase in accounts and other receivables	(136.9)	(112.3)
Increase in inventories	(25.2)	(34.6)
Increase in other current assets	(4.5)	(1.4)
Increase in accounts payable	41.8	53.5
Decrease in accrued expenses and other current liabilities	(1.5)	(2.1)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>83.4</b>	<b>123.2</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(38.4)	(41.9)
Purchases of companies, net of cash acquired	(51.2)	(10.1)
Proceeds from sales of assets and businesses	9.8	14.4
Other, net	(14.6)	(4.4)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(94.4)</b>	<b>(42.0)</b>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	(6.7)	(202.1)
Change in commercial paper and short-term debt	244.4	128.8
Dividends paid	(83.7)	(41.4)
Issuances of common stock	8.8	32.5
Purchases of common stock	(118.1)	(82.2)
Excess tax benefits from stock-based compensation	2.0	5.9
Other, net	(4)	—
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>46.3</b>	<b>(158.5)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(3.8)</b>	<b>(1.5)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>31.5</b>	<b>(78.8)</b>
CASH AND CASH EQUIVALENTS—January 1,	272.7	359.1
CASH AND CASH EQUIVALENTS—June 30,	\$304.2	\$280.3

See accompanying notes to consolidated condensed financial statements.



LEGGETT & PLATT, INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions, except per share data)

1. INTERIM PRESENTATION

The interim financial statements of Leggett & Platt, Incorporated (“we”, “us” or “our”) 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 our financial position and operating results for the periods presented. We have prepared the statements 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.

The December 31, 2013 financial position data included herein was derived from the audited consolidated financial statements included in Form 10-K, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). For further information, refer to the financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2013.

2. NEW ACCOUNTING GUIDANCE

In April 2014, the Financial Accounting Standards Board (FASB) issued updated guidance, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance will be effective January 1, 2015 (however early adoption is permitted), and changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. We do not believe it will have a material impact on our future financial statements.

In May 2014, the FASB issued new authoritative literature, Revenue from Contracts with Customers, which supersedes much of the existing authoritative literature for revenue recognition. This guidance will be effective January 1, 2017. While we are currently evaluating the newly issued guidance, we do not anticipate that it will have a material impact on our future financial statements.

3. INVENTORIES

About 55% of our inventories are valued using the Last-In, First-Out (LIFO) cost method and the remainder using the First-In, First-Out (FIFO) cost method.

We calculate our LIFO reserve (the excess of FIFO cost over LIFO cost) on an annual basis. During interim periods, we estimate the current year annual change in the LIFO reserve (i.e., the annual LIFO expense or benefit) and allocate that change ratably to the four quarters. Because accurately predicting inventory prices for the year is difficult, the change in the LIFO reserve for the full year could be significantly different from the amount currently estimated. In addition, a variation in expected ending inventory levels could also impact total change in the LIFO reserve for the year. Any change in the annual LIFO estimate will be reflected in future quarters.

The following table contains the LIFO benefit (expense) included in earnings for each of the periods presented.

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
LIFO benefit (expense)	\$—	\$4.8	\$—	\$2.2





LEGGETT & PLATT, INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

#### 4. SEGMENT INFORMATION

We have four operating segments that supply a wide range of products:

• Residential Furnishings—components for bedding, furniture and other furnishings, as well as related consumer products

• Commercial Fixturing & Components—retail store fixtures, and components for office and institutional furnishings

• Industrial Materials—drawn steel wire, specialty wire products, titanium and nickel tubing for the aerospace industry and welded steel tubing

• Specialized Products—automotive seating components, specialized machinery and equipment, and commercial vehicle interiors

Our reportable segments are the same as our operating segments, which correspond with our management organizational structure. Each reportable segment has a senior operating vice-president that reports to the chief operating officer. The chief operating officer in turn reports directly to the chief operating decision maker. The operating results and financial information reported through the segment structure are regularly reviewed and used by the chief operating decision maker to evaluate segment performance, allocate overall resources and determine management incentive compensation.

Separately, we also utilize a role-based approach (Grow, Core, Fix or Divest) as a supplemental management tool to ensure capital (which is a subset of the overall resources referred to above) is efficiently allocated within the reportable segment structure.

The accounting principles used in the preparation of the segment information are the same as those used for the consolidated financial statements, except that the segment assets and income reflect the FIFO basis of accounting for inventory. Certain inventories are accounted for using the LIFO basis in the consolidated financial statements. We evaluate performance based on earnings from operations before interest and income taxes (EBIT). Intersegment sales are made primarily at prices that approximate market-based selling prices. Centrally incurred costs are allocated to the segments based on estimates of services used by the segment. Certain of our general and administrative costs and miscellaneous corporate income and expenses are allocated to the segments based on sales. These allocated corporate costs include depreciation and other costs and income related to assets that are not allocated or otherwise included in the segment assets.

A summary of segment results from continuing operations are shown in the following tables.

	External Sales	Inter- Segment Sales	Total Sales	EBIT	
Three Months Ended June 30, 2014					
Residential Furnishings	\$525.9	\$10.1	\$536.0	\$53.7	
Commercial Fixturing & Components	94.9	1.5	96.4	(106.9	)
Industrial Materials	165.5	56.7	222.2	14.3	
Specialized Products	215.3	15.5	230.8	35.4	
Intersegment eliminations				(3.4	)
Change in LIFO reserve				—	
	\$1,001.6	\$83.8	\$1,085.4	\$(6.9	)
Three Months Ended June 30, 2013					
Residential Furnishings	\$484.8	\$4.0	\$488.8	\$42.4	
Commercial Fixturing & Components	126.2	1.2	127.4	7.9	
Industrial Materials	155.8	60.9	216.7	21.9	
Specialized Products	192.0	16.4	208.4	28.4	
Intersegment eliminations				(4.3	)

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Change in LIFO reserve				2.2
	\$958.8	\$82.5	\$1,041.3	\$98.5

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LEGGETT & PLATT, INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

	External Sales	Inter- Segment Sales	Total Sales	EBIT
Six Months Ended June 30, 2014				
Residential Furnishings	\$ 1,015.0	\$ 19.8	\$ 1,034.8	\$ 105.0
Commercial Fixturing & Components	183.4	2.9	186.3	(108.9 )
Industrial Materials	319.6	114.2	433.8	25.4
Specialized Products	402.7	26.4	429.1	60.4
Intersegment eliminations				(6.3 )
Change in LIFO reserve				—
	\$ 1,920.7	\$ 163.3	\$ 2,084.0	\$ 75.6
Six Months Ended June 30, 2013				
Residential Furnishings	\$ 969.7	\$ 5.9	\$ 975.6	\$ 84.7
Commercial Fixturing & Components	240.8	2.2	243.0	9.5
Industrial Materials	315.4	124.5	439.9	43.6
Specialized Products	365.6	29.1	394.7	44.1
Intersegment eliminations				(8.8 )
Change in LIFO reserve				4.8
	\$ 1,891.5	\$ 161.7	\$ 2,053.2	\$ 177.9

Average assets for our segments are shown in the table below and reflect the basis for return measures used by management to evaluate segment performance. These segment totals include working capital (all current assets and current liabilities) plus net property, plant and equipment. Segment assets for all years are reflected at their estimated average for the periods presented.

	June 30, 2014	December 31, 2013
Residential Furnishings	\$583.6	\$586.5
Commercial Fixturing & Components	124.2	144.9
Industrial Materials	259.4	248.0
Specialized Products	243.3	225.0
Average current liabilities included in segment numbers above	504.3	460.6
Unallocated assets (1)	1,466.1	1,492.4
Difference between average assets and period-end balance sheet	62.5	(49.3 )
Total assets	\$3,243.4	\$3,108.1

(1) Unallocated assets consist primarily of goodwill, other intangibles, cash and deferred tax assets.

## 5. DISCONTINUED OPERATIONS

In the second quarter of 2013 we exited three small operations:

We closed our final location that produced wire dishwasher racks, thereby discontinuing that line of business. This operation, which was previously in our Industrial Materials segment, was part of a restructuring plan that began in the fourth quarter of 2011. Tax benefits related to this business were recorded in the second quarters of both 2012 and 2013.

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We divested the specialty trailers portion of the Commercial Vehicle Products (CVP) Unit. This branch was previously part of the Specialized Products segment. No significant gains or losses were realized on the sale of this business.

We closed a cotton-based erosion control products operation that was previously part of the Industrial Materials Segment. Charges of \$1.9 were recorded in the second quarter of 2013 to reflect estimates of fair value less costs to sell, including \$1.5 of fixed asset impairments as discussed Note 6.

LEGGETT & PLATT, INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

The table below includes activity related to these operations:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2014	2013	2014	2013
External sales:				
Industrial Materials:				
Wire dishwasher racks	\$—	\$4.1	\$—	\$1.2
Cotton-based erosion control products	—	—	—	—
Specialized Products - the specialty trailers portion of the CVP Unit	—	.5	—	.1
Total external sales	—	4.6	—	1.3
Earnings (loss):				
Industrial Materials:				
Wire dishwasher racks	—	1.0	—	.2
Cotton-based erosion control products	—	(2.6 )	—	(2.3 )
Specialized Products - the specialty trailers portion of the CVP Unit	—	(.7 )	—	(.4 )
Earnings (loss) before interest and income taxes	—	(2.3 )	—	(2.5 )
Income tax benefit (1)	—	9.2	—	9.3
Earnings from discontinued operations (net of tax)	\$—	\$6.9	\$—	\$6.8

(1) The 2013 tax benefit is primarily related to a worthless stock deduction associated with the subsidiary that produced wire dishwasher racks.

## 6. IMPAIRMENT CHARGES

Pre-tax impact of impairment charges is summarized in the following table.

Goodwill impairments associated with continuing operations are reported on the Statements of Operations in "Impairment of goodwill" and other asset impairments are reported in "Other (income) expense, net." Charges associated with discontinued operations are reported on the Statements of Operations in "Earnings (loss) from discontinued operations, net of tax."

	Six Months Ended June 30,			Three Months Ended June 30,		
	2014	2013	2014	2013	2014	2013
	Goodwill Impairment	Other Long-Lived Asset Impairments	Goodwill Impairment	Other Long-Lived Asset Impairments	Goodwill Impairment	Other Long-Lived Asset Impairments
Continuing operations:						
Residential Furnishings	\$—	\$ 1.0	\$ .8	\$—	\$ .6	\$ .6
Commercial Fixturing & Components - Store Fixtures	108.0	—	—	108.0	—	—
Total continuing operations	108.0	1.0	.8	108.0	.6	.6
Discontinued operations:	—	—	1.5	—	—	1.5

Industrial Materials - Cotton-based  
erosion control products

Total discontinued operations	—	—	1.5	—	—	1.5
Total impairment charges	\$108.0	\$ 1.0	\$ 2.3	\$108.0	\$ .6	\$ 2.1

LEGGETT & PLATT, INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

#### Other Long-Lived Assets

We test other long-lived assets for recoverability at year end and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Fair value and the resulting impairment charges noted above were based primarily upon offers from potential buyers or third party estimates of fair value less selling costs.

#### Goodwill

Goodwill is required to be tested for impairment at least once a year and as triggering events may occur. We perform our annual goodwill impairment review in the second quarter of each year.

Fair value of reporting units is determined using a combination of two valuation methods: a market approach and an income approach. Each method is generally given equal weight in determining the fair value assigned to each reporting unit. Absent an indication of fair value from a potential buyer or similar specific transaction, we believe that the use of these two methods provides a reasonable estimate of a reporting unit's fair value. Assumptions common to both methods are operating plans and economic projections, which are used to project future revenues, earnings, and after-tax cash flows for each reporting unit. These assumptions are applied consistently for both methods.

The market approach estimates fair value by first determining price-to-earnings ratios for comparable publicly-traded companies with similar characteristics of the reporting unit. The price-to-earnings ratio for comparable companies is based upon current enterprise value compared to projected earnings for the next two years. The enterprise value is based upon current market capitalization and includes a 25% control premium. Projected earnings are based upon market analysts' projections. The earnings ratios are applied to the projected earnings of the comparable reporting unit to estimate fair value. Management believes this approach is appropriate because it provides a fair value estimate using multiples from entities with operations and economic characteristics comparable to our reporting units.

The income approach is based on projected future (debt-free) cash flow that is discounted to present value using factors that consider the timing and risk of future cash flows. Management believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. Discounted cash flow projections are based on 10-year financial forecasts developed from operating plans and economic projections noted above, sales growth, estimates of future expected changes in operating margins, terminal value growth rates, future capital expenditures and changes in working capital requirements.

If a triggering event occurs, special consideration is given to the new circumstances when determining the fair value of the impacted reporting unit.

#### Goodwill Impairment Reviews

We performed our annual goodwill impairment review in June 2014, and on July 14, 2014, concluded that a goodwill impairment charge was required for one reporting unit, Store Fixtures which is part of the Commercial Fixturing and Components segment.

The Store Fixtures reporting unit is dependent upon capital spending by retailers on both new stores and remodeling of existing stores. Because of the seasonal nature of the fixture & display industry (where revenue and profitability are



typically expected to increase in the second and third quarters assuming the normal historical pattern of heavy shipments during these months) we reasonably anticipated being awarded significant customer orders in the second quarter of 2014. However, as the second quarter progressed, anticipated orders did not materialize and the Store Fixtures business deteriorated, with declines most pronounced in May and June. Taking these recent developments into account, we lowered our projection of future margins and growth rates (from 4.8% in prior year's review to .5% in the current year for 10-year compound annual growth rate for EBIT plus depreciation and amortization) and increased the discount rate from 10.5% to 12%, causing fair value to fall below carrying value. The lower expectations of future revenue and profitability are due to reduced overall market demand for the shelving, counters, showcases and garment racks as many retailers are reducing their investments in traditional store space and focusing more on e-commerce initiatives.

We have engaged an investment banker and are exploring strategic alternatives regarding the Store Fixtures reporting unit, including the possibility of divestiture of this business. However, not all of the held for sale criteria for Store Fixtures have been met. As a result, we determined a triggering event had occurred to test other long-lived assets which were evaluated for impairment under the held for use model. No long-lived asset impairments (excluding goodwill) were indicated during this review.

LEGGETT & PLATT, INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

Because the fair value of the Store Fixtures reporting unit had fallen below recorded book values, we performed the second step of the test which requires a fair value assessment of all assets and liabilities of the reporting unit to calculate an implied goodwill amount. This resulted in a \$108.0 goodwill impairment charge that was recorded in the second quarter of 2014. This charge reflects the complete impairment of all goodwill associated with the Store Fixtures reporting unit.

The fair values of reporting units in relation to their respective carrying values and significant assumptions used in the June 2014 review are presented in the table below. The information below excludes Store Fixtures, as this unit had no goodwill remaining after the second quarter 2014 impairment.

Percentage of Fair Value in Excess of Carrying Value	June 30, 2014 Goodwill Value	10-year Compound Annual Growth Rate Range for Sales	Terminal Values Long-term Growth Rate for Debt-Free Cash Flow	Discount Rate Ranges
< 25%	\$—			
25% - 49%	203.6	2.0% - 5.5%	3.0	% 9.5% - 10.0%
50% - 74%	399.3	.5% - 3.8%	3.0	% 9.0% - 12.0%
75%+	239.2	3.7% - 8.2%	3.0	% 9.0% - 9.5%
	\$842.1	.5% - 8.2%	3.0	% 9.0% - 12.0%

## 7. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Six Months Ended		Three Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Earnings:				
Earnings from continuing operations	\$30.6	\$114.5	\$(23.1)	\$65.1
(Earnings) attributable to noncontrolling interest, net of tax	(1.4)	(1.0)	(.8)	(.6)
Net earnings from continuing operations attributable to Leggett & Platt, Inc. common shareholders	29.2	113.5	(23.9)	64.5
Earnings (loss) from discontinued operations, net of tax	—	6.9	—	6.8
Net earnings attributable to Leggett & Platt, Inc. common shareholders	\$29.2	\$120.4	\$(23.9)	\$71.3
Weighted average number of shares (in millions):				
Weighted average number of common shares used in basic EPS	141.9	145.9	141.4	145.8
Dilutive effect of equity-based compensation	1.7	2.1	—	2.3
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	143.6	148.0	141.4	148.1

### Basic and Diluted EPS:

Basic EPS attributable to Leggett & Platt, Inc. common shareholders

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Continuing operations	\$ .21	\$ .78	\$ (.17	) \$ .44
Discontinued operations	—	.05	—	.05
Basic EPS attributable to Leggett & Platt, Inc. common shareholders	\$ .21	\$ .83	\$ (.17	) \$ .49
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders				
Continuing operations	\$ .20	\$ .77	\$ (.17	) \$ .44
Discontinued operations	—	.05	—	.05
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders	\$ .20	\$ .81	\$ (.17	) \$ .48
Other information:				
Anti-dilutive shares excluded from diluted EPS computation	—	—	—	—

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 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)  
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## 8. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consisted of the following:

	June 30, 2014		December 31, 2013	
	Current	Long-term	Current	Long-term
Gross receivables:				
Trade accounts receivable	\$568.1	\$—	\$447.4	\$—
Trade notes receivable	2.0	1.6	2.6	2.3
Total trade receivables	570.1	1.6	450.0	2.3
Other notes receivable:				
Notes received as partial payment for divestitures	1.2	4.4	.5	5.4
Other	2.9	.4	3.0	1.6
Other receivables	45.8	—	29.1	—
Subtotal other receivables	49.9	4.8	32.6	7.0
Total accounts and other receivables	620.0	6.4	482.6	9.3
Allowance for doubtful accounts:				
Trade accounts receivable	(15.8	) —	(14.6	) —
Trade notes receivable	(.8	) (1.2	) (.6	) (1.3
Total trade receivables	(16.6	) (1.2	) (15.2	) (1.3
Other notes receivable	—	(.4	) —	(1.1
Total allowance for doubtful accounts	(16.6	) (1.6	) (15.2	) (2.4
Total net receivables	\$603.4	\$4.8	\$467.4	\$6.9

Notes that were past due more than 90 days or had been placed on non-accrual status were not significant for the periods presented.

Activity related to the allowance for doubtful accounts is reflected below:

	Balance at December 31, 2013	2014 Charges	2014 Charge- offs, Net of Recoveries	Balance at June 30, 2014
Trade accounts receivable	\$14.6	\$1.7	\$.5	\$15.8
Trade notes receivable	1.9	.1	—	2.0
Total trade receivables	16.5	1.8	.5	17.8
Other notes receivable	1.1	—	.7	.4
Total allowance for doubtful accounts	\$17.6	\$1.8	\$1.2	\$18.2



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### 9. STOCK-BASED COMPENSATION

The following table recaps the components of stock-based and stock-related compensation for each period presented:

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	To be settled with stock	To be settled in cash	To be settled with stock	To be settled in cash
Options (1):				
Amortization of the grant date fair value	\$ .4	\$ —	\$ 1.0	\$ —
Cash payments in lieu of options	—	.9	—	.8
Stock-based retirement plans contributions (2)	3.3	.8	3.9	.7
Discounts on various stock awards:				
Deferred Stock Compensation Program (1)	1.3	—	1.0	—
Stock-based retirement plans (2)	1.2	—	.7	—
Discount Stock Plan (6)	.5	—	.5	—
Performance Stock Unit awards (3)	3.1	2.4	3.2	3.4
Restricted Stock Unit awards (4)	1.7	—	2.6	—
Profitable Growth Incentive awards (5)	.8	.8	.5	.5
Other, primarily non-employee directors restricted stock	.6	—	.7	—
Total stock-related compensation expense	12.9	\$4.9	14.1	\$5.4
Employee contributions for above stock plans	7.3		6.1	
Total stock-based compensation	\$20.2		\$20.2	
Recognized tax benefits on stock-based compensation expense	\$4.9		\$5.4	

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	To be settled with stock	To be settled in cash	To be settled with stock	To be settled in cash
Options (1):				
Amortization of the grant date fair value	\$ .2	\$ —	\$ .5	\$ —
Cash payments in lieu of options	—	—	—	—
Stock-based retirement plans contributions (2)	1.7	.3	1.6	.2
Discounts on various stock awards:				
Deferred Stock Compensation Program (1)	.6	—	.3	—
Stock-based retirement plans (2)	.5	—	.2	—
Discount Stock Plan (6)	.2	—	.2	—
Performance Stock Unit awards (3)	1.6	1.2	1.6	(.9 )
Restricted Stock Unit awards (4)	.9	—	.9	—
Profitable Growth Incentive awards (5)	.4	.4	.3	.3
Other, primarily non-employee directors restricted stock	.3	—	.2	—
Total stock-related compensation expense	6.4	\$ 1.9	5.8	\$(.4 )

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Employee contributions for above stock plans	3.3	2.9
Total stock-based compensation	\$9.7	\$8.7
Recognized tax benefits on stock-based compensation expense	\$2.4	\$2.3

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(1) Stock Option Grants

Historically we have granted stock options in the following areas:

- On a discretionary basis to a broad group of employees
- In conjunction with our Deferred Compensation Program
- As compensation of outside directors

Starting in 2013, we discontinued the broad annual option grant, and options are now offered only in conjunction with the Deferred Compensation Program discussed below, and were replaced with either cash awards or RSUs. Certain key management employees participated in a new Profitable Growth Incentive (PGI) program beginning in 2013, as discussed below.

Deferred Compensation Program

We offer a Deferred Compensation Program under which key managers and outside directors may elect to receive stock options, stock units or interest-bearing cash deferrals in lieu of cash compensation:

Stock options under this program are granted on the last business day of the year prior to the year the compensation is earned. The number of options granted equals the deferred compensation times five, divided by the stock's market price on the date of grant. The option has a 10-year term. It vests as the associated compensation is earned and becomes exercisable beginning 15 months after the grant date. Stock is issued when the option is exercised.

Deferred stock units (DSU) under this program are acquired every two weeks (when the compensation would have otherwise been paid) at a 20% discount to the market price of our common stock on each acquisition date and they vest immediately. Expense is recorded as the compensation is earned. Stock units earn dividends at the same rate as cash dividends paid on our common stock. These dividends are used to acquire stock units at a 20% discount. Stock units are converted to common stock and distributed in accordance with the participant's pre-set election. However, stock units may be settled in cash at the discretion of the Company. Participants must begin receiving distributions no later than ten years after the effective date of the deferral and installment distributions cannot exceed ten years.

Interest-bearing cash deferrals under this program are reported in Other long-term liabilities on the balance sheet.

(2) Stock-Based Retirement Plans

We have two stock-based retirement plans: the tax-qualified Stock Bonus Plan (SBP) for non-highly compensated employees, and the non-qualified Executive Stock Unit Program (ESUP) for highly compensated employees. We make matching contributions to both plans. In addition to the automatic 50% match, we will make another matching contribution of up to 50% of the employee's contributions for the year if certain profitability levels, as defined in the SBP and the ESUP, are obtained. Company contributions to the ESUP, including dividend equivalents, are used to acquire stock units at 85% of the common stock market price on the acquisition date.

(3) Performance Stock Unit Awards

We grant Performance Stock Unit (PSU) awards in the first quarter of each year to selected officers and other key managers. These awards contain the following conditions:

- A service requirement—Awards generally “cliff” vest three years following the grant date; and



A market condition—Awards are based on our Total Shareholder Return [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price] as compared to the TSR of a group of peer companies. The peer group consists of all the companies in the Industrial, Materials and Consumer Discretionary sectors of the S&P 500 and S&P Midcap 400 (approximately 320 companies). Participants will earn from 0% to 175% of the base award depending upon how our Total Shareholder Return ranks within the peer group at the end of the 3-year performance period. Grant date fair values are calculated using a Monte Carlo simulation of stock and volatility data for Leggett and each of the comparator companies. Grant date fair values are amortized using the straight-line method over the three-year vesting period.

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Below is a summary of the number of shares and related grant date fair value of PSU's for the periods presented

	Six Months Ended		
	June 30,		
	2014	2013	
Total shares base award	.2	.2	
Grant date per share fair value	\$30.45	\$27.60	
Risk-free interest rate	.8	% .4	%
Expected life in years	3.0	3.0	
Expected volatility (over expected life)	25.9	% 29.1	%
Expected dividend yield (over expected life)	3.9	% 4.2	%
Three-Year Performance Cycle			

Award Year	Completion Date	TSR Performance Relative to the Peer Group (1%=Best)	Payout as a Percent of the Base Award	Number of Shares Distributed	Distribution Date
2010	December 31, 2012	46th percentile	91.0%	.3 million	January 2013
2011	December 31, 2013	55th percentile	64.2%	.2 million	January 2014

The above information represents the 65% portion of the award that we intend to pay in shares of our common stock, although we reserve the right to pay up to 100% in cash. There is also an additional amount that represents 35% of the award that we will settle in cash. It is recorded as a liability and is adjusted to fair value at each reporting period.

#### (4) Restricted Stock Unit Awards

RSU awards are generally granted as follows:

- ☐ To managers in lieu of annual option grants
- ☐ On a discretionary basis to selected managers
- ☐ To selected executive officers in connection with employment agreements
- ☐ As compensation for outside directors, who have a choice to receive RSUs or restricted stock

The value of these awards is determined by the stock price on the day of the award, and expense is recognized over the vesting period.

#### (5) Profitable Growth Incentive Awards

Starting in 2013, certain key management employees participated in a new Profitable Growth Incentive (PGI) program in lieu of the annual option grant. The PGI awards are issued as growth performance stock units (GPSUs). The GPSUs vest (0% to 250%) at the end of a two-year performance period. Vesting is based on the Company's or applicable profit center's revenue growth (adjusted by a GDP factor when applicable) and EBITDA margin at the end of a two-year performance period. The 2014 and 2013 base target PGI awards were each .1 shares. If earned, we intend to pay half in shares of our common stock and half in cash, although we reserve the right to pay up to 100% in cash. Both components are adjusted to fair value at each reporting period.

(6) Discount Stock Plan

Under the Discount Stock Plan (DSP), a tax-qualified §423 stock purchase plan, eligible employees may purchase shares of Leggett common stock at 85% of the closing market price on the last business day of each month. Shares are purchased and issued on the last business day of each month and generally cannot be sold or transferred for one year.

10. ACQUISITIONS

The following table contains the estimated fair values (using inputs as discussed in Note 13) of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions during the periods presented, and any additional consideration

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paid for prior years' acquisitions. We are finalizing all the information required to complete the purchase price allocations related to certain recent acquisitions and do not anticipate any material modifications.

	Six Months Ended June 30,	
	2014	2013
Accounts receivable	\$1.0	\$1.5
Inventory	11.2	1.5
Property, plant and equipment	17.2	2.0
Goodwill (1)	23.9	5.2
Other intangible assets	2.3	4.0
Other current and long-term assets	4.1	.1
Current liabilities	(7.3	) (4.3
Additional consideration for prior years' acquisitions	—	.1
Fair value of net identifiable assets	52.4	10.1
Less: Non-cash consideration	1.2	—
Net cash consideration	\$51.2	\$10.1

(1) Goodwill associated with the 2014 acquisitions is expected to provide an income tax benefit. Goodwill associated with the 2013 acquisition is not expected to provide an income tax benefit.

The following table summarizes acquisitions for the periods presented.

Six Months Ended	Number of Acquisitions	Segment	Product/Service
June 30, 2014	3	Residential Furnishings	Foam carpet underlay; Fabric converting for furniture and bedding; Innersprings
June 30, 2013	1	Industrial Materials	Tubing for the aerospace industry

On June 30, 2014, we acquired Tempur Sealy's three U.S. innerspring component production facilities for a purchase price of \$47.7 million. Factors contributing to the recognition of \$18.4 million in goodwill from the acquisition included: additional production that enhances economies of scale; benefits from our vertical integration in steel rod and wire; and the optimization of manufacturing across a broad asset base.

The results of operations of the above acquired companies have been included in the consolidated financial statements since the dates of acquisition. The unaudited pro forma consolidated net sales, net earnings and earnings per share as though the 2014 and 2013 acquisitions had occurred on January 1 of each year presented are not materially different from the amounts reflected in the accompanying financial statements. Certain of our acquisition agreements provide for additional consideration to be paid in cash at a later date and are recorded as a liability at the acquisition date. At June 30, 2014, there was no substantial remaining consideration payable.

#### 11. EMPLOYEE BENEFIT PLANS

The following table provides interim information as to our domestic and foreign defined benefit pension plans. Expected 2014 employer contributions are not significantly different than the \$3.4 previously reported at December 31, 2013.

Six Months Ended		Three Months Ended	
June 30,		June 30,	
2014	2013	2014	2013

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Components of net pension expense

Service cost	\$1.5	\$1.7	\$ .8	\$ .8
Interest cost	6.4	6.0	3.2	3.0
Expected return on plan assets	(7.8 )	(7.6 )	(3.9 )	(3.8 )
Recognized net actuarial loss	1.6	3.2	.8	1.7
Net pension expense	\$1.7	\$3.3	\$ .9	\$1.7

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## 12. STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Six Months Ended June 30, 2014

	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2014	\$1,399.2	\$2,136.4	\$481.1	\$(1,320.7 )	\$ 7.9	\$ 94.5
Net earnings	30.6	30.6	—	—	—	—
(Earnings) loss attributable to noncontrolling interest, net of tax	—	(1.4 )	—	—	1.4	—
Dividends declared	(82.7 )	(85.1 )	2.4	—	—	—
Treasury stock purchased	(124.3 )	—	—	(124.3 )	—	—
Treasury stock issued	26.7	—	(11.9 )	38.6	—	—
Foreign currency translation adjustments	(4.3 )	—	—	—	(.2 )	(4.1 )
Cash flow hedges, net of tax	1.8	—	—	—	—	1.8
Defined benefit pension plans, net of tax	.7	—	—	—	—	.7
Stock options and benefit plan transactions, net of tax	14.7	—	14.7	—	—	—
Ending balance, June 30, 2014	\$1,262.4	\$2,080.5	\$486.3	\$(1,406.4 )	\$ 9.1	\$ 92.9

Six Months Ended June 30, 2013

	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2013	\$1,442.2	\$2,109.6	\$460.6	\$(1,206.7 )	\$ 7.7	\$ 71.0
Net earnings	121.4	121.4	—	—	—	—
(Earnings) loss attributable to noncontrolling interest, net of tax	—	(1.0 )	—	—	1.0	—
Dividends declared	(82.6 )	(83.7 )	1.1	—	—	—
Treasury stock purchased	(90.0 )	—	—	(90.0 )	—	—
Treasury stock issued	46.2	—	(12.2 )	58.4	—	—
Foreign currency translation adjustments	(27.5 )	—	—	—	.1	(27.6 )
Cash flow hedges, net of tax	.9	—	—	—	—	.9
	2.5	—	—	—	—	2.5

Defined benefit pension plans, net of tax						
Stock options and benefit plan transactions, net of tax	20.6	—	20.6	—	—	—
Ending balance, June 30, 2013	\$1,433.7	\$2,146.3	\$470.1	\$(1,238.3)	\$ 8.8	\$ 46.8

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The following tables set forth the components of and changes in each component of accumulated other comprehensive income (loss) for each of the periods presented:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Beginning balance, January 1, 2014	\$158.3	\$(23.5 )	\$(40.3 )	\$94.5
Other comprehensive income (loss) before reclassifications, pretax	(4.3 )	.6	(.5 )	(4.2 )
Amounts reclassified from accumulated other comprehensive income, pretax:				
Net Sales	—	.2	—	.2
Cost of goods sold; selling and administrative expenses	—	—	1.6	1.6
Interest expense	—	2.0	—	2.0
Subtotal of reclassifications, pretax	—	2.2	1.6	3.8
Other comprehensive income (loss), pretax	(4.3 )	2.8	1.1	(.4 )
Income tax effect	—	(1.0 )	(.4 )	(1.4 )
Attributable to noncontrolling interest	.2	—	—	.2
Ending balance, June 30, 2014	\$154.2	\$(21.7 )	\$(39.6 )	\$92.9
Beginning balance, January 1, 2013	\$163.5	\$(25.5 )	\$(67.0 )	\$71.0
Other comprehensive income (loss) before reclassifications, pretax	(27.5 )	(.6 )	.5	(27.6 )
Amounts reclassified from accumulated other comprehensive income, pretax:				
Cost of goods sold; selling and administrative expenses	—	.2	3.2	3.4
Interest expense	—	2.0	—	2.0
Subtotal of reclassifications, pretax	—	2.2	3.2	5.4
Other comprehensive income (loss), pretax	(27.5 )	1.6	3.7	(22.2 )
Income tax effect	—	(.7 )	(1.2 )	(1.9 )
Attributable to noncontrolling interest	(.1 )	—	—	(.1 )
Ending balance, June 30, 2013	\$135.9	\$(24.6 )	\$(64.5 )	\$46.8

### 13. FAIR VALUE

We utilize fair value measures for both financial and non-financial assets and liabilities.

Items measured at fair value on a recurring basis

The areas in which we utilize fair value measures of financial assets and liabilities are presented in the table below.

Fair value measurements are established using a three level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following categories:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Short-term investments in this category are valued using discounted cash flow techniques with all significant inputs derived from or corroborated by observable market data. Derivative assets and liabilities in this category are valued using models that consider various assumptions and information from market-corroborated sources. The models used are primarily industry-standard models that consider items such as quoted prices, market



interest rate curves applicable to the instruments being valued as of the end of each period, discounted cash flows, volatility factors, current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3: Unobservable inputs that are not corroborated by market data.

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	As of June 30, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents:				
Bank time deposits with original maturities of three months or less	\$—	\$146.5	\$—	\$146.5
Derivative assets* (Note 14)	—	1.1	—	1.1
Diversified investments associated with the Executive Stock Unit Program (ESUP)* (Note 9)	17.2	—	—	17.2
Total assets	\$17.2	\$147.6	\$—	\$164.8
Liabilities:				
Derivative liabilities (Note 14)	\$—	\$ .9	\$—	\$ .9
Liabilities associated with the ESUP* (Note 9)	17.2	—	—	17.2
Total liabilities	\$17.2	\$ .9	\$—	\$18.1

	As of December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents:				
Bank time deposits with original maturities of three months or less	\$—	\$114.8	\$—	\$114.8
Derivative assets (Note 14)	—	.6	—	.6
Diversified investments associated with the ESUP* (Note 9)	13.4	—	—	13.4
Total assets	\$13.4	\$115.4	\$—	\$128.8
Liabilities:				
Derivative liabilities (Note 14)	\$—	\$ .9	\$—	\$ .9
Liabilities associated with the ESUP* (Note 9)	13.3	—	—	13.3
Total liabilities	\$13.3	\$ .9	\$—	\$14.2

\* - Includes both current and long-term amounts combined.

There were no transfers between Level 1 and Level 2 for any of the periods presented.

The fair value for fixed rate debt (Level 2) was greater than its \$830 carrying value by \$17 at June 30, 2014 and \$3 less than its \$830 carrying value at December 31, 2013. We value this debt using discounted cash flow and secondary market rates provided by Bloomberg.

Items measured at fair value on a non-recurring basis

The primary areas in which we use fair value measurements of non-financial assets and liabilities are allocating purchase price to the assets and liabilities of acquired companies as discussed in Note 10, and evaluating long-term assets (including goodwill) for potential impairment as discussed in Note 6. Determination of fair values for these items requires significant judgment and are calculated utilizing a variety of methods and models that utilize significant Level 3 inputs.

Long lived assets, acquisitions and the second step of a goodwill impairment test utilize the following methodologies in determining fair value: (i) Buildings and machinery are valued at an estimated replacement cost for an asset of comparable age and condition. Market pricing of comparable assets is used to estimate replacement cost where available. (ii) The most common identified intangible assets are customer relationships and tradenames. Customer relationships are valued using an excess earnings method, using various inputs such as the estimated customer attrition

rate, future earnings forecast, the amount of contributory asset charges, and a discount rate. Tradenames are valued using a relief from royalty method, which is based upon comparable market royalty rates for tradenames of similar value. (iii) Inventory is valued at current replacement cost for raw materials, with a step-up for work in process and finished goods items that reflects the amount of ultimate profit earned as of the valuation date. (iv) Other working capital items are generally recorded at face value, unless there are known conditions that would impact the ultimate settlement amount of the particular item.

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#### 14. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

##### Risk Management Strategy & Objectives

We are subject to market and financial risks related to interest rates, foreign currency, and commodities. In the normal course of business, we utilize derivative instruments (individually or in combinations) to manage these risks. We seek to use derivative contracts that qualify for hedge accounting treatment; however, some instruments may not qualify for this treatment. It is our policy not to speculate using derivative instruments.

##### Cash Flow Hedges

Derivative financial instruments that we use to hedge forecasted transactions and anticipated cash flows are as follows:

- **Commodity Cash Flow Hedges**—We have historically used commodity cash flow hedges primarily to manage natural gas commodity price risk. Our last natural gas commodity hedge expired during 2013.

**Interest Rate Cash Flow Hedges**—In August 2012, we issued \$300 of 10-year notes with a coupon rate of 3.4%. As a part of this transaction, we settled our \$200 forward starting interest rate swaps we had entered into during 2010 and recognized a loss of \$42.7, which will be amortized out of accumulated other comprehensive income to interest expense over the life of the notes.

**Currency Cash Flow Hedges**—The foreign currency hedges manage risk associated with exchange rate volatility of various currencies.

The effective changes in fair value of unexpired contracts are recorded in accumulated other comprehensive income and reclassified to income or expense in the period in which earnings are impacted. Cash flows from settled contracts are presented in the category consistent with the nature of the item being hedged. (Settlements associated with the sale or production of product are presented in operating cash flows and settlements associated with debt issuance are presented in financing cash flows.)

##### Fair Value Hedges

Our fair value hedges typically manage foreign currency risk associated with subsidiaries' inter-company assets and liabilities. Hedges designated as fair value hedges recognize gain or loss currently in earnings. Cash flows from settled contracts are presented in the category consistent with the nature of the item being hedged.

##### Hedge Effectiveness

We have deemed ineffectiveness to be immaterial, and as a result, have not recorded any amounts for ineffectiveness. If a hedge was not highly effective, the portion of the change in fair value considered to be ineffective would be recognized immediately in the consolidated statements of operations.

We have recorded the following assets and liabilities representing the fair value for our most significant derivative financial instruments. The fair values of the derivatives reflect the change in the market value of the derivative from the date of the trade execution, and do not consider the offsetting underlying hedged item.

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	Expiring at various dates through:	Total USD Equivalent Notional Amount	As of June 30, 2014		Liabilities
			Assets Other Current Assets	Sundry	Other Current Liabilities
Derivatives designated as hedging instruments					
Cash flow hedges:					
Currency Hedges:					
Future USD sales of Canadian, Chinese and Swiss subsidiaries	Dec 2015	\$137.5	\$ .4	\$ .2	\$ .7
Future MXP cost of goods sold of a US subsidiary	Dec 2016	7.0	.2	.1	—
Future EUR sales of a Chinese subsidiary	Jun 2015	4.3	—	—	.1
Future JPY sales of Chinese subsidiaries	Jun 2015	6.5	—	—	.1
Total cash flow hedges			.6	.3	.9
Fair value hedges:					
USD inter-company note receivable on a CAD subsidiary	July 2014	5.0	.1	—	—
USD inter-company note receivable on a Swiss subsidiary	Aug 2014	14.5	.1	—	—
Total fair value hedges			.2	—	—
			\$ .8	\$ .3	\$ .9

	Expiring at various dates through:	Total USD Equivalent Notional Amount	As of December 31, 2013		Liabilities
			Assets Other Current Assets	Other Current	Other Current Liabilities
Derivatives designated as hedging instruments					
Cash flow hedges:					
Currency Hedges:					
Future USD sales of Canadian and Chinese subsidiaries	Dec 2015	\$133.9	\$ .1		\$ .8
Future JPY sales of a Chinese subsidiary	Dec 2014	5.1	.1		—
Future EUR sales of a Chinese subsidiary	Feb 2015	4.7	—		.1
Total cash flow hedges			.2		.9
Fair value hedges:					
USD inter-company note receivable on a Swiss subsidiary	Mar 2014	14.5	.4		—
			\$ .6		\$ .9

The following table sets forth the pre-tax (gains) losses from continuing operations for our hedging activities for the years presented. This schedule includes reclassifications from accumulated other comprehensive income (see Note 12) as well as derivative settlements recorded directly to income or expense.



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	Income Statement Caption	Amount of (Gain) Loss Recorded in Income Six Months Ended June 30		Amount of (Gain) Loss Recorded in Income Three Months Ended June 30	
		2014	2013	2014	2013
Derivatives designated as hedging instruments					
Commodity cash flow hedges	Cost of goods sold	\$ —	\$ .2	\$ —	\$ —
Interest rate cash flow hedges	Interest expense	2.0	2.0	1.0	1.0
Foreign currency cash flow hedges	Net sales	1.0	(.5 )	.7	(.3 )
Foreign currency cash flow hedges	Other (income) expense, net	.1	.1	—	.1
Total cash flow hedges		3.1	1.8	1.7	.8
Fair value hedges	Other (income) expense, net	(.1 )	(2.0 )	.4	(.9 )
Total derivative instruments		\$ 3.0	\$ (.2 )	\$ 2.1	\$ (.1 )

#### 15. CONTINGENCIES

We are a defendant in various proceedings involving employment, antitrust, intellectual property, environmental, taxation and other laws. When it is probable, in management's judgment, that we may incur monetary damages or other costs resulting from these proceedings or other claims, and we can reasonably estimate the amounts, we record appropriate liabilities in the financial statements and make charges against earnings. For all periods presented, we have recorded no material charges against earnings, and the total liabilities recorded are not material to our financial position.

#### Shareholder Derivative Lawsuit

On August 10, 2010, a shareholder derivative suit was filed by the New England Carpenters Pension Fund in the Circuit Court of Jasper County, Missouri as Case No. 10AO-CC284. The suit was purportedly brought on our behalf, naming us as a nominal defendant, and certain current and former officers and directors as individual defendants including David S. Haffner, Karl G. Glassman, Matthew C. Flanigan, Ernest C. Jett, Harry M. Cornell, Jr., Felix E. Wright, Robert Ted Enloe, III, Richard T. Fisher, Judy C. Odom, Maurice E. Purnell, Jr., Ralph W. Clark and Michael A. Glauber. The plaintiff alleged, among other things, that the individual defendants: breached their fiduciary duties; backdated and received backdated stock options violating our stock plans; caused or allowed us to issue false and misleading financial statements and proxy statements; sold our stock while possessing material non-public information; committed gross mismanagement; wasted corporate assets; committed fraud; violated the Missouri Securities Act; and were unjustly enriched.

The plaintiff is seeking, among other things: unspecified monetary damages against the individual defendants; certain equitable and other relief relating to the profits from the alleged improper conduct; the adoption of certain corporate governance proposals; the imposition of a constructive trust over the defendants' stock options and proceeds; punitive damages; the rescission of certain unexercised options; and the reimbursement of litigation costs. The plaintiff is not seeking monetary relief from us. We have director and officer liability insurance in force subject to customary limits and exclusions.

We and the individual defendants filed motions to dismiss the suit in late October 2010, asserting: the plaintiff failed to make demand on our Board and shareholders as required by Missouri law, and this failure to make demand should

not be excused; the dismissal of the substantially similar suit in 2009 precludes the 2010 suit; the plaintiff is not a representative shareholder; the suit was based on a statistical analysis of stock option grants and our stock prices that we believe was flawed; the plaintiff failed to state a substantive claim; the common law fraud claim was not pled with sufficient particularity; and the statute of limitations has expired on the fraud claim and all the alleged challenged grants except the December 30, 2005 grant. As to this grant, the motions to dismiss advised the Court that it was made under our Deferred Compensation Program, which (i) provided that options would be dated on the last business day of December, and (ii) was filed with the SEC on December 2, 2005 setting out the pricing mechanism well before the grant date. On April 6, 2011, the suit was dismissed without prejudice.

On May 12, 2011, the plaintiff filed an appeal to the Missouri Court of Appeals. On November 28, 2012, the Missouri Court of Appeals reversed the trial court's dismissal finding that plaintiff sufficiently pleaded it would be futile



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to make demand on the Board and shareholders. The Court of Appeals did not address the other grounds that had been raised in the motions to dismiss. We filed a request for transfer to the Missouri Supreme Court on December 12, 2012, which was denied by the Court of Appeals. On January 3, 2013, we filed a transfer petition to the Missouri Supreme Court. On February 26, 2013, the Missouri Supreme Court denied our request. The case was sent back to Jasper County, Missouri for further proceedings. At the parties' request, on June 4, 2013, the circuit court stayed all proceedings to allow the parties to mediate the dispute.

On May 12, 2014, the defendants, denying all wrongdoing and liability, entered into a Stipulation of Settlement whereby the Company would pay \$2.85 for plaintiff counsel fees and costs and agree to certain Corporate Governance Measures in exchange for a complete release of all claims against all defendants. The Corporate Governance Measures would include the continued maintenance, for a minimum of three years, of: (i) annual stock option grant dates to be pre-determined and fixed; (ii) plan documents to define the stock option exercise price, the grant date and the fair market value of the stock or the formula for determining such amount; (iii) the exercise price for each option to be 100% of the closing price on the grant date or the average closing market price on a range of dates; (iv) grant dates to be no earlier than the date the Board or Compensation Committee (or delegated committee for non-Section 16 officers) makes the determination granting such options; (v) all plans to comply with legal disclosure and accounting requirements; (vi) effective monitoring mechanisms for the timely and accurate filing of SEC Forms 3, 4 and 5; (vii) a majority of independent directors; (viii) the grants to Section 16 officers to be made at Board or Compensation Committee meetings; (ix) written documentation identifying all grantees, amounts and prices of stock options granted to be complete and final on the grant date and signed by the CEO or CLO; (x) training programs that address executive compensation, governance, and the requirements of our stock option plans; (xi) an annual message by the CEO to salaried employees regarding the importance of the compliance culture; (xii) annual reports to the Board or Audit Committee by the CLO or General Counsel on the status of corporate compliance; (xiii) the Company whistle blower program in compliance with law; and (xiv) an internal Audit Department approved by the Audit Committee with a Vice President of Internal Audit with adequate credentials and a direct reporting relationship to the Audit Committee.

The Court entered an order preliminarily approving the Stipulation of Settlement on June 4, 2014. Upon the Court's preliminary approval the Company (i) filed the notice of settlement on Form 8-K on June 10, 2014; (ii) posted the notice on the Company's website on the same date; and (iii) published the notice in the Investor's Business Daily on June 12, 2014. A final hearing to approve the settlement will be held on September 4, 2014.

We do not expect that the outcome of this matter will have a material adverse effect on our financial condition, operating cash flows or results of operations.

#### Antitrust Lawsuits

Beginning in August 2010, a series of civil lawsuits was initiated in several U.S. federal courts and in Canada against over 20 defendants alleging that competitors of our carpet underlay business unit and other manufacturers of polyurethane foam products had engaged in price fixing in violation of U.S. and Canadian antitrust laws.

A number of these lawsuits have been voluntarily dismissed, most without prejudice. Of the U.S. cases remaining, we have been named as a defendant in (a) three direct purchaser class action cases (the first on November 15, 2010) and a consolidated amended class action complaint filed on February 28, 2011 on behalf of a class of all direct purchasers of polyurethane foam products; (b) an indirect purchaser class consolidated amended complaint filed on March 21, 2011; and an indirect purchaser class action case filed on May 23, 2011; (c) 38 individual direct purchaser cases filed between March 22, 2011 and October 16, 2013; and (d) two individual cases alleging direct and indirect purchaser claims under the Kansas Restraint of Trade Act, one filed on November 29, 2012 and the other on April 11, 2013. All of the pending U.S. federal cases in which we have been named as a defendant, have been filed in or have been transferred to the U.S. District Court for the Northern District of Ohio under the name In re: Polyurethane Foam

Antitrust Litigation, Case No. 1:10-MD-2196.

In the U.S. actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. On April 15 and May 6, 2011, we filed motions to dismiss the U.S. direct purchaser and indirect purchaser class actions in the consolidated case in Ohio, for failure to state a legally valid

claim. On July 19, 2011, the Ohio Court denied the motions to dismiss. Discovery is underway in the U.S. actions. Motions for class certification have been filed on behalf of both direct and indirect purchasers. A hearing on the motions

was held January 15, 2014. On April 9, 2014, the Court certified the direct and indirect purchaser classes. We filed a Petition for Permission to Appeal from Class Certification Order to the United States Court of Appeals for the Sixth

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Circuit on April 23, 2014. This petition to appeal is pending. The Court ordered all parties to attend non-binding mediation with a mediator of their choosing. The trial date for the direct purchaser class cases is expected to take place in the first quarter of 2015.

We have been named in two Canadian class action cases (for direct and indirect purchasers of polyurethane foam products), both under the name Hi Neighbor Floor Covering Co. Limited and Hickory Springs Manufacturing Company, et.al. in the Ontario Superior Court of Justice (Windsor), Court File Nos. CV-10-15164 (amended November 2, 2011) and CV-11-17279 (issued December 30, 2011). In each of the Canadian cases, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek from over 13 defendants restitution of the amount allegedly overcharged, general and special damages in the amount of \$100, punitive damages of \$10, pre-judgment and post-judgment interest, and the costs of the investigation and the action. The first issued class action is on behalf of a class of purchasers of polyurethane foam. The second issued class action is on behalf of purchasers of carpet underlay. We are not yet required to file our defenses in these or any other Canadian actions. In addition, on July 10, 2012, plaintiff in a class action case (for direct and indirect purchasers of polyurethane foam products) styled Option Consommateurs and Karine Robillard v. Produits Vitafoam Canada Limitée, et. al. in the Quebec Superior Court of Justice (Montréal), Court File No. 500-6-524-104, filed an amended motion for authorization seeking to add us and other manufacturers of polyurethane foam products as defendants in this case, which was granted. This action has a pending motion for certification which is to be heard in January 2015. We also were notified in June 2014 of two motions to add us as parties to two class proceedings in British Columbia. Those proceedings are similar to the Ontario proceedings in that one proposes a class of purchasers of polyurethane foam (Majestic Mattress Mfg. Ltd. v. Vitafoam Products et al., No. VLC-S-S-106362 Vancouver Registry) and one proposes a class of purchasers of carpet underlay (Trillium Project Management Ltd. v. Hickory Springs Manufacturing Company et al., No.S106213 Vancouver Registry). The motion to add us as parties to these actions has been scheduled to be heard with the motions for certification in the two actions in April 2015. The British Columbia actions involve British Columbia purchasers only whereas the Ontario actions propose classes of Canadian purchasers. No certification motions will be brought in the Ontario actions until after the British Columbia motions for certification have been determined.

On June 22, 2012, we were also made party to a lawsuit brought in the 16<sup>th</sup> Judicial Circuit Court, Jackson County, Missouri, Case Number 1216-CV15179 under the caption “Dennis Baker, on Behalf of Himself and all Others Similarly Situated vs. Leggett & Platt, Incorporated.” The plaintiff, on behalf of himself and/or a class of indirect purchasers of polyurethane foam products in the State of Missouri, alleged that we violated the Missouri Merchandising Practices Act based upon our alleged illegal price inflation of flexible polyurethane foam products. The plaintiff seeks unspecified actual damages, punitive damages and the recovery of reasonable attorney fees. We filed a motion to dismiss this action, which was denied on November 5, 2012. Discovery has commenced and plaintiff has filed a motion for class certification. The parties' briefing is completed, and a hearing on the motion was held on February 20, 2014.

We deny all of the allegations in all of the above actions and will vigorously defend ourselves. These contingencies are subject to many uncertainties. Therefore, based on the information available to date, the pending petition to appeal, and because the litigation involves unsettled legal theories, we cannot reasonably estimate the amount or range of potential loss, if any.

#### Brazilian Value-Added Tax Matters

On December 22, 2011, the Brazilian Finance Ministry, Federal Revenue Office issued a notice of violation against our wholly-owned subsidiary, Leggett & Platt do Brasil Ltda. (“L&P Brazil”) in the amount of \$3.3, under Case No. 10855.724660/2011-43. The Brazilian Revenue Office claimed that for the period beginning November 2006 and continuing through December 2007, L&P Brazil used an incorrect tariff code for the collection and payment of value-added tax primarily on the sale of mattress innerspring units in Brazil. L&P Brazil responded to the notice of

violation on January 26, 2012 denying the violation. The Federal Revenue Office, on August 9, 2013, denied L&P Brazil's defenses and upheld the assessment at the first administrative level. L&P Brazil was notified about this judgment on October 16, 2013, and has filed an appeal.

On December 17, 2012, the Brazilian Revenue Office issued an additional notice of violation in the amount of \$5.8 under MPF Case No. 10855.725260/2012-36 covering the period from January 1, 2008 through December 31, 2010 on the same subject matter. L&P Brazil responded to the notice of violation on January 17, 2013 denying the violation. The Brazilian Revenue Office, on June 13, 2013, denied L&P Brazil's defenses and upheld the assessment at the first administrative level. L&P Brazil appealed this decision on July 8, 2013. The Brazilian Revenue Office, on December 18, 2013, also issued an audit notice for years 2011 and 2012. On June 26, 2014, the Brazilian Revenue Office issued a new notice of violation against L&P Brazil in the amount of \$1.1, under Case No. 10660.721523/2014-87, covering the period

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from February 2012 through October 2012 on the same subject matter as the other assessments. L&P Brazil intends to file its defense on or before August 8, 2014.

On July 17, 2014, the Brazilian Finance Ministry rendered a preliminary decision to reject certain offsetting requests presented by L&P Brazil, which originated with Administrative Proceeding No. 10660.720850/2014-11. The Brazilian Finance Ministry alleges that L&P Brazil improperly offset \$.2 of social contributions otherwise due in 2011. L&P Brazil will file its response on or before August 16, 2014, denying the allegations. L&P Brazil will defend on the basis that the social contribution debts were correctly offset with certain tax credits that were generated by L&P Brazil's use of a correct tariff code classification for value-added tax on the sale of mattress innersprings (i.e., the same underlying issue at stake in the other Brazilian matters).

In addition, L&P Brazil received assessments on December 22, 2011, and June 26, July 2 and November 5, 2012, and September 13, 2013 from the Brazilian Revenue Office where the Revenue Office challenged L&P Brazil's use of certain tax credits in the years 2006 through 2010. Such credits are generated based upon the tariff classification and rate used by L&P Brazil for value-added tax on the sale of mattress innersprings. Combined with prior assessments, L&P Brazil has received assessments totaling \$1.8 on the same or similar denial of tax credit matters.

L&P Brazil is also party to a proceeding involving the State of Sao Paulo, Brazil where the State of Sao Paulo, on April 16, 2009, issued a Notice of Tax Assessment and Imposition of Fine to L&P Brazil seeking \$2.6 for the tax years 2006 and 2007, under Case No. 3.111.006 (DRT n°.04-256.169/2009). The State of Sao Paulo argued that L&P Brazil was using an incorrect tariff code for the collection and payment of value-added tax on sales of mattress innerspring units in the State of Sao Paulo. On September 29, 2010, the Court of Tax and Fees of the State of Sao Paulo ruled in favor of L&P Brazil nullifying the tax assessment. The State filed a special appeal and the Special Appeals court remanded the case back to the Court of Tax and Fees for further findings. On November 9, 2012, the Court of Tax and Fees again ruled in favor of L&P Brazil and nullified the tax assessment. On November 28, 2012, the State filed another special appeal. The determination to accept the special appeal was made on December 26, 2012, and L&P Brazil responded to this special appeal on January 24, 2013. On April 17, 2014, the Court of Tax and Fees ruled in the State's favor upholding the original assessment of \$2.6. On July 31, 2014, L&P Brazil filed an annulment action, Case No. 101712346.2014.8260602 in the Sorocaba State Court seeking to have the Court of Tax and Fees ruling annulled.

On October 4, 2012, the State of Sao Paulo issued a Tax Assessment dated May 29, 2012 under Procedure Number 4.003.484 against L&P Brazil in the amount of \$2.1 for the tax years 2009 through 2011. Similar to the prior assessment, the State of Sao Paulo argues that L&P Brazil was using an incorrect tax rate for the collection and payment of value-added tax on sales of mattress innerspring units in the State of Sao Paulo. On June 21, 2013, the State of Sao Paulo's attorneys converted the Tax Assessment No. 4.003.484 to a tax collection action against L&P Brazil in the amount of \$2.8, under Sorocaba Judicial District Court, Case No. 3005528-50.2013.8.26.0602. L&P Brazil filed its response, a Motion to Stay of Execution, on January 27, 2014 denying the allegations. L&P Brazil also received a Notice of Tax Assessment and Imposition of a Fine from the State of Sao Paulo dated April 1, 2014, under Procedure Number 4.038.746-0 against L&P Brazil in the amount of \$1.3 for the tax years January 2011 through August 2012 regarding the same subject matter. L&P filed its response on April 30, 2014, denying the allegations. On June 27, 2014, the first administrative level denied L&P Brazil's defense and upheld the assessment. L&P Brazil filed its appeal of this decision on July 25, 2014.

On December 18, 2012, the State of Minas Gerais, Brazil issued a tax assessment to L&P Brazil relating to L&P Brazil's classifications of innersprings for the collection and payment of value-added tax on the sale of mattress innersprings in Minas Gerais from March 1, 2008 through August 31, 2012 in the amount of \$.6, under PTA Case No. 01.000.182756-62. L&P Brazil filed its response denying any violation on January 17, 2013. On October 22, 2013, the

first administrative level ruled against us but did reduce the tax to \$.3 (plus interest and penalties). We appealed to the second administrative level on December 30, 2013, which affirmed the first administrative level ruling. The case will now proceed judicially under Case No. 0003673-61.2014.8.13.0878 in Camanducaia Judicial District Court. On February 1, 2013, the Brazilian Finance Ministry filed a Tax Collection action against L&P Brazil in the Camanducaia Judicial District Court, Case No. 0002222-35.2013.8.13.0878, alleging the untimely payment of \$.2 of social contributions (social security and social assistance payments). L&P Brazil filed its response, a Motion to Stay of Execution, on July 11, 2013. L&P Brazil argued the payments were not required to be made because of the application of certain tax credits that were generated by L&P Brazil's use of a correct tariff code for the classification of value-added tax on the sale of mattress innersprings (i.e., the same underlying issue at stake in the other Brazilian matters).

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We deny all of the allegations in these actions. We believe that we have valid bases upon which to contest such actions and will vigorously defend ourselves. However, these contingencies are subject to many uncertainties.

#### Patent Infringement Claim

On January 24, 2012, in a case in the United States District Court for the Central District of California, the jury entered a verdict against us in the amount of \$5 based upon an allegation by plaintiff that we infringed three patents on an automatic stapling machine and on methods used to assemble box springs. This action was originally filed on October 4, 2010, as case number CV10-7416 RGK (SSx) under the caption Imaginal Systematic, LLC v. Leggett & Platt, Incorporated; Simmons Bedding Company; and Does 1 through 10, inclusive. Leggett is contractually obligated to defend and indemnify Simmons Bedding Company against a claim for infringement.

On summary judgment motions, we unsuccessfully disputed each patent's validity and denied that we infringed any patent. At the jury trial on damages issues, the plaintiff alleged damages of \$16.2. The court denied plaintiff's attempt to win an attorney fee award and triple the pre-verdict damages.

On April 9, 2012 we appealed the case to the Federal Circuit Court of Appeals. Oral argument was held on February 6, 2013 before a three judge appeal panel in the Federal Circuit in Washington D.C. On February 14, 2013, the Court of Appeals issued a judgment affirming the \$5 verdict against us, which was fully accrued for in the first quarter of 2013 and then paid in the second quarter of 2013. We filed a petition for a rehearing of the Court of Appeals decision on March 18, 2013, which was denied by the Court of Appeals.

The plaintiff requested royalties for post-verdict use of the machines, and requested pre-judgment interest in the amount of \$.7. On July 3, 2013, the District Court ruled that the plaintiff was not entitled to additional ongoing royalties for our continued use of the machines, but did award pre-judgment interest of \$.5. On August 2, 2013, both parties filed a notice of appeal of this order to the Federal Circuit Court of Appeals, but plaintiff has since withdrawn its appeal.

In 2011, we also filed reexamination proceedings in the Patent Office (Case Nos. 95/001,543 filed February 11, 2011; 95/001,546 and 95/001,547 filed February 16, 2011), challenging the validity of each patent at issue in the lawsuit the plaintiff brought. The Patent Office examiner ruled in our favor on the key claims of one of the three patents. The Patent Office examiner initially ruled in our favor on the pertinent claims of the second of the patents, but subsequently reversed that decision. With respect to the third patent, the Patent Office examiner's decision upheld the validity of all claims. All three of these proceedings were appealed to the Board of Patent Appeals. On April 25, 2013, the plaintiff filed petitions to terminate all re-examination proceedings based on the final ruling of the Federal Circuit Court of Appeals. We opposed those petitions. The Patent Office terminated all three re-examination proceedings, two on December 16, and one on December 18, 2013. On June 4, 2014, we requested an ex parte reexamination as to one of the patents. The Patent Office did not accept our request.

On July 29, 2013, the plaintiff filed a second lawsuit in the United States District Court for the Central District of California, Case No. CV13-05463 alleging that we and Simmons Bedding Company have continued to infringe the three patents on an automatic stapling machine and the methods used to assemble box springs, and that the plaintiff is entitled to additional damages from January 24, 2012 forward. Leggett and Simmons Bedding Company filed their Answers on November 20, 2013, and intend to vigorously defend the allegations. Trial is scheduled to begin on September 30, 2014.

At this time, we do not expect that the outcome of this matter will have a material adverse effect on our financial condition, operating cash flows or results of operations.

#### 16. SUBSEQUENT EVENT

On August 5, 2014 the Board of Directors authorized management to proceed with activities necessary to dispose of the Store Fixtures business, or portions of the business. We are monitoring these activities and will make the

appropriate changes within our financial statements if all of the criteria for held for sale and/or discontinued operations have been met.



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

### What We Do

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

We are the leading U.S. manufacturer of: components for residential furniture and bedding, adjustable bed bases, carpet underlay, components for office furniture, drawn steel wire, thin-walled titanium and nickel tubing for the aerospace industry, automotive seat support and lumbar systems, and bedding industry machinery.

### Our Segments

Our continuing operations are comprised of 19 business units in four segments, with approximately 19,000 employees, and 130 production facilities located in 18 countries around the world. Our segments are described below. 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 carpet cushion, adjustable bed bases, bed frames, ornamental beds and geo components. This segment generated 50% of total sales during the first half of 2014.

Commercial Fixturing & Components: Operations in this segment manufacture and sell store fixtures and point-of-purchase displays used in retail stores. We also produce chair controls, bases, and other components for office furniture manufacturers, as well as select lines of private-label finished furniture. This segment contributed 9% of total sales in the first half of 2014.

Industrial Materials: These operations primarily supply steel rod, drawn steel wire, steel billets, and welded steel tubing to our other operations and to external customers. Our customers use this wire and tubing to make bedding, furniture, automotive seats, mechanical springs, and many other end products. We also supply titanium and nickel tubing for the aerospace industry. This segment generated 21% of our total sales during the first six months of 2014.

Specialized Products: From this segment we supply lumbar support systems and seat suspension systems used by automotive seating manufacturers. We manufacture and install the racks, shelving and cabinets used to outfit fleets of service vans. We also produce quilting, sewing, and wire forming machinery, some of which is used by other Leggett operations as well as external customers, including bedding manufacturers. This segment contributed 20% of our total sales in the first six months of 2014.

### Total Shareholder Return

Total Shareholder Return (TSR), relative to peer companies, is the key financial measure that we use to assess long-term performance. TSR is driven by the change in our share price and the dividends we pay [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price]. We seek to achieve TSR in the top one-third of the S&P 500 over the long-term through a balanced approach that employs all four TSR sources: revenue growth, margin expansion, dividends, and share repurchases.

We monitor our TSR performance (relative to the S&P 500) on a rolling three-year basis. At June 30, for the three-year measurement period that will end on December 31, 2014, we have so far (over the last 30 months) generated TSR of 22% per year on average, which places us at the midpoint of the S&P 500 over that same time frame.

Senior executives participate in a TSR-based incentive program (based on our performance compared to the performance of a group of approximately 320 peers). Business unit bonuses emphasize the achievement of higher returns on the assets under the unit's direct control.

### Customers

We serve a broad suite of customers, with our largest customer representing approximately 6% of our sales in 2013. 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.



### Major Factors That Impact Our Business

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

#### Market Demand

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

We continue to retain more production capacity than we currently utilize, and with our meaningful operating leverage, earnings should further benefit as market demand continues to improve. An additional \$100 million of sales from incremental unit volume produced utilizing this spare capacity is expected to generate approximately \$25 million to \$35 million of additional pre-tax earnings.

#### Raw Material Cost Trends

In many of our businesses, we enjoy a cost advantage from being vertically integrated into steel wire and rod. This is a benefit that our competitors do not have. We also experience favorable purchasing leverage from buying large quantities of raw materials. Still, our costs can vary significantly as market prices for raw materials (many of which are commodities) fluctuate.

We typically have short-term commitments from our suppliers; accordingly, our raw material costs generally move with the market. Our ability to recover higher costs (through selling price increases) is crucial. When we experience significant increases in raw material costs, we typically implement price increases to recover the higher costs. Conversely, when costs decrease significantly, we generally pass those lower costs through to our customers. The timing of our price increases or decreases is important; we typically experience a lag in recovering higher costs, so we also expect to realize a lag as costs decline.

Steel is our principal raw material. At various times in past years we have experienced extreme cost fluctuations in this commodity. In most cases, the major changes (both increases and decreases) were passed through to customers with selling price adjustments.

As a producer of steel rod, we are also impacted by volatility in metal margins (the difference in the cost of steel scrap and the market price for steel rod). Metal margins within the steel industry have been volatile during certain periods in recent years. Since late 2013, metal margins have been under pressure as market conditions have not allowed full recovery of higher costs. A dumping case brought early in 2014 by major U.S. steel rod producers has begun to have a stabilizing effect on the domestic rod market.

Our other raw materials include woven and non-woven fabrics, foam scrap, and chemicals. We have experienced changes in the cost of these materials in recent years and, in most years, have been able to pass them through to our customers.

#### Competition

Many of our markets are highly competitive with the number of competitors varying by product line. In general, our competitors tend to be smaller, private companies. Many of our competitors, both domestic and foreign, compete primarily on the basis of price. Our success has stemmed from the ability to remain price competitive, while delivering product quality, innovation, and customer service.

We continue to face pressure from foreign competitors as some of our customers source a portion of their components and finished products offshore. In addition to lower labor rates, foreign competitors benefit (at times) from lower raw material costs. They may also benefit from currency factors and more lenient regulatory climates. We typically remain price competitive, even versus many foreign manufacturers, as a result of our highly efficient operations, low labor content, vertical integration in steel and wire, logistics and distribution efficiencies, and large scale purchasing of raw materials and commodities. However, we have reacted to foreign competition in certain cases by selectively adjusting prices, and by developing new proprietary products that help our customers reduce total costs.

For the past five years, there have been antidumping duty orders on innerspring imports from China, South Africa and Vietnam, ranging from 116% to 234%. In March, the Department of Commerce (DOC) and the International Trade

Commission (ITC) determined that the duties should be continued. On April 23, 2014, the DOC published its final order continuing the duties through February 2019 (for China) and December 2018 (for South Africa and Vietnam). In addition, because of the documented evasion of antidumping orders by shipping of goods through third countries and falsely identifying the countries of origin, Leggett, along with several U.S. manufacturers in various industries have formed a coalition and are working with members of Congress, the DOC, and U.S. Customs and Border Protection to seek stronger enforcement of existing antidumping and/or countervailing duty orders.

#### Acquisitions

On July 1, we jointly announced with Tempur Sealy, the purchase of their three U.S. innerspring component production facilities. In conjunction with this purchase, we also expanded and extended our supply relationship and became the exclusive long-term provider in the U.S. and Canada of wire-based innersprings for Tempur Sealy, and boxsprings for Sealy. The additional production should enhance economies of scale, benefit from our vertical integration in steel rod and wire, and allow manufacturing optimization across a broad asset base. We expect this agreement to add approximately 2% to sales and be neutral to EPS over the first year as we execute our integration plan. See Note 10 for additional information regarding acquisitions.

#### Goodwill Impairment of Store Fixtures Group

A significant portion of our assets consists of goodwill and other long-lived assets, the carrying value of which may be reduced if we determine that those assets are impaired. We review our ten reporting units for potential goodwill impairment in June of each year, and more often if an event or circumstance occurs making it likely that impairment exists. We performed our annual goodwill impairment review in June 2014, and on July 14, 2014, concluded that an impairment charge of \$108 million was required for our Store Fixtures group, which is part of the Commercial Fixturing & Components segment. The impairment charge reflects the complete write-off of the goodwill associated with the Store Fixtures group and, at this time, is not expected to result in significant future cash expenditures.

The Store Fixtures group is dependent upon capital spending by retailers on both new stores and remodeling of existing stores. Because of the seasonal nature of the fixture & display industry (where revenue and profitability are typically expected to increase in the second and third quarters assuming the normal historical pattern of heavy shipments during these months) we reasonably anticipated being awarded significant customer orders in the second quarter of 2014. However, as the second quarter progressed, anticipated orders did not materialize and the Store Fixtures business deteriorated, with declines most pronounced in May and June. Taking these recent developments into account, we lowered our projection of future margins and growth rates (from 4.8% in prior year's review to .5% in the current year for 10-year compound growth rate for EBIT plus depreciation and amortization) and increased the discount rate from 10.5% to 12%, causing fair value to fall below carrying value. The lower expectations of future revenue and profitability are due to reduced overall market demand for the shelving, counters, showcases and garment racks as many retailers are reducing their investments in traditional store space and focusing more on e-commerce initiatives.

We have engaged an investment banker and are exploring strategic alternatives regarding the Store Fixtures group, including the possibility of divestiture of this business.

#### Restructuring

There were no significant restructuring-related costs incurred in either the first six months of 2014 or 2013.

### RESULTS OF OPERATIONS

#### Discussion of Consolidated Results

##### Second Quarter:

Earnings per share (EPS) declined to a loss of \$.17, from \$.48 in 2013, and included a non-cash goodwill impairment charge of \$.65 (or \$108 million pre-tax) for the complete write off of the goodwill associated with the Store Fixtures group.

Second quarter EPS in 2013 was \$.48, which included \$.05 from discontinued operations and was primarily driven by a tax benefit from the elimination of three small operations. Continuing operations EPS in the second quarter of 2014 benefited from sales growth, a lower tax rate, and reduced share count.

Sales were \$1,002 million in the second quarter, a 4% (or \$43 million) increase versus the prior year. Same location sales improved 3% due to strong volume gains in most of our residential markets (including bedding, home furniture, geo components, adjustable beds, fabric converting, and carpet underlay), and also in the office furniture and automotive markets.

These gains were partially offset by large sales declines in Store Fixtures and Commercial Vehicle Products.

Acquisitions contributed modestly to sales growth.

Earnings Before Interest and Taxes (EBIT) were \$(7) million in the second quarter of 2014, which includes the \$108 million non-cash impairment charge. EBIT in the second quarter of 2013 was \$99 million. Current quarter EBIT benefited from sales growth largely offset by weak performance in Store Fixtures and the non-recurrence of last year's \$4 million gain from building and equipment sales.

Six Months Ended June 30, 2014:

Current year EPS declined to \$.20, from \$.81 in 2013, and included a non-cash goodwill impairment charge of \$.65 (or \$108 million pre-tax) for the complete write off of the goodwill associated with the Store Fixtures group.

Continuing Operations EPS in the current year benefited primarily from improved sales mix, a lower tax rate, and reduced share count.

Sales from continuing operations increased 2%, to \$1.92 billion in the first half of 2014, versus \$1.89 billion for the same period of 2013. Same location sales were essentially flat, with volume gains in most of our residential markets, and also in the office furniture and automotive markets offset by large declines in Store Fixtures and Commercial Vehicle Products. Acquisitions added 2% to sales for the six-month period.

EBIT for the first six months of 2014 was \$76 million, including \$108 million of goodwill impairment, and benefited from an improved mix of sales across our business units. For the first six months of 2013, EBIT was \$178 million.

LIFO/FIFO and the Effect of Changing Prices

All of our segments use the first-in, first-out (FIFO) method for valuing inventory. In our consolidated financials, an adjustment is made at the corporate level (i.e., outside the segments) to convert about 55% of our inventories to the last-in, first-out (LIFO) method.

For the full year 2014, we estimate no LIFO benefit or expense. This estimate incorporates certain assumptions about year-end steel prices and inventory levels. Therefore, the LIFO estimate for the full year could be significantly different from that currently estimated.

The following table contains the LIFO benefit (expense) included in earnings for each of the periods presented:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
LIFO benefit (expense)	\$—	\$4.8	\$—	\$2.2

Interest Expense and Income Taxes

Second quarter 2014 interest expense was slightly lower than in the second quarter of 2013.

The second quarter effective tax rate on continuing operations was (45)%, compared to 27% for the same quarter last year. This quarter's negative tax rate resulted from the impairment charge in our Store Fixtures group, which decreased the rate by 60 percentage points. Both the 2014 and 2013 quarterly tax rates benefited from a few small favorable discrete items which totaled \$4 million and \$3 million, respectively. The 2014 rate further benefited from a more favorable mix of earnings among tax jurisdictions as compared to 2013. We anticipate an effective tax rate on continuing operations for the remainder of 2014 of approximately 28%. That rate is contingent upon factors such as our overall profitability, the mix of earnings among tax jurisdictions, the type of income earned, the impact of tax audits and other discrete items, and the effect of tax law changes and prudent tax planning strategies.





Discussion of Segment Results

Second Quarter Discussion

A description of the products included in each segment, along with segment financial data, appear in Note 4 of the Notes to Consolidated Condensed Financial Statements. A summary of the segment results are shown in the following tables.

(Dollar amounts in millions)	Three Months ended		Change in Net Sales		% Change in	
	June 30, 2014	June 30, 2013	\$	%	Same Location Sales(1)	
	Net Sales	Net Sales			%	%
Residential Furnishings	\$ 536.0	\$ 488.8	\$47.2	9.7	% 9.3	%
Commercial Fixturing & Components	96.4	127.4	(31.0 )	(24.3 )	(24.3 )	)
Industrial Materials	222.2	216.7	5.5	2.5	(3.5 )	)
Specialized Products	230.8	208.4	22.4	10.7	10.5	
Total	1,085.4					