

# Financial Data 2004 – 1994

Leggett & Platt, Incorporated

(Dollar amounts in millions, except per share data)	2004	2003 <sup>(1)</sup>	2002	2001
<b>Summary of Operations</b>				
Net sales	\$5,085.5	\$4,388.2	\$4,271.8	\$4,113.8
% change	15.9%	2.7%	3.8%	(3.8)%
Gross profit	915.8	771.7	821.7	816.9
Earnings before interest and taxes (EBIT)	461.7	355.3	400.6	351.2
Interest expense, net	39.1	40.2	37.1	53.9
Income taxes	137.2	109.2	130.4	109.7
Tax rate	32.5%	34.7%	35.9%	36.9%
Net earnings from continuing operations	285.4	205.9	233.1	187.6
% change	38.6%	(11.7)%	24.3%	(29.0)%
Net earnings from continuing operations adjusted to exclude goodwill amortization	285.4	205.9	233.1	207.8
Gross margin	18.0%	17.6%	19.2%	19.9%
EBIT margin	9.1%	8.1%	9.4%	8.5%
Net profit margin	5.6%	4.7%	5.5%	4.6%
<b>Common Stock Data</b>				
Earnings per share from continuing operations				
Basic	\$ 1.46	\$ 1.05	\$ 1.17	\$ .94
Diluted	1.45	1.05	1.17	.94
Earnings per share from continuing operations adjusted to exclude goodwill amortization				
Basic	1.46	1.05	1.17	1.04
Diluted	1.45	1.05	1.17	1.04
Cash dividends declared per share	.58	.54	.50	.48
Dividend payout ratio <sup>(3)</sup>	47.4%	51.3%	43.7%	38.8%
Book value per share	12.12	11.00	10.16	9.51
Stock price range—High	30.68	23.69	27.40	24.45
Low	21.19	17.16	18.60	16.85
P/E range <sup>(4)</sup>	15 – 21	16 – 23	16 – 23	18 – 26
Average number of shares outstanding				
Basic	195.7	196.5	199.0	199.5
Diluted	196.9	197.0	199.8	200.4
<b>Year-End Financial Position</b>				
Cash and cash equivalents	\$ 491	\$ 444	\$ 225	\$ 187
Total assets	4,197	3,890	3,501	3,413
Long-term debt	779	1,012	809	978
Shareholders' equity	2,313	2,114	1,977	1,867
Total capital <sup>(5)</sup>	3,238	3,264	2,903	2,956
<b>Cash Flow Components</b>				
Net cash provided by operating activities	\$ 343	\$ 395	\$ 456	\$ 535
Capital expenditures	157	137	124	128
Acquisitions, net of cash acquired	46	120	46	95
Dividends paid	110	103	96	93
Stock repurchases, net	74	79	81	51
Depreciation and amortization	177	167	165	197
<b>Percentages</b>				
Long-term debt as % of total capital	24.1%	31.0%	27.9%	33.1%
Long-term debt as % of total capital (net of cash & current debt)	21.9	23.4	25.4	28.7
Return on average total capital <sup>(6)</sup>	9.7	7.7	8.9	7.7
Return on average shareholders' equity	12.9	10.1	12.1	10.3

<sup>(1)</sup>As discussed in Note A of the Notes to Consolidated Financial Statements, the Company began recognizing stock option expense under SFAS 123 in 2003 for any options granted after January 1, 2003.

<sup>(2)</sup>1996 amounts include merger related costs of \$26.6 and a \$20.2 charge for early extinguishment of debt. The net earnings impact was \$28.9, or \$.16 per basic and diluted share. The charge for early extinguishment of debt was previously reported as an extraordinary item, which accounting was changed by FASB Statement No. 145.

<sup>(3)</sup>Dividend payout ratio is computed by dividing current year dividends by the prior three-year average net earnings per diluted share.

2000	1999	1998	1997	1996 <sup>(2)</sup>	1995	1994
\$4,276.3	\$3,779.0	\$3,370.4	\$2,909.2	\$2,466.2	\$2,256.9	\$2,009.1
13.2%	12.1%	15.9%	18.0%	9.3%	12.3%	31.6%
912.3	869.6	737.2	621.3	522.0	443.6	388.6
480.8	502.5	429.1	362.5	257.4	249.2	220.2
62.2	39.9	33.5	29.2	27.9	28.6	23.9
154.5	172.1	147.6	125.0	89.0	86.3	76.8
36.9%	37.2%	37.3%	37.5%	38.8%	39.1%	39.1%
264.1	290.5	248.0	208.3	140.5	134.3	119.5
(9.1)%	17.1%	19.1%	48.3%	4.6%	12.4%	39.6%
282.9	306.4	259.3	217.3	146.4	138.5	123.4
21.3%	23.0%	21.9%	21.4%	21.2%	19.7%	19.3%
11.2%	13.3%	12.7%	12.5%	10.4%	11.0%	11.0%
6.2%	7.7%	7.4%	7.2%	5.7%	6.0%	5.9%
\$ 1.33	\$ 1.46	\$ 1.25	\$ 1.09	\$ .78	\$ .76	\$ .69
1.32	1.45	1.24	1.08	.77	.75	.68
1.42	1.54	1.31	1.14	.81	.78	.71
1.41	1.53	1.29	1.12	.80	.77	.70
.42	.36	.315	.27	.23	.19	.155
31.4%	28.6%	30.6%	31.2%	31.4%	29.2%	28.9%
9.15	8.36	7.27	6.09	5.11	4.21	3.56
22.56	28.31	28.75	23.88	17.38	13.44	12.38
14.19	18.63	16.88	15.75	10.31	8.50	8.31
11 – 17	13 – 20	14 – 23	15 – 22	13 – 23	11 – 18	12 – 18
199.0	198.5	197.7	190.3	181.1	177.3	173.2
200.4	200.9	200.7	193.2	183.7	179.7	175.7
\$ 37	\$ 21	\$ 84	\$ 8	\$ 4	\$ 8	\$ 3
3,373	2,978	2,535	2,106	1,713	1,478	1,327
988	787	574	466	389	381	364
1,794	1,646	1,437	1,174	941	747	628
2,897	2,546	2,134	1,734	1,420	1,203	1,060
\$ 441	\$ 371	\$ 355	\$ 288	\$ 238	\$ 188	\$ 172
170	159	148	119	96	107	97
252	290	117	172	90	29	89
79	69	60	48	30	32	25
49	78	9	(1)	5	22	(1)
173	149	128	106	92	78	67
34.1%	30.9%	26.9%	26.9%	27.4%	31.6%	34.3%
33.4	30.5	24.1	26.8	27.4	31.6	34.4
11.2	13.6	14.1	14.5	12.1	13.5	13.9
15.4	18.8	19.0	19.7	16.6	19.5	20.9

<sup>(4)</sup>P/E = high (or low) stock price divided by earnings per share for that year.

<sup>(5)</sup>Total capital includes long-term debt, deferred taxes, other long-term liabilities and shareholders' equity.

<sup>(6)</sup>This percentage is computed by adding the after-tax interest expense to net earnings and then dividing the sum by average total capital.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Leggett & Platt, Incorporated

## Introduction

### What We Do

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

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

### Our Segments

Our 122-year-old company is composed of 29 business units under five reportable segments, with approximately 33,000 employee-partners, and more than 300 facilities located in over 20 countries around the world. Our five segments are Residential Furnishings, Commercial Fixturing & Components, Aluminum Products, Industrial Materials, and Specialized Products.

Residential Furnishings, our largest segment, generated 45% of the company's total sales in 2004. The operations in this segment supply a variety of components mainly used by bedding and upholstered furniture manufacturers in the assembly of their finished products. We also sell adjustable beds, bed frames, ornamental beds, carpet cushion, and other finished products.

In 2004, Commercial Fixturing & Components contributed 20% of total sales. Operations in this segment produce: a) store fixtures, point-of-purchase displays, and storage products used by retailers; b) chair controls, bases, and other components for office furniture manufacturers; and c) injection molded plastic components used in a variety of end products.

Aluminum Products represented 10% of 2004's total sales. We are North America's leading independent producer of non-automotive aluminum die castings. Our operations serve a diverse group of customers that manufacture products including motorcycles, diesel and small engines, outdoor lighting fixtures, gas barbeque grills, appliances, power tools, and consumer electronics, among others.

Industrial Materials generated 15% of our total sales in 2004. These operations primarily supply steel rod, drawn steel wire, and welded steel tubing to other Leggett operations and to external customers. Our wire and tubing is used to make bedding, furniture, automotive seats, retail store fixtures and displays, mechanical springs, and many other end products.

Specialized Products contributed 10% of 2004's total sales. From this segment we supply lumbar systems and wire components used by automotive seating manufacturers. We also design and produce machinery, both for our own use and for others, including bedding manufacturers.

### Customers

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

Our products are primarily sold through our own sales employees. However, some of our businesses also use independent sales representatives and distributors.

### Competition

We believe we gain our competitive advantage through many key attributes, including low cost operations, internal production of key raw materials, manufacturing expertise, product innovation, high quality products, focus on customer service, long-lived relationships with customers, and financial strength.

Many companies offer products that compete with those we make. The number of competitors varies by product line (they tend to be smaller, private companies), but most of our markets are very competitive.

We face increasing competition from foreign competitors as some of our customers source a portion of their finished product from Asia. We are establishing operations in Asia to continue supplying those customers. At the end of 2004, Leggett operated eight Chinese facilities. Although we can generally produce components at a lower cost in the U.S., as our customers move the production of their finished products overseas, we must be located nearby to supply them efficiently.

Many of our competitors, both domestic and foreign, compete primarily on the basis of price. We are also price competitive, but we focus to a greater degree on product quality, innovation, and customer service.

### Major Factors That Impact Our Business

Same location sales growth should be a primary driver of future earnings. Our operating performance is heavily influenced by market demand for our components and products. This demand is impacted by many broad economic factors, including consumer sentiment, employment levels, housing turnover, and interest rates. These factors influence consumer spending on durable goods, and therefore drive demand for our components and products. We are also impacted by trends in business capital spending; approximately one-quarter of our sales relates to this segment of the economy.

Raw material cost trends can also significantly impact earnings. Steel is our largest raw material, representing approximately 17% of our cost of goods sold. As 2004 progressed, the price of certain types of steel nearly doubled, but we were able to recover most of our higher costs through selling price increases. Although we expect costs to stabilize, unanticipated large changes could significantly affect earnings. Our ability to recover additional cost increases, should they occur, is a major factor that could impact future results. Unprecedented price increases in the steel market during 2004 led to an above-average scrap-to-rod market price spread. This market spread benefited our 2004 earnings.

through our steel rod mill; however, we believe this spread is not sustainable long-term.

Inflation in other raw materials can also impact operations. Those major materials include chemicals, fibers, and resins (all of which are generally impacted by changes in oil prices), and lumber. Aluminum is also a significant material used in our operations, but our earnings exposure to this commodity is partially mitigated by pricing arrangements we have with our customers.

In October 2003, we announced increased attention to our poorly performing Fixture & Display operations. This tactical plan was aimed at accomplishing improved operating efficiency, better adherence to standard costs, tighter inventory control, cost reduction, and more competent staffing. We made progress under the tactical plan in 2004 as discussed later in this MD&A. Still, there is more work to be done to reach our targeted margins for this business. The success of the plan could have a significant impact on future operating results.

As we expand internationally, our exposure to foreign currencies grows. Significant changes in the exchange rates of the U.S. dollar to foreign currencies impact our results.

In our 2003 MD&A, we discussed availability of steel as a potential issue impacting our business. As 2004 progressed, worldwide demand for steel moderated slightly and worldwide supply increased as new mills (particularly in China) were brought on line. Heading into 2005, we believe availability of steel is no longer as large an issue in the market. In addition, we believe we are better positioned than our competitors to secure supply due to our internal production of key raw materials, financial strength, and purchasing leverage.

In last year's MD&A, we also discussed uncertainty regarding natural gas prices. Although still at higher than historical levels, energy costs were relatively stable in 2004. We continue to monitor pricing and have locked in prices on a small amount of our natural gas requirements for the next three years.

### Results of Operations – 2004 vs. 2003

Sales in 2004 exceeded our prior record by 16%, and earnings increased substantially. Margins also improved for the full year. During the year, we were challenged by rapidly escalating steel costs, but we were successful in recovering most of the higher costs through selling price increases. Our steel rod mill operated at full capacity for the year, and this brought significant earnings benefits. Improved performance of our Fixture & Display operations also contributed to our earnings growth. Further details about these items and our consolidated and segment results are discussed below.

### Consolidated Results

The following table shows the changes in sales and earnings from 2003 to 2004 and identifies the major factors contributing to the changes:

(Dollar amounts in millions)

<b>Net sales:</b>		
Year ended December 31, 2003	\$4,388	
Acquisition sales growth	189	4.3%
Same location sales growth	509	11.6%
<b>Year ended December 31, 2004</b>	<b>\$5,086</b>	
<b>Net earnings:</b>		
Year ended December 31, 2003	\$ 206	
Increased sales, operating improvements, and other	71	
Gains from asset sales	9	
Lower inventory obsolescence	6	
Lower tax rate	9	
Weaker U.S. dollar	(11)	
Higher restructuring costs	(5)	
<b>Year ended December 31, 2004</b>	<b>\$ 285</b>	

We set a record for sales in 2004 at \$5.09 billion, up 16% from 2003. Same location sales increased from the combined effect of inflation, unit volume growth, and currency rate changes. Approximately two-thirds of the 2004 organic growth came from inflation as we implemented price increases to pass along higher raw material costs. Unit volumes improved in many businesses, but gains were strongest in upholstered furniture components, carpet underlay, aluminum components, and machinery. For the year, world-wide bedding units were roughly flat. Volume declined slightly in our Fixture & Display operations. Currency rate changes also added to same location sales growth, but to a much lesser extent than inflation and unit volume gains.

Rising steel costs were our largest challenge in 2004. We purchase roughly 1.3 million tons of steel each year, accounting for approximately 17% of our cost of goods sold. During 2004, prices increased significantly, and for the year we paid over \$200 million more for steel than in 2003. Due to the magnitude of these increases, we were compelled to pass along our higher costs.

In addition to steel, we experienced inflation in other raw materials during 2004. Chemical, fiber, and resin costs increased as oil prices rose. Aluminum costs also increased, but our earnings exposure to this commodity is currently limited by the pricing arrangements we have with our customers.

Net earnings grew 39%, to \$285 million, and earnings per share increased 38%, to \$1.45, from \$1.05 in 2003. Several factors contributed to the earnings improvement:

- Sales increase: Higher sales were the primary factor contributing to 2004's earnings growth. Unit volume gains led to improved overhead absorption in many of our businesses. In addition, prior years' plant consolidations and cost cutting helped lower our fixed costs and allowed us to utilize capacity more efficiently as volume increased. Selling and administrative expenses increased at a slightly slower rate than sales, also benefitting 2004 earnings.
- Gains from our steel rod mill: Earnings benefited in 2004 from full production at our steel rod mill. Efficiency improved significantly year-over-year, since we were ramping up production in 2003. In addition,

we benefited from an above-average scrap-to-rod price spread.

- Improvements in our Fixture & Display operations: Steps taken under the Fixture & Display tactical plan contributed to the earnings growth we saw in 2004.
- Earnings also benefited from gains on sales of buildings no longer used in operations, lower inventory obsolescence, and a lower income tax rate. The income tax rate fell from 34.7% in 2003 to 32.5% in 2004, due to our mix of domestic and foreign income and certain one-time factors.
- These improvements were partially offset by impacts from a weaker U.S. dollar and slightly higher restructuring costs. Further weakening of the U.S. dollar in 2004 impacted certain of our Canadian operations (that sell in U.S. dollars but incur their costs in Canadian dollars.) These operations experienced margin deterioration in 2004.

### **Residential Furnishings**

Sales in Residential Furnishings increased 14%, or \$295 million in 2004. Same location sales grew 11%, with more than half coming from inflation. Acquisitions added the remaining 3%. Unit volume gains were strongest in upholstered furniture components and carpet underlay, but these improvements were mitigated slightly by approximately flat world-wide bedding demand.

Our furniture components businesses have performed well for the past three years, and in 2004, posted double-digit, world-wide unit sales growth in mechanisms for upholstered furniture. We sell to nearly all manufacturers of motion upholstered furniture. These customers include major public furniture producers as well as smaller privately owned manufacturers. Our international presence and depth of product line allow us to efficiently supply upholstered furniture manufacturers in many parts of the world. We benefit from world-wide demand, since our components are used in furniture produced not only in North America, but also in Europe and Asia. We've also benefited from an industry trend to incorporate high quality motion features into more lines of furniture. Our continuing strong performance results from growing share with domestic producers and a well-established international presence.

World-wide demand for bedding components was strong in early 2004, but moderated in the second and third quarters, and declined in the fourth quarter (primarily from weakness in the U.S. market). We believe that reduced advertising expenditures by bedding manufacturers during the fourth quarter led to less promotion by retailers and, in turn, lower demand for bedding. In early 2005, most bedding manufacturers implemented price increases to recover the higher costs they were absorbing late in 2004. These recoveries should allow the manufacturers to return to normal levels of promotion in 2005, and therefore we expect demand to improve.

Earnings before interest and taxes (EBIT) grew 27% or \$57 million in 2004. Segment EBIT margins improved to 10.7%, versus 9.5% in 2003. Earnings gains came from:

- Sales growth, which resulted in higher utilization rates and improved overhead absorption in certain businesses
- Prior cost reduction and plant consolidation efforts
- Selling price increases, primarily to recover escalating steel costs, and
- Gains from the sale of buildings no longer used in operations

These improvements were partially offset by higher raw material costs, the impact of a weaker U.S. dollar (primarily versus the Canadian dollar), and modest restructuring charges.

### **Commercial Fixturing & Components**

For the full year 2004, sales grew 12%, or \$113 million, with acquisitions accounting for the bulk of the increase. Same location sales increased 2%, as inflation more than offset a 2% unit volume decline. Slight unit declines in our Fixture & Display operations were partially offset by mid-single-digit unit growth in our office furniture components businesses. Continued weak demand for store fixtures reflects reluctance on the part of many retailers to increase capital spending on construction of new stores and renovation of existing stores. Gains in office furniture components volume continue a trend of stable to improving market conditions.

EBIT more than doubled, from \$27 million in 2003 to \$55 million in 2004. Segment EBIT margins improved to 5.1%, versus 2.8% in 2003. Earnings gains came from:

- Benefits from Fixture & Display tactical plan, including cost savings and improved operational efficiency
- Non-recurrence of 2003's inventory write-downs,
- Higher sales in our office furniture components businesses, and
- Gains from the sale of buildings no longer used in operations

These items were partially offset by higher raw material costs, currency rate impacts, and modest restructuring charges.

### **Aluminum Products**

In 2004, sales grew 12%, or \$55 million, solely from organic growth. Unit volume gains contributed three-quarters of the improvement. During the past year, sales benefited from new programs for producers of motorcycles, small engines, and large appliances, among others. Much of this segment's growth over the past few years has come through continued effort to increase market share. These gains should continue to occur as we increase volume with existing customers, target customers who currently make their own components, and expand into new markets where die-cast components are used. A recent example of this continued growth is a new arrangement with Briggs & Stratton to supply aluminum castings to their assembly plant in Auburn, AL. Production is expected to begin in late 2005.

EBIT increased 28% or \$10 million in 2004. Segment EBIT margins improved to 8.7%, versus 7.6% in 2003. Earnings gains from higher sales were partially offset by inflation in aluminum costs.

### **Industrial Materials**

Sales in Industrial Materials increased 41% or \$239 million in 2004, almost entirely due to inflation. Unit volumes were up modestly in the first three quarters, but declined in the fourth quarter from weaker bedding demand. For the full year, volume was essentially flat.

EBIT increased significantly, from \$38 million in 2003 to \$122 million in 2004. Segment EBIT margins improved to 14.9%, versus 6.5% in 2003. Earnings benefited from higher sales, full utilization of the steel rod mill, and an above average scrap-to-rod price spread (which benefited the rod mill).

## Specialized Products

In 2004, sales grew 16%, or \$77 million. Same location sales increased 9%, with unit volumes and currency each contributing about half the growth. Acquisitions added the remaining 7%. Our machinery operations posted double-digit gains for the full year, as bedding manufacturers increased spending on new equipment. In addition, we saw modest growth in our automotive businesses, reflecting benefits of new programs and increased product placement.

EBIT was down \$2 million or 3% in 2004. EBIT margins decreased to 9.0%, versus 10.8% in 2003. The earnings decline resulted from:

- Currency impacts: In certain automotive operations, we incur costs in Canadian dollars and sell in U.S. dollars. The weaker U.S. dollar caused margin declines in these operations.
- Higher raw material costs: Due to the longer-term supply contracts we have with many automotive customers, we experienced lags in recovering our higher steel costs.
- Other factors, including restructuring, depreciation, and new product development.

These declines were partially offset by gains from higher sales.

## Results of Operations – 2003 vs. 2002

We made progress in several areas in 2003. Demand in many of our markets improved as the year progressed. Same location sales recovered from early year declines and finished the year up slightly. We gained ground on key internal initiatives, most notably, the start-up of our rod mill, the addition of five operations in China, and the completion of the fourth largest acquisition in our history. Late in the year, we announced increased attention to our poorly performing Fixture & Display operations. We were challenged by rapidly rising steel costs, higher energy costs, and a weaker U.S. dollar. Further details about these items and our consolidated and segment results are discussed below.

## Consolidated Results

The following table shows the changes in sales and earnings from 2002 to 2003 and also identifies the major factors contributing to the changes:

(Dollar amounts in millions)

<b>Net sales:</b>		
Year ended December 31, 2002	\$4,272	
Acquisition sales growth	64	1.5%
Same location sales growth	52	1.2%
Year ended December 31, 2003	\$4,388	
<b>Net earnings:</b>		
Year ended December 31, 2002	\$ 233	
Weaker U.S. dollar	(16)	
Higher energy costs	(16)	
Higher inventory obsolescence	(6)	
Lower restructuring costs	10	
Reduced bad debt expense	6	
Unabsorbed overhead, operating inefficiency, and increased steel costs	(5)	
Year ended December 31, 2003	\$ 206	

Sales increased 3% to \$4.39 billion. Same location sales growth resulted primarily from currency rate changes. Unit volumes for the year were essentially flat. Net earnings decreased 12%, to \$206 million. EPS was down 10%, to

\$1.05 from \$1.17 in 2002. Several factors contributed to the earnings decline:

- Weakening of the U.S. dollar, primarily against the Canadian dollar: Some of our Canadian operations sell in U.S. dollars but incur their costs in Canadian dollars. These operations experienced margin declines in 2003. Price increases were implemented in some of these operations, but U.S. competitors who were not experiencing this impact made further price increases challenging.
- Higher energy costs: Natural gas prices during 2003 were 80% higher on average than in 2002.
- Reduced overhead absorption: Weak demand during the first half of 2003 led to lower production levels, particularly in our U.S. bedding components and wire drawing operations. Volume improved late in the year, and the earnings impact lessened.
- Other declines came from unusually high inventory obsolescence, operating inefficiency in certain locations, and increased steel costs.
- Partially offsetting these negative factors were lower restructuring costs, reduced bad debt expense, and income tax rate reduction. The income tax rate fell from 35.9% in 2002 to 34.7% in 2003, primarily from the realization of foreign tax credit carryforwards.

## Residential Furnishings

Sales increased 2%, or \$53 million, with organic growth and acquisitions contributing almost equally. Most operating units experienced a rebound in customer demand in the second half of the year. Full year improvements were reported in several categories, including upholstered furniture components, ornamental and adjustable beds, and carpet underlay. Sales from foreign operations also increased for the year, in part from currency impacts, as foreign currencies now convert to more U.S. dollars. These gains were partially offset by sales declines in our fiber operations. Sales in our U.S. bedding components businesses also decreased for the full year due to weak demand in early 2003. Beginning in June, demand improved and our bedding components operations posted growth during the second half of the year.

EBIT decreased 6%, or \$14 million. Earnings were impacted by:

- A weaker U.S. dollar (versus the Canadian dollar)
- Higher steel and energy costs
- Unabsorbed overhead from lower production at U.S. bedding components operations during the first half of the year, and
- The non-recurrence of a partial reversal of a Canadian lumber duty accrual

Higher sales and lower restructuring costs partially offset these factors.

## Commercial Fixturing & Components

Sales grew 7%, or \$66 million, primarily from acquisitions. Our July 2003 acquisition of RHC Spacemaster contributed the majority of this growth. Same location sales were down slightly. Although certain major retailers continued with new store openings and refurbishments in 2003, most retailers limited their capital spending during the year. Demand for office furniture components also remained at very low levels throughout 2003, but modest improvements began to develop late in the year.

EBIT for the segment declined \$22 million, or 45%, primarily due to:

- Inventory write-downs
- A weaker U.S. dollar (versus the Canadian dollar)
- Higher steel costs
- Price competition, and
- Operational inefficiency in certain operations

In the third quarter of 2003, we announced a focused management effort to improve the operating efficiency and margins of the Fixture & Display portion of this segment. As previously discussed, progress was made under that tactical plan during 2004.

Lower restructuring costs offset some of these negative factors.

#### **Aluminum Products**

Sales decreased \$21 million or 4%. Three divestitures reduced sales by \$32 million, but same location sales gains of 2% offset some of this decline. No acquisitions were made during 2003. New programs for castings used in motorcycles, small engines, and large appliances represented the majority of the same location sales increase. These gains were partially offset by a decline in sales of barbecue grill castings.

EBIT increased \$4 million, or 14%, primarily due to same location sales growth. Lower restructuring and non-recurring charges benefited EBIT by approximately \$6 million, but were partially offset by an unfavorable change in sales mix.

#### **Industrial Materials**

Sales were down 5%, or \$32 million, reflecting lower same location sales. This decline resulted from weakness in many of our end markets, including wire demand from bedding manufacturers (in the first half of 2003), and tubing demand for ATV's and accessories. Certain markets began to recover late in the year and volumes improved, particularly in the wire drawing operations.

EBIT fell 26%, or \$13 million, due to lower sales and production volume, and higher steel and energy costs. These factors were partially offset by the non-recurrence of start-up costs associated with the steel rod mill, lower restructuring charges, and a gain from the sale of a tubing fabrication business.

#### **Specialized Products**

Sales grew 11%, or \$49 million, largely from a 10% gain in same location sales. New automotive programs, increased shipments of bedding machinery during the second half of 2003, and currency rates positively impacted sales.

EBIT was up slightly, as the effects of higher sales were offset by impacts from the weaker U.S. dollar, sales mix, and other smaller factors.

#### **Cash Flow and Capitalization**

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

- Fund internal growth and acquisitions
- Extend our track record of annual dividend increases
- Use remaining cash (if any) to repurchase stock

Over the last three years we used approximately \$400 million in cash each year to fund these priorities. In round figures, approximately 35% was used for capital expenditures, 25% for funding annual dividends, 20% for acquisitions, and 20% for stock repurchases.

Our primary source of cash is internal operations. Over the last three years cash from operations was more than adequate to fund the items mentioned above. When proceeds from asset sales are included, we generated sufficient cash over the last three years to reduce net debt by over \$100 million. Long term debt as a percent of total capitalization (net of cash and current maturities of debt) declined from 29% at the end of 2001 to 22% at the end of 2004.

Over the next few years, we plan to gradually increase net debt (as a percent of total capitalization) back toward our long-term target of 30%-40%, while maintaining our long-standing "single A" debt rating. We see benefit to modestly increasing debt, and little risk given our competitive position and consistently strong cash flow.

Additional detail on a) the uses of cash, b) operating cash flow, and c) debt position and total capitalization is provided below.

#### **Uses of Cash**

Capital expenditures in 2004 totaled \$157 million, up from \$137 million in 2003 and \$124 million in 2002. We make these investments to modernize, maintain, and expand manufacturing capacity. In 2005, we expect capital spending to approximate \$170 million, with the increase related primarily to a few major expansion projects.

Acquisition spending totaled \$46 million in 2004, down from \$120 million in 2003 and in line with 2002's total of \$46 million. In 2004, we purchased nine companies that should add about \$72 million to annual revenues. In Residential Furnishings, we acquired three businesses with total sales of approximately \$22 million. The largest (with sales of about \$12 million) designs and produces comforters, decorative pillows, and other "top-of-bed" accessories. In Commercial Fixturing & Components, we added three operations with sales that total about \$13 million. Two of these operations (with sales of about \$12 million) produce injection-molded plastic components used primarily in office furniture. The remaining three businesses should add approximately \$37 million in sales to our Specialized Products segment. The largest of the three has annual revenues of about \$30 million and makes tubing and wire products used primarily in automotive seating. Additional details of acquisitions are discussed in Note B to the financial statements.

We paid cash dividends of \$110 million, \$103 million, and \$96 million during 2004, 2003, and 2002, respectively. Over the past three years, dividends have increased at a 6.5% compounded annual rate. Our long-term target for dividend payout is approximately one-third of the prior three years' average earnings. Calculated in the same manner as our target, dividend payout was 47.4% in 2004, 51.3% in 2003, and 43.7% in 2002. As earnings grow, we expect to move back toward the 30-35% payout target.

Repurchases of common stock (net of issuances) totaled \$74 million in 2004, \$79 million in 2003, and \$81 million in 2002. These purchases were made primarily to replace shares issued in employee stock plans.

As mentioned earlier, we expect to gradually increase net debt back to our long-standing target of 30-40% of total capitalization. As this occurs, additional cash will be available. We plan to use this cash and cash from operations, primarily to finance growth and extend our record of annual

dividend increases. Remaining cash should go toward repurchasing stock.

The amount available to repurchase shares will fluctuate each year with earnings, capital spending, and the pace of acquisitions. Although no specific schedule has been established, we have been authorized by the Board of Directors to repurchase up to 10 million shares each year beginning January 1, 2005. This authorization was granted at the August, 2004 Board of Directors meeting and replaced all previous stock repurchase authorizations.

### Operating Cash Flow

Cash flow from operations is our primary source of funds, and totaled \$343 million, \$395 million, and \$456 million for 2004, 2003, and 2002. This past year, cash flow from operations benefited from stronger earnings, but was reduced overall by an increase in working capital. Accounts receivable and inventory balances increased in 2004, primarily from inflation and currency impacts. These increases were partially offset by higher accounts payable and other current liabilities, also the result of inflation and currency. In 2003 and 2002, operating cash was relatively strong despite weak earnings, in part due to our ability to reduce working capital.

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

### Capitalization

The table below presents key debt and capitalization statistics at the end of the three most recent years.

(Dollar amounts in millions)	2004	2003	2002
Long-term debt outstanding:			
Scheduled maturities	\$ 779	\$ 1,012	\$ 809
Average interest rates	4.1%	4.1%	4.3%
Average maturities in years	5.6	6.0	3.4
Revolving credit/commercial paper	—	—	—
Total long-term debt	779	1,012	809
Deferred income taxes and other liabilities	145	138	117
Shareholders' equity	2,313	2,114	1,977
Total capitalization	\$3,237	\$3,264	\$2,903
Unused committed credit:			
Long-term	\$ 342	\$ 213	\$ 233
Short-term	—	127	107
Total unused committed credit	\$ 342	\$ 340	\$ 340
Current maturities of long-term debt	\$ 401	\$ 119	\$ 128
Cash and cash equivalents	\$ 491	\$ 444	\$ 225
Ratio of earnings to fixed charges*	8.0x	6.2x	7.6x

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

The next table shows the calculation of long-term debt as a percent of total capitalization, net of cash and current maturities, at December 31, 2004 and 2003. We believe that adjusting this measure for cash and current maturities more appropriately reflects financial leverage, since cash is readily available to repay debt. These adjustments also enable meaningful comparisons to historical periods. Prior to 2003, current debt maturities and cash balances were much smaller.

(Dollar amounts in millions)	2004	2003
Long-term debt	\$ 779	\$1,012
Current debt maturities	401	119
Cash and cash equivalents	(491)	(444)
Net debt, after adjustments	\$ 689	\$ 687
Total capitalization	\$3,237	\$3,264
Current debt maturities	401	119
Cash and cash equivalents	(491)	(444)
Total capitalization, after adjustments	\$3,147	\$2,939
Debt to total capitalization		
Before adjustments	24.1%	31.0%
After adjustments	21.9%	23.4%

Total debt (including long-term debt and current debt maturities) increased \$49 million in 2004. During the year we repaid \$131 million of debt that came due, and in November 2004, we issued \$180 million of 10-year notes at a 4.65% coupon rate. With this issuance, we took advantage of current interest rates and locked in another portion of long-term debt. In the past two years, we've issued \$530 million of fixed rate debt with an average remaining life of just over 10 years, and an average coupon rate of about 4.6%. In February 2005, we repaid \$350 million of medium-term notes that came due.

Most of our debt has a fixed repayment date. At the end of 2004, this debt consisted primarily of medium-term notes. Our public debt currently carries a Moody's rating of A2 and a Standard & Poor's rating of A+. We have maintained a single A rating on our debt for over a decade.

We can also raise cash by issuing up to \$300 million in commercial paper through a program that is backed by \$342 million in revolving credit. We believe we have sufficient availability of funds to support our ongoing operations and take advantage of growth opportunities.

## Contractual Obligations

The following table summarizes our future contractual obligations and commitments:

(Dollar amounts in millions)		Payments Due by Period			
		Less			
	Total	Than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractual Obligations					
Long-term debt*	\$1,143	\$381	\$106	\$ 87	\$569
Capitalized leases	35	17	5	12	1
Operating leases	151	44	56	32	19
Purchase obligations**	459	459	–	–	–
Interest payments***	318	54	68	55	141
Other obligations	60	4	8	11	37
Total contractual cash obligations	\$2,166	\$959	\$243	\$197	\$767

\* Long-term debt excludes \$3 million of market value adjustments related to interest rate swap agreements on notes that mature in 2005. The long-term debt payment schedule presented above could be accelerated if we were not able to make the principal and interest payments when due.

\*\* Purchase obligations primarily include open short-term (30-120 days) purchase orders that arise in the normal course of operating our facilities.

\*\*\* Interest payments are calculated on debt outstanding at December 31, 2004 at rates in effect at the end of the year.

## Critical Accounting Policies and Estimates

We make many critical estimates when preparing financial statements; these are discussed below. The first group of comments addresses major estimates that impact our earnings each year, and later, we identify and discuss those estimates that impact earnings less frequently. For more information regarding our significant accounting policies, please refer to Note A to the financial statements.

The most critical estimates impacting our ongoing results relate to:

- Credit losses
- Costs related to pension, worker's compensation, automobile, product and general liability, property, and medical programs
- Inventory losses from obsolescence
- Income taxes

With respect to credit losses, our customers are diverse, but many are small-to-medium sized companies and some are highly leveraged. Bankruptcy can occur with some of these customers relatively quickly and with little warning, particularly in a changing economic environment, adding to the difficulty in estimating credit losses.

Worker's compensation, automobile, product and general liability, property, and medical insurance costs may require an extended period after the actual loss occurred before the exact amount of the cost is known. Estimates of these costs over that period, which in some cases is several years, will vary from the final amount.

Changing customer specifications, technology, customer bankruptcy and other factors result in inventory losses that are difficult to estimate precisely. At any financial statement date, the impact of these factors on inventory value may not be completely known.

Income taxes are recorded at rates in effect in the various tax jurisdictions in which we operate. We have tax loss carryforwards in certain jurisdictions. Valuation reserves are established against these future potential tax benefits based on our estimate of their ultimate realization. Actual realization

of these benefits may vary from these estimates. Also, certain assumptions have been made about the distribution of earnings from subsidiaries which may not be accurate in the future, thereby affecting the tax impact of such earnings. Finally, ultimate resolution of issues raised by ongoing tax audits is not predictable and could affect our tax liabilities.

Our accounting estimates of these costs and losses are based on actuarial estimates, prior experience, current trends, and/or specific information regarding relevant events or transactions. We believe our reserves for these potential losses are adequate.

The next group of comments addresses estimates that may occasionally impact our earnings. The most significant of these estimates relate to goodwill and asset impairments, and unusual litigation and claims. Losses related to these items are recognized when specific facts which affect the estimate are known.

Goodwill impairment is formally assessed on an annual basis, as required by SFAS No. 142, and also when we experience significant negative deviations from the assumptions underlying the fair market valuation of each reporting unit. Asset impairments are monitored by periodically focusing on underperforming locations that have insufficient cash flows.

Many assumptions about the future are necessary in the determination of fair market value for each of our ten reporting units (as defined by SFAS No. 142). The key assumptions are discount rate, organic sales growth, margins, capital expenditure requirements, and working capital requirements. No goodwill impairment has been determined to date for any of our reporting units.

The key assumptions are re-evaluated annually, or more frequently if significant changes become apparent, using our most recent assessment of the performance potential of each reporting unit. Recent performance of the reporting unit is an important factor, but not the only factor, in the annual assessment. Fair market values calculated for each reporting unit may go up or down each year based on a re-evaluation of the key assumptions.

Our Fixture & Display operations have experienced deterioration of profitability in recent years due to external market factors and unsatisfactory internal performance. Late in 2003, we responded with a tactical plan which has already been discussed in this MD&A. About \$300 million of goodwill is associated with these operations. Although we made progress in 2004, margins must continue to improve in order to avoid possible future impairment of this goodwill.

We have not recorded any significant losses for litigation and claims in the last three years, and we are not aware of any significant unrecorded exposures.

## New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued revised Statement of Financial Accounting Standards No. 123, "Share-Based Payment" (SFAS No. 123R). SFAS 123R clarifies and expands Statement 123's guidance in several areas, including recognizing share-based compensation cost, measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. SFAS 123R is effective for Leggett & Platt beginning with the first day of our fiscal third quarter (July 1, 2005)

and applies to all awards granted, modified, repurchased or cancelled on or after that date. We adopted, as of January 1, 2003, the provisions of Statement 123 as originally issued and, as such, have evaluated SFAS No. 123R and believe it will not have a material impact on our financial reporting and disclosures.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." This Statement revises the criteria used to determine whether nonmonetary exchanges are measured based on the recorded amounts of the assets exchanged or on their fair value. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, and is not expected to have a material effect on the Company's financial reporting and disclosures.

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends prior guidance to clarify the accounting for abnormal amounts of freight, handling cost and wasted material. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 151 will have a material impact on our financial reporting and disclosures.

In December 2004, the Financial Accounting Standards Board issued FASB Staff Positions FAS 109-1 and FAS 109-2, providing guidance regarding certain accounting and reporting issues associated with the American Jobs Creation Act of 2004. FASB Staff Position 109-1 has not had, nor is it expected to have, a material impact on our financial reporting or disclosures.

Regarding FAS 109-2, the Company is still in the process of evaluating the effects of the repatriation provision of the American Jobs Creation Act and expects to complete that evaluation by December 31, 2005. To date, the Company has not remitted any amounts under the repatriation provision. Currently, the related range of income tax effects of such a repatriation cannot be reasonably estimated.

### **Forward-Looking Statements and Related Matters**

This report and our other public disclosures, whether written or oral, may contain "forward-looking" statements including, but not limited to, projections of revenue, income, earnings, capital expenditures, dividends, capital structure, cash flows or other financial items; possible plans, goals, objectives, prospects, strategies or trends concerning future operations; statements concerning future economic performance; and statements of the underlying assumptions relating to the forward-looking statements. These statements are identified either by the context in which they appear or by use of words such as "anticipate," "believe," "estimate," "expect," "intends," "may," "plans," "should" or the like. All such forward-looking statements, whether written or oral, and whether made by us or on our behalf, are expressly qualified by the cautionary statements described in this provision.

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

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

- Our ability to improve operations and realize cost savings (including our tactical plan for the Fixture & Display business)
- Factors that could impact costs, including the availability and pricing of steel rod and scrap and other raw materials, the availability of labor, wage rates and energy costs.
- Our ability to pass along raw material cost increases to our customers
- Price and product competition from foreign (particularly Asian) and domestic competitors
- A significant decline in the long-term outlook for any given reporting unit that could result in potential goodwill impairment
- Future growth of acquired companies
- Our ability to bring start up operations on line as budgeted in terms of expense and timing
- Litigation risks
- Risks and uncertainties that could affect industries or markets in which we participate, such as growth rates and opportunities in those industries, changes in demand for certain products, or trends in business capital spending
- Changes in competitive, economic, legal and market conditions and related factors, such as the rate of economic growth in the United States and abroad, inflation, currency fluctuation, political risk, U.S. or foreign laws or regulations, interest rates, housing turnover, employment levels, consumer sentiment, taxation, and the like

Furthermore, we have made and expect to continue to make acquisitions. Acquisitions present significant challenges and risks, and depending upon market conditions, pricing and other factors, there can be no assurance that we can successfully negotiate and consummate acquisitions or successfully integrate acquired businesses.

This MD&A contains a disclosure on page 27 regarding the security ratings of the company's public debt. This discussion is not a recommendation to buy, sell or hold securities. Also, the security ratings are subject to revisions and withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

## Management's Responsibility for Financial Statements

Leggett & Platt, Incorporated

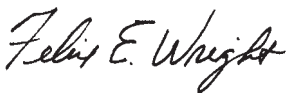
As Leggett & Platt's CEO and CFO, we are responsible for the presentation, accuracy, and objectivity of the information contained in our financial statements. Leggett has enjoyed a long-standing reputation for integrity, candor, and high quality earnings. We intend to protect that reputation. To that end, we employ a formal system of corporate conduct, internal control and audit, external audit, and Board of Directors oversight.

- We promote a strong ethical climate and encourage employees to conduct the Company's business according to high personal and corporate standards. Our Business Policies Manual, which is distributed annually, requires employees to comply with all applicable laws, protect the Company's assets, keep proprietary information confidential, and disclose potential conflicts of interest.
- Our internal control and audit systems are designed to provide reasonable assurance that financial reports are reliable, and are prepared in accordance with generally accepted accounting principles. Our report on internal control appears separately below.
- PricewaterhouseCoopers LLP (PwC), an independent registered public accounting firm, audits the Company's consolidated financial statements.
- The Board of Directors, through its Audit Committee, meets with Management, the internal auditors, and PwC to ensure that each is performing its responsibilities properly. Both the internal auditors and PwC have open and direct access to the Audit Committee, without Management present, to discuss the results of their work, including internal accounting controls and the quality of financial reporting.

Accordingly, we are confident that the consolidated financial statements in this Annual Report have been prepared in accordance with generally accepted accounting principles. Financial information elsewhere in this Annual Report is consistent with the information in the financial statements.

## Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management (including ourselves), we conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2004, based on the criteria in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, management concluded that the internal control over financial reporting was effective as of December 31, 2004. Management's assessment of the effectiveness of our internal control over financial reporting, as of December 31, 2004, has been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm, as stated in their report on the following page.



Felix E. Wright  
Chairman and  
Chief Executive Officer



Matthew C. Flanigan  
Vice President and  
Chief Financial Officer

# Report of Independent Registered Public Accounting Firm

Leggett & Platt, Incorporated

To the Board of Directors and Shareholders of Leggett & Platt, Incorporated:

We have completed an integrated audit of Leggett & Platt, Incorporated's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

## Consolidated Financial Statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Leggett & Platt, Incorporated and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation as of January 1, 2003.

## Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*PricewaterhouseCoopers LLP*

St. Louis, Missouri  
February 24, 2005

# Consolidated Statements of Earnings

Leggett & Platt, Incorporated

(Amounts in millions, except per share data)

Year ended December 31	2004	2003	2002
Net sales	\$ 5,085.5	\$ 4,388.2	\$ 4,271.8
Cost of goods sold	4,169.7	3,616.5	3,450.1
Gross profit	915.8	771.7	821.7
Selling and administrative expenses	460.2	409.9	394.2
Amortization of intangibles	10.5	8.4	10.2
Other (income) expense, net	(16.6)	(1.9)	16.7
Earnings before interest and income taxes	461.7	355.3	400.6
Interest expense	45.9	46.9	42.1
Interest income	6.8	6.7	5.0
Earnings before income taxes	422.6	315.1	363.5
Income taxes	137.2	109.2	130.4
Net earnings	\$ 285.4	\$ 205.9	\$ 233.1
Earnings per share			
Basic	\$ 1.46	\$ 1.05	\$ 1.17
Diluted	\$ 1.45	\$ 1.05	\$ 1.17

The accompanying notes are an integral part of these financial statements.

# Consolidated Balance Sheets

Leggett & Platt, Incorporated

(Amounts in millions, except per share data)

December 31	2004	2003
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 491.3	\$ 443.9
Accounts and notes receivable, net	790.7	680.7
Inventories		
Finished goods	365.0	316.5
Work in process	96.7	80.0
Raw materials and supplies	331.6	242.9
LIFO reserve	(87.6)	(11.1)
Total inventories	705.7	628.3
Other current assets	77.1	66.5
Total current assets	2,064.8	1,819.4
<b>Property, Plant and Equipment – at cost</b>		
Machinery and equipment	1,415.2	1,325.1
Buildings and other	681.1	680.0
Land	65.0	61.7
Total property, plant and equipment	2,161.3	2,066.8
Less accumulated depreciation	1,200.6	1,099.7
Net property, plant and equipment	960.7	967.1
<b>Other Assets</b>		
Excess cost of purchased companies over net assets acquired, less accumulated amortization of \$116.7 in 2004 and \$115.0 in 2003	1,028.9	989.5
Other intangibles, less accumulated amortization of \$32.5 in 2004 and \$35.1 in 2003	68.4	44.0
Sundry	74.4	69.7
Total other assets	1,171.7	1,103.2
<b>TOTAL ASSETS</b>	<b>\$ 4,197.2</b>	<b>\$ 3,889.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 401.3	\$ 119.4
Accounts payable	224.4	195.2
Accrued expenses	239.5	223.8
Other current liabilities	94.4	87.5
Total current liabilities	959.6	625.9
<b>Long-Term Debt</b>	<b>779.4</b>	<b>1,012.2</b>
<b>Other Liabilities</b>	<b>59.5</b>	<b>42.4</b>
<b>Deferred Income Taxes</b>	<b>85.6</b>	<b>95.2</b>
<b>Shareholders' Equity</b>		
Capital stock		
Preferred stock – authorized, 100.0 shares; none issued		
Common stock – authorized, 600.0 shares of \$.01 par value; issued 198.8 shares in 2004 and 2003	2.0	2.0
Additional contributed capital	452.5	433.7
Retained earnings	1,961.5	1,788.3
Accumulated other comprehensive income		
Foreign currency translation adjustments	89.6	34.4
Minimum pension liability adjustments	(7.3)	–
Less treasury stock – at cost (7.9 and 6.7 shares in 2004 and 2003, respectively)	(185.2)	(144.4)
Total shareholders' equity	2,313.1	2,114.0
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 4,197.2</b>	<b>\$ 3,889.7</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

Leggett & Platt, Incorporated

(Amounts in millions)

Year ended December 31	2004	2003	2002
<b>Operating Activities</b>			
Net earnings	\$ 285.4	\$ 205.9	\$ 233.1
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation	166.7	158.6	154.4
Amortization	10.5	8.4	10.2
Deferred income tax expense	3.4	15.9	17.7
Other	(9.0)	7.3	8.1
Other changes, excluding effects from purchases of companies			
(Increase) in accounts receivable, net	(109.2)	(79.5)	(.6)
(Increase) decrease in inventories	(69.9)	27.4	(24.5)
(Increase) in other current assets	(12.5)	(.8)	(3.7)
Increase in accounts payable	23.0	8.0	18.7
Increase in accrued expenses and other current liabilities	54.1	44.1	42.5
Net Cash Provided by Operating Activities	342.5	395.3	455.9
<b>Investing Activities</b>			
Additions to property, plant and equipment	(157.1)	(136.6)	(124.0)
Purchases of companies, net of cash acquired	(46.4)	(120.4)	(45.6)
Proceeds from liquidation of interest-rate swap agreement	–	39.9	–
Proceeds from sales of assets	42.0	6.7	7.0
Other	(8.9)	4.3	16.3
Net Cash Used for Investing Activities	(170.4)	(206.1)	(146.3)
<b>Financing Activities</b>			
Additions to debt	189.5	355.2	15.7
Payments on debt	(130.5)	(143.8)	(110.7)
Dividends paid	(109.9)	(102.7)	(96.3)
Issuances of common stock	26.1	3.8	13.2
Purchases of common stock	(99.9)	(82.8)	(93.7)
Net Cash (Used for) Provided by Financing Activities	(124.7)	29.7	(271.8)
<b>Increase in Cash and Cash Equivalents</b>	<b>47.4</b>	<b>218.9</b>	<b>37.8</b>
<b>Cash and Cash Equivalents – Beginning of Year</b>	<b>443.9</b>	<b>225.0</b>	<b>187.2</b>
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 491.3</b>	<b>\$ 443.9</b>	<b>\$ 225.0</b>
<b>Supplemental Information</b>			
Interest paid	\$ 66.9	\$ 53.8	\$ 46.8
Income taxes paid	137.1	93.7	110.9
Property, plant and equipment acquired through capital leases	3.2	3.3	31.9
Liabilities assumed of acquired companies	16.9	21.2	2.5
Common stock issued for employee stock plans	36.4	33.1	35.9

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Shareholders' Equity

Leggett & Platt, Incorporated

(Amounts in millions, except per share data)

Year ended December 31	2004	2003	2002
<b>Common Stock</b>			
Balance, beginning and end of period	\$ 2.0	\$ 2.0	\$ 2.0
<b>Additional Contributed Capital</b>			
Balance, beginning of period	\$ 433.7	\$ 422.9	\$ 419.3
Stock options and benefit plans transactions	20.4	14.2	12.6
Treasury stock issued	(10.6)	(4.1)	(12.8)
Tax benefit related to stock options	9.0	.7	3.8
Balance, end of period	\$ 452.5	\$ 433.7	\$ 422.9
<b>Retained Earnings</b>			
Balance, beginning of period	\$ 1,788.3	\$ 1,687.3	\$ 1,552.7
Net earnings	285.4	205.9	233.1
Cash dividends declared (per share: 2004 – \$.58; 2003 – \$.54; 2002 – \$.50)	(112.2)	(104.9)	(98.5)
Balance, end of period	\$ 1,961.5	\$ 1,788.3	\$ 1,687.3
<b>Treasury Stock</b>			
Balance, beginning of period	\$ (144.4)	\$ (96.3)	\$ (51.6)
Treasury stock purchased	(103.6)	(83.3)	(96.7)
Treasury stock issued	62.8	35.2	52.0
Balance, end of period	\$ (185.2)	\$ (144.4)	\$ (96.3)
<b>Accumulated Other Comprehensive Income (Loss)</b>			
Balance, beginning of period	\$ 34.4	\$ (39.0)	\$ (55.8)
Foreign currency translation adjustment	55.2	73.4	16.8
Minimum pension liability adjustment	(7.3)	–	–
Balance, end of period	\$ 82.3	\$ 34.4	\$ (39.0)
Total Shareholders' Equity	\$ 2,313.1	\$ 2,114.0	\$ 1,976.9
<b>Comprehensive Income</b>			
Net earnings	\$ 285.4	\$ 205.9	\$ 233.1
Foreign currency translation adjustment (net of income tax expense (benefit): 2004 – \$(.9); 2003 – \$1.6; 2002 – \$3.1)	55.2	73.4	16.8
Minimum pension liability adjustment (net of income tax benefit of \$4.0 in 2004)	(7.3)	–	–
Total Comprehensive Income	\$ 333.3	\$ 279.3	\$ 249.9

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

Leggett & Platt, Incorporated

(Dollar amounts in millions, except per share data)  
December 31, 2004, 2003 and 2002

## A. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of Leggett & Platt, Incorporated and its majority-owned subsidiaries (the Company). To facilitate timely financial reporting, many of the Company's subsidiaries outside of the United States are consolidated as of a fiscal year which ended November 30. All intercompany transactions and accounts have been eliminated in consolidation.

### Cash Equivalents

Cash equivalents include cash in excess of daily requirements which is invested in various financial instruments with original maturities of three months or less.

### Sales Recognition

The Company primarily recognizes sales on transfer of title which generally occurs upon the shipment of its products. The Company has no significant and unusual price protection or right of return provisions with its customers. Certain aluminum segment customers have fixed pricing for specified quantities of aluminum used in the production process. The Company generally purchases in advance sufficient quantities of aluminum inventory to "hedge" this fixed pricing commitment. Sales allowances and discounts can be reasonably estimated throughout the period and are deducted from sales in arriving at net sales.

### Shipping and Handling Costs

The Company's shipping and handling costs are included in "Cost of goods sold" on the Consolidated Statement of Earnings, in accordance with the Emerging Issues Task Force ("EITF") issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs."

### Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. The allowance for doubtful accounts is an estimate of the amount of probable credit losses determined from individual account reviews by management. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

### Inventories

All inventories are stated at the lower of cost or market. Cost includes materials, labor and production overhead. Cost is determined by the last-in, first-out (LIFO) method for approximately 50% of the inventories at December 31, 2004

and 2003. The first-in, first-out (FIFO) method is principally used for the remainder. The FIFO cost of inventories at December 31, 2004 and 2003 approximated expected replacement cost.

### Depreciation, Amortization and Asset Impairment

Property, plant and equipment are depreciated by the straight-line method. The rates of depreciation range from 7% to 33% for machinery and equipment, 3% to 7% for buildings and 12% to 33% for other items. Accelerated methods are used for tax purposes. Intangibles, other than goodwill, are amortized by the straight-line method over their estimated lives. The rates of amortization range from 2.5% to 33%. In accordance with FASB Statement No. 142 and 144, long-lived assets, including goodwill and other intangibles, are evaluated at least annually for impairment using current market values, estimates of future cash flows and other methods. Appropriate adjustment is made when recovery of the carrying amount is not reasonably assured.

### Stock-Based Compensation

Prior to 2003, the Company applied the intrinsic value based method of accounting prescribed by APB Opinion No. 25 and related interpretations in accounting for stock-based compensation plans. Accordingly, in 2002, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

Effective January 1, 2003, the Company adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting For Stock-Based Compensation." The Company selected the prospective transition method permitted by SFAS No. 148, "Accounting For Stock-Based Compensation – Transition and Disclosures." Accordingly, after January 1, 2003 the Company began expensing the fair value of stock options granted and began expensing the 15% purchase discount allowed for under its employee stock plans.

The following table illustrates the effect on net income and earnings per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

	2004	2003	2002
Net earnings – as reported	\$ 285.4	\$ 205.9	\$ 233.1
Add: Stock-based compensation cost, net of taxes, included in net earnings as reported	9.6	7.5	4.9
Deduct: Stock-based compensation cost, net of taxes, if the fair value based method had been applied to all awards	(11.0)	(9.2)	(11.1)
Pro forma net income	\$ 284.0	\$ 204.2	\$ 226.9
Earnings per share			
Basic – as reported	\$ 1.46	\$ 1.05	\$ 1.17
Basic – pro forma	1.45	1.04	1.14
Diluted – as reported	1.45	1.05	1.17
Diluted – pro forma	1.44	1.04	1.14

## Restructuring Costs

In 2003, the Company implemented SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement superceded previous accounting guidance, principally EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The adoption of SFAS No. 146 did not have a significant impact on the Company's financial statements. In accordance with SFAS No. 146, the Company recognizes a liability for costs associated with an exit or disposal activity when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of commitment to an exit plan.

## Concentration of Credit Risks, Exposures and Financial Instruments

The Company manufactures, markets, and distributes engineered products for the various end markets described in Note L. Operations are principally located in the United States, although the Company also has operations in Canada, Europe, Latin America, Asia and Australia.

The Company performs ongoing credit evaluations of its customers' financial conditions and generally requires no collateral from its customers, some of which are highly leveraged. The Company maintains allowances for potential credit losses and such losses have generally been within management's expectations.

The Company has no material guarantees or liabilities for product warranties which would require disclosure under FASB Interpretation No. 45.

From time to time, the Company will enter into contracts to hedge foreign currency denominated transactions, natural gas purchases, and interest rates related to fixed rate debt. To minimize the risk of counter party default, we only use highly-rated financial institutions that meet certain requirements. We do not anticipate that any of the financial institution counter parties that we deal with will default on their obligations.

The carrying value of cash and short-term financial instruments approximates fair value due to the short maturity of those instruments.

## Other Risks

The Company obtains insurance for workers' compensation, automobile, product and general liability, property loss and medical claims. However, the Company has elected to retain a significant portion of expected losses through the use of deductibles. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred. These estimates utilize the Company's prior experience and claim estimates that are provided by the Company's insurance carriers.

## Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

## Foreign Currency Translation

The functional currency for most foreign operations is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for income and expense accounts using monthly average exchange rates. The cumulative effects of translating the functional currencies into the U.S. dollar are included in comprehensive income. Foreign entities whose functional currency is the U.S. dollar are not significant.

## Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2004 presentation.

## B. Acquisitions

During 2004, the Company acquired nine businesses for \$46.4 in cash, net of cash acquired. This amount includes additional consideration of \$7.5 paid for prior year acquisitions. The excess of the purchase price over the fair value of the net assets acquired and reclassifications for prior year acquisitions increased goodwill by \$13.3, of which \$13.2 is expected to provide an income tax benefit. The Company has not yet obtained all information required to complete the purchase price allocation related to certain recent acquisitions. The Company does not believe that the additional information will materially modify the preliminary purchase price allocations. These acquired businesses manufacture and distribute products primarily to the specialized products, residential furnishings and commercial fixturing and components markets.

The unaudited pro forma consolidated net sales, as though the 2004 acquisitions had occurred on January 1 of each year presented, were \$5,125.4 and \$4,468.8 for the years ended December 31, 2004 and 2003, respectively. The unaudited pro forma consolidated net earnings and earnings per share are not materially different from the amounts reflected in the accompanying financial statements. These pro forma amounts are not necessarily indicative of either results of operations that would have occurred had the purchases been made on January 1 of each year or of future results of the combined companies.

During 2003, the Company acquired 15 businesses for \$120.4 in cash, net of cash acquired. The excess of the purchase price over the fair value of the net assets acquired and reclassifications for prior year acquisitions increased goodwill by \$54.5, of which \$43.7 is expected to provide an income tax benefit. These acquired businesses manufacture and distribute products primarily to the commercial fixturing and components and residential furnishings markets.

During 2002, the Company acquired seven businesses for \$45.6 in cash, net of cash acquired. This amount includes additional consideration of \$6.9 paid for prior year acquisitions. The excess of the purchase price over the fair value of the net assets acquired and reclassifications for prior year acquisitions increased goodwill by \$12.4, of which \$11.4 is expected to provide an income tax benefit. These acquired businesses manufacture and distribute products primarily to the industrial materials and residential furnishings markets. In addition, in 2002 the Company also acquired the assets of a rod mill from a bankrupt steel company. The cost to acquire and

refurbish this rod mill is included in expenditures for property, plant and equipment.

The results of operations of the above acquired companies have been included in the consolidated financial statements since the dates of acquisition. The terms of certain of the Company's acquisition agreements provide for additional consideration to be paid if the acquired company's performance exceeds certain targeted levels. Such additional consideration may be paid in cash, and is recorded when earned as additional purchase price. At December 31, 2004, the maximum remaining amount of additional consideration is approximately \$33 and will be payable, if earned, through 2008.

### C. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Residential Furnishings	Commercial Fixturing & Components	Aluminum Products	Industrial Materials	Specialized Products	Total
Balance as of						
January 1, 2003	\$288.8	\$353.8	\$83.3	\$29.6	\$142.5	\$ 898.0
Goodwill acquired during year	34.1	9.7	-	-	9.5	53.3
Adjustments to finalize purchase price allocation	-	1.2	-	-	-	1.2
	34.1	10.9	-	-	9.5	54.5
Goodwill written off related to sale or closure of facilities	(.1)	-	-	-	-	(.1)
Foreign currency translation adjustment/other	13.3	7.7	-	.3	15.8	37.1
Balance as of						
December 31, 2003	336.1	372.4	83.3	29.9	167.8	989.5
Goodwill acquired during year	2.4	8.7	-	-	8.5	19.6
Adjustments to finalize purchase price allocation	(6.5)	(.2)	-	.3	.1	(6.3)
	(4.1)	8.5	-	.3	8.6	13.3
Goodwill written off related to sale of facilities	-	-	-	-	(.1)	(.1)
Foreign currency translation adjustment/other	6.9	5.6	-	.4	13.3	26.2
<b>Balance as of</b>						
<b>December 31, 2004</b>	<b>\$338.9</b>	<b>\$386.5</b>	<b>\$83.3</b>	<b>\$30.6</b>	<b>\$189.6</b>	<b>\$1,028.9</b>

Prior years' segment information has been restated for an organizational move of two small operations from Residential Furnishings to Specialized Products.

Intangible assets acquired during the year are as follows:

	2004		2003	
	Gross Carrying Amount	Weighted Average Amortization Period In Years	Gross Carrying Amount	Weighted Average Amortization Period in Years
Non-compete agreements	\$ 7.3	6.9	\$ 5.3	6.9
Patents and trademarks	12.6	18.6	2.7	10.7
Customer-related intangibles, deferred financing and other costs	11.2	9.0	8.3	8.4
	<b>\$31.1</b>	<b>11.8</b>	<b>\$16.3</b>	<b>8.3</b>

The gross carrying amount and accumulated amortization by major amortized intangible asset class is as follows:

December 31	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	\$ 26.8	\$12.7	\$30.1	\$19.0
Patents and trademarks	42.6	9.8	30.1	8.1
Customer-related intangibles, deferred financing and other costs	31.5	10.0	18.9	8.0
	<b>\$100.9</b>	<b>\$32.5</b>	<b>\$79.1</b>	<b>\$35.1</b>

Aggregate amortization expense for other intangible assets was \$10.5, \$8.4 and \$10.2 for the years ended December 31, 2004, 2003 and 2002, respectively.

Estimated amortization expense for each of the five years following 2004 is as follows:

Year ended December 31	
2005	\$8.7
2006	7.5
2007	6.4
2008	5.8
2009	4.5

### D. Accounts and Notes Receivable

Accounts and notes receivable consisted of the following at December 31, 2004 and 2003:

	2004	2003
Trade	\$779.2	\$669.7
Other, including notes	29.5	28.9
Total accounts and notes receivable	808.7	698.6
Allowance for doubtful accounts	(18.0)	(17.9)
Total	\$790.7	\$680.7

### E. Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	2004	2003	2002
Basic			
Weighted average shares outstanding, including shares issuable for little or no cash	195,699,972	196,548,473	198,971,465
Net earnings	\$285.4	\$205.9	\$233.1
Earnings per share	\$ 1.46	\$ 1.05	\$ 1.17
Diluted			
Weighted average shares outstanding, including shares issuable for little or no cash	195,699,972	196,548,473	198,971,465
Additional dilutive shares principally from the assumed exercise of outstanding stock options	1,175,643	405,403	823,730
	<b>196,875,615</b>	<b>196,953,876</b>	<b>199,795,195</b>
Net earnings	\$285.4	\$205.9	\$233.1
Earnings per share	\$ 1.45	\$ 1.05	\$ 1.17

## F. Supplemental Balance Sheet Information

Sundry assets, accrued expenses, and other current liabilities at December 31 consist of the following:

	2004	2003
Sundry assets		
Prepaid pension costs	\$ 35.0	\$ 40.4
Other	39.4	29.3
	<b>\$ 74.4</b>	<b>\$ 69.7</b>
Accrued expenses		
Wages and commissions payable	\$ 68.7	\$ 59.7
Workers' compensation, medical, auto and product liability	42.1	45.1
Sales promotions	37.5	32.2
Other	91.2	86.8
	<b>\$239.5</b>	<b>\$223.8</b>
Other current liabilities		
Outstanding checks in excess of book balances	\$ 46.5	\$ 42.9
Dividends payable	28.5	26.7
Other	19.4	17.9
	<b>\$ 94.4</b>	<b>\$ 87.5</b>

## G. Long-Term Debt

Long-term debt, weighted average interest rates and due dates at December 31 are as follows:

	2004	2003
Medium-term notes, average interest rates of 4.2% and 4.3% for 2004 and 2003, respectively, due dates through 2018	\$1,091.5	\$1,025.5
Market value adjustment related to medium-term notes' interest rate swaps	2.5	23.1
Industrial development bonds, principally variable interest rates of 2.5% and 2.0% for 2004 and 2003, respectively, due dates through 2030	40.7	41.2
Capitalized leases	34.5	37.2
Other, partially secured	11.5	4.6
	<b>1,180.7</b>	<b>1,131.6</b>
Less current maturities	401.3	119.4
	<b>\$ 779.4</b>	<b>\$1,012.2</b>

At December 31, 2003, the Company had an interest rate swap agreement on \$14 of its fixed-rate medium-term notes. This note matured on June 29, 2004. This swap agreement, which converted fixed rate debt to variable rate debt, contained the same payment dates as the original issue, and was used by the Company to manage the fixed/variable interest rate mix of its debt portfolio. In accordance with FASB Statement No. 133, the market value of this swap was shown as an adjustment of the corresponding debt's market value in the preceding table.

During the first quarter of 2003, the Company liquidated an additional interest rate swap agreement it had entered into in February 2000 on a \$350 medium-term note, and received \$39.9 in cash proceeds. The market value adjustment at the date the swap was liquidated (equivalent to the proceeds from liquidation of the swap agreement) is being amortized over the remaining life of the medium-term note, which matures on February 15, 2005. The unamortized market value adjustment of the liquidated swap agreement was \$2.5 at December 31, 2004 and \$22.5 at December 31, 2003. In

addition, the market value of the \$14 swap agreement discussed above was \$.6 at December 31, 2003.

On December 16, 2003, the Company entered into a cross-currency rate swap agreement with Wachovia Bank, N.A. See Note P for more discussion of this agreement.

At December 31, 2004, the Company had debt capital available through a \$300 commercial paper program supported by revolving credit agreements providing for a maximum line of credit of \$342. For any revolving credit agreement, the Company may elect to pay interest based on 1) the bank's base lending rate, 2) LIBOR, 3) an adjusted certificate of deposit rate, or 4) the money market rate, as specified in the revolving credit agreements. Agreement amounts will terminate July 31, 2009, at which time any outstanding balances will become due. There were no amounts outstanding under the revolving credit agreements at December 31, 2004 and 2003.

The revolving credit agreements and certain other long-term debt contain restrictive covenants which, among other restrictions, limit the amount of additional debt and require net earnings to meet or exceed specified levels of funded debt. The Company remained in compliance with all such covenants during the years ended December 31, 2004 and 2003.

Maturities of long-term debt are as follows:

Year ended December 31	
2005	\$ 401.3
2006	78.6
2007	32.8
2008	83.2
2009	15.5
Thereafter	569.3
	<b>\$1,180.7</b>

## H. Lease Obligations

The Company leases certain operating facilities, most of its automotive and trucking equipment and some other assets. Lease terms, including purchase options, renewals and maintenance costs, vary by lease.

Total rental expense included in the results of operations was \$59.0, \$55.4 and \$49.9 for the years ended December 31, 2004, 2003 and 2002, respectively.

Future minimum rental commitments for all long-term noncancelable operating leases are as follows:

Year ended December 31	
2005	\$ 43.5
2006	31.5
2007	24.2
2008	18.5
2009	14.1
Later years	19.4
	<b>\$151.2</b>

The above lease obligations expire at various dates through 2014. Certain leases contain renewal and/or purchase options. Aggregate rental commitments above include renewal amounts where it is the intention of the Company to renew the lease.

## I. Capital Stock

### Stock Activity

Activity in the Company's stock accounts for each of the three years ended December 31 is as follows:

	Common Stock	Treasury Stock
Balance, January 1, 2002	198,797,750	(2,499,597)
Shares issued	1,793	2,344,708
Treasury stock purchased	–	(4,146,034)
Balance, December 31, 2002	198,799,543	(4,300,923)
Shares issued	–	1,614,003
Treasury stock purchased	–	(4,009,929)
Balance, December 31, 2003	198,799,543	(6,696,849)
Shares issued	–	2,813,791
Treasury stock purchased	–	(4,030,467)
<b>Balance, December 31, 2004</b>	<b>198,799,543</b>	<b>(7,913,525)</b>

The Company issues shares for employee and director stock plans (see Note J) and acquisitions. The Company purchases its common stock to meet the requirements of the employee stock plans, to replace shares issued in acquisitions and to satisfy contractual obligations. The Company will also receive shares in stock option exercises. The Company's non-employee stock options are not significant.

The Company also has authorized shares for issuance in connection with certain employee stock benefit plans discussed in Note J.

### Stock Options

At December 31, 2004, the Company had a combined total of 17,283,479 unissued common shares authorized for issuance under employee and non-employee stock plans. This amount represents 11,500,280 unexercised options, 1,753,745 outstanding employee owned stock units and 4,029,454 shares available for grant under the Company's 1989 Flexible Stock Plan. Generally, options become exercisable in varying installments, beginning 18 months after the date of grant, have a maximum term of 10 years, and are issued with exercise prices at market. However, the Company has granted below market options under a deferred compensation program. This program allows senior managers to receive stock options in lieu of cash salary and bonuses. These options include a discount feature which does not exceed 15% and have a term of fifteen years. Beginning in 2005, "at market" stock options will be used for the deferred

compensation program. A summary of the Company's employee stock option plans as of December 31, 2004, 2003 and 2002, and changes during the years then ended, is as follows:

	Shares	Weighted Average Exercise Price per Share
Outstanding at January 1, 2002	9,919,754	\$13.48
Granted	1,690,923	19.39
Exercised	(1,303,610)	12.27
Forfeited	(255,340)	19.03
Outstanding at December 31, 2002	10,051,727	14.49
Granted	2,237,727	14.39
Exercised	(344,051)	11.84
Forfeited	(609,805)	21.64
Outstanding at December 31, 2003	11,335,598	14.17
Granted	1,951,475	22.80
Exercised	(1,682,967)	16.87
Forfeited	(240,835)	19.31
<b>Outstanding at December 31, 2004</b>	<b>11,363,271</b>	<b>\$15.31</b>

Options exercisable at		
<b>December 31, 2004</b>	<b>7,912,044</b>	<b>\$12.47</b>
December 31, 2003	7,716,615	12.89
December 31, 2002	7,051,541	12.73

The following table summarizes information about employee stock options outstanding at December 31, 2004:

Options Outstanding				
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life In Years	Weighted- Average Exercise Price	
\$ .01–\$ .25	1,056,085	6.5	\$ .06	
3.09– 4.82	2,323,486	11.6	3.90	
10.00– 15.00	36,222	3.8	13.88	
15.31– 20.00	4,225,027	5.7	18.78	
20.03– 28.97	3,722,451	8.2	22.83	
<b>\$ .01–\$28.97</b>	<b>11,363,271</b>	<b>7.8</b>	<b>\$15.31</b>	

Options Exercisable			
Range of Exercise Prices	Number Exercisable	Weighted- Average Exercise Price	
\$ .01–\$ .25	1,055,634	\$ .06	
3.09– 4.82	2,322,832	3.90	
10.00– 15.00	36,222	13.88	
15.31– 20.00	3,453,407	19.02	
20.03– 28.97	1,043,949	22.34	
<b>\$ .01–\$28.97</b>	<b>7,912,044</b>	<b>\$12.47</b>	

The following table summarizes the weighted-average fair value per share of each option granted during the years 2004, 2003 and 2002 as of the grant date. These values are calculated using the Black-Scholes option pricing model based on these weighted-average assumptions.

	2004	2003	2002
Weighted-average fair value of options:			
Granted at market price	\$ 4.65	\$ 3.35	\$ 4.92
Granted below market price	16.85	9.44	11.53
Weighted-average exercise price of options:			
Granted at market price	22.99	18.27	22.28
Granted below market price	3.63	4.09	4.48
Principal assumptions			
Risk-free interest rate	3.2%	2.9%	3.9%
Expected life in years	6.0	6.4	5.9
Expected volatility (over expected life)	28.3%	29.3%	28.7%
Expected dividend yield (over expected life)	3.7%	4.4%	3.4%

### Shareholder Protection Rights Plan

In 1989, the Company declared a dividend distribution of one preferred stock purchase right (a Right) for each share of common stock. The Rights are attached to and traded with the Company's common stock. The Rights become exercisable only under certain circumstances involving actual or potential acquisitions of the Company's common stock. The Rights currently remain in existence until February 2009, unless they are exercised, exchanged or redeemed at an earlier date. Depending upon the circumstances, if these Rights become exercisable, the holder may be entitled to purchase shares of Series A junior preferred stock of the Company, shares of the Company's common stock or shares of common stock of the acquiring entity.

### J. Employee Benefit Plans

This footnote provides information at December 31 as to the Company's sponsored domestic and foreign defined benefit pension plans as required by the Statement of Financial Accounting Standards 132 (revised 2003), "Employers' Disclosures about Pensions and Other

Postretirement Benefits." The Company uses a September 30 measurement date for the majority of its plans.

	2004	2003	2002
Change in Benefit Obligation			
Benefit obligation, beginning of period	\$ 168.2	\$ 155.5	\$ 138.4
Service cost	5.2	4.2	4.1
Interest cost	10.2	9.0	8.4
Plan participants' contributions	5.9	5.6	5.5
Actuarial losses	11.1	1.1	2.1
Benefits paid	(10.9)	(9.9)	(7.5)
Foreign currency exchange rate changes	2.5	2.7	1.4
Plan amendments and acquisitions	-	-	3.1
Benefit obligation, end of period	192.2	168.2	155.5
Change in Plan Assets			
Fair value of plan assets, beginning of period	174.5	154.2	172.1
Actual return on plan assets	16.0	21.3	(18.4)
Employer contributions	2.2	1.5	1.4
Plan participants' contributions	5.9	5.6	5.5
Benefits paid	(10.9)	(9.9)	(7.5)
Foreign currency exchange rate changes	1.4	1.8	1.1
Fair value of plan assets, end of period	189.1	174.5	154.2
Plan Assets (Under) Over Benefit Obligations	(3.1)	6.3	(1.3)
Unrecognized net actuarial losses	33.2	24.8	33.0
Unrecognized net transition asset	-	.1	.1
Unrecognized prior service cost	2.5	2.6	2.8
Net prepaid pension cost	\$ 32.6	\$ 33.8	\$ 34.6

The net prepaid pension cost amount recognized in the Consolidated Balance Sheets at December 31 is as follows:

	2004	2003	2002
Prepaid pension costs	\$ 35.0	\$ 40.4	\$ 40.3
Accrued pension benefit liabilities	(17.0)	(6.6)	(5.7)
Intangible assets	3.3	-	-
Accumulated other comprehensive income	11.3	-	-
Net amount recognized	\$ 32.6	\$ 33.8	\$ 34.6

### Components of Net Pension

(Expense) Income	2004	2003	2002
Service cost	\$ (5.2)	\$ (4.2)	\$ (4.1)
Interest cost	(10.2)	(9.0)	(8.4)
Expected return on plan assets	14.0	12.4	14.0
Amortization of net transition asset	(.1)	(.1)	(.1)
Recognized net actuarial loss	(1.9)	(1.4)	(.8)
Net pension (expense) income	\$ (3.4)	\$ (2.3)	\$ .6

### Weighted Average Assumptions\*

	2004	2003	2002
Discount rate	5.9%	6.0%	6.0%
Expected return on plan assets	7.9%	7.9%	7.9%
Rate of compensation increase	4.5%	4.5%	4.5%

\*Used in the calculation of both benefit obligations and net pension costs.

The overall expected long-term rate of return is based on the plans' historical experience and expectations of future returns based upon the plans' diversification of investment holdings.

The accumulated benefit obligation for all defined benefit pension plans was \$174.6, \$152.4 and \$139.7 at December 31, 2004, 2003 and 2002, respectively.

Those plans that have accumulated benefit obligations in excess of plan assets at December 31 are recapped below:

	2004	2003	2002
Foreign Subsidiary Plans			
Projected/accumulated benefit obligation	\$ 31.2	\$ 14.9	\$ 18.1
Fair value of plan assets	18.4	7.9	12.0
Domestic Subsidiary Plans			
Projected benefit obligation	35.7	32.9	34.2
Accumulated benefit obligation	34.9	31.8	32.1
Fair value of plan assets	29.1	27.3	26.3

The increase in minimum pension liability included in other comprehensive income is \$7.3, net of tax of \$4.0.

For the foreign plans, the difference between the projected benefit obligation and the accumulated benefit obligation is not significant.

Included in the domestic plans above is a subsidiary's unfunded supplemental executive retirement plan. The subsidiary owns insurance policies with cash surrender values of \$1.8, \$2.0 and \$1.9 at December 31, 2004, 2003 and 2002, respectively, for the participants in this non-qualified plan. These insurance policies are not included in the plan's assets.

Plan assets are invested in a diversified portfolio of equity, debt and government securities.

Asset Category	2004	2003	2002
Equity securities	66%	58%	67%
Debt securities	26	27	20
Other	8	15	13
Total	100%	100%	100%

The Company's investment policy and strategies are established with a long-term view in mind. The Company strives for a sufficiently diversified asset mix to minimize the risk of a material loss to the portfolio value due to the devaluation of any single investment. In determining the appropriate asset mix, the Company's financial strength and ability to fund potential shortfalls that might result from poor investment performance are considered. The Company's weighted average target percentages of the asset portfolios are 70% equities and 30% bonds.

The Company expects to contribute \$2.0 to its defined benefit pension plans in 2005.

Estimated benefit payments, which reflect expected future service, to be paid over the next ten years are: 2005 – \$10.6; 2006 – \$11.1; 2007 – \$11.7; 2008 – \$12.4; 2009 – \$13.3; and 2010–2014 – \$79.1.

Total net pension expense, including multiemployer plans and other defined contribution plans, was \$8.8, \$7.0 and \$4.2 in 2004, 2003 and 2002, respectively.

Contributions to union sponsored, defined benefit, multi-employer pension plans were less than \$1.5 in 2004, 2003 and 2002. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. While the Company has no present intention of withdrawing from any of these plans, nor has it been informed that there is any intention to terminate such plans, the Company does not believe there would be a material withdrawal liability in such event.

In addition to the stock option plans discussed in Note I, the Company has a Stock Bonus Plan (SBP), which is an Employee Stock Ownership Plan, a nonqualified Executive Stock Unit Program (ESUP) and a Discount Stock Plan (DSP). The SBP and the ESUP provide Company pre-tax contributions of 50% of the amount of employee contributions. Contributions to the ESUP are invested in stock units at 85% of the market price and contributions to the SBP are used to purchase the Company's common stock at market prices. In addition, the Company matches its contributions when certain profitability levels, as defined in the SBP and the ESUP, have been attained. The ESUP units, which are issued pursuant to the Company's 1989 Flexible Stock Plan, are considered equivalent to outstanding common shares for accounting and earnings per share purposes.

Under the DSP, eligible employees may purchase shares of Company common stock at 85% of the closing market price on the last business day of each month. Shares purchased under the DSP were 636,842 in 2004, 765,388 in 2003, and 759,938 in 2002. Purchase prices ranged from \$16 to \$25 per share. Since inception of the DSP in 1982, a total of 18,629,765 shares have been purchased by employees. Eligible employees may purchase a maximum of 23,000,000 shares under the plan.

The Company's total expense for the stock plans was \$12.0, \$11.9 and \$7.8 for 2004, 2003 and 2002, respectively. Upon the adoption of SFAS No. 123 on January 1, 2003, (see Note A), the Company began charging the 15% discount for the above stock plans to expense as shares or units are issued.

## K. Income Taxes

The components of earnings before income taxes are as follows:

Year ended December 31	2004	2003	2002
Domestic	\$347.7	\$247.6	\$284.8
Foreign	74.9	67.5	78.7
	\$422.6	\$315.1	\$363.5

Income tax expense is comprised of the following components:

Year ended December 31	2004	2003	2002
Current			
Federal	\$100.4	\$ 66.3	\$ 78.2
State and local	11.3	4.1	7.3
Foreign	22.1	22.9	27.2
	133.8	93.3	112.7
Deferred			
Federal	11.3	14.2	15.1
State and local	(6.5)	3.5	3.4
Foreign	(1.4)	(1.8)	(.8)
	3.4	15.9	17.7
	\$137.2	\$109.2	\$130.4

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major temporary differences that give rise to deferred tax assets or liabilities are as follows:

December 31	2004		2003	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	\$ -	\$ (83.5)	\$ -	\$ (90.0)
Accrued expenses	81.4	-	69.1	-
Net operating losses and tax credit carryforwards	49.1	-	44.7	-
Pension cost	-	(16.0)	-	(16.5)
Intangible assets	9.2	(50.8)	9.0	(41.3)
Other, net	10.1	(40.0)	4.5	(33.3)
Gross deferred tax assets (liabilities)	149.8	(190.3)	127.3	(181.1)
Valuation allowance	(30.7)	-	(24.4)	-
Total deferred taxes	\$119.1	\$(190.3)	\$102.9	\$(181.1)
Net deferred tax liability		\$ (71.2)		\$ (78.2)

The valuation allowance primarily relates to state and foreign tax loss carryforwards and tax credit carryforwards for which utilization is uncertain. Cumulative tax losses in certain state and foreign jurisdictions during recent years, and limited carryforward periods in certain jurisdictions were factors considered in determining the valuation allowance.

No significant amount of carryforwards expire in any one year, but the principal amount of the carryforwards expire in various years after 2006.

The Company recognized a tax benefit of approximately \$4.6, \$.8 and \$3.8 in 2004, 2003 and 2002, respectively, related to the exercise of employee stock options, which have been recorded as an increase to additional contributed capital.

Deferred income taxes and withholding taxes have been provided on earnings of the Company's foreign subsidiaries to the extent it is anticipated that the earnings will be remitted in the future as dividends. The tax effect of most distributions would be significantly offset by available foreign tax credits.

Deferred income taxes and withholding taxes have not been provided on undistributed earnings which management has deemed to be permanently reinvested. The cumulative undistributed earnings as of December 31, 2004 which the Company has deemed to be permanently reinvested are approximately \$102.7. If such earnings were distributed, the resulting incremental taxes would be approximately \$15.0 based on present income tax laws, which are subject to change.

Deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

December 31	2004	2003
Other current assets	\$ 14.4	\$ 17.0
Deferred income taxes	(85.6)	(95.2)
	\$(71.2)	\$(78.2)

Income tax expense, as a percentage of earnings before income taxes, differs from the statutory federal income tax rate as follows:

Year ended December 31	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (decreases) in rate resulting from:			
State taxes, net of federal benefit	.9	1.6	2.0
Taxes on foreign earnings	(2.4)	(1.8)	(1.0)
Permanent differences	(.4)	(.7)	.4
Other	(.6)	.6	(.5)
Effective tax rate	32.5%	34.7%	35.9%

#### L. Segment Information

Reportable segments are primarily based upon the Company's management organizational structure. This structure is generally focused on broad end-user markets for the Company's diversified products. Residential Furnishings derives its revenues from components for bedding, furniture and other furnishings, as well as related consumer products. Commercial Fixturing & Components derives its revenues from retail store fixtures, displays, storage and material handling systems, components for office and institutional furnishings, and plastic components. The Aluminum Products revenues are derived from die castings, custom tooling and secondary machining and coating. The Company sold its last aluminum ingot smelting operation in 2002. Industrial Materials derives its revenues from drawn steel wire, steel rod, specialty wire products and welded steel tubing sold to trade customers as well as other Leggett segments. Specialized Products derives its revenues from machinery, manufacturing equipment, automotive seating suspensions, control cable systems and lumbar supports for automotive, office and residential applications.

The accounting principles used in the preparation of the segment information are the same as 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. The Company evaluates 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 general and administrative costs and miscellaneous corporate income and expense of the Company are allocated to the segments based on sales and EBIT. Asset information for the segments includes only inventory, trade receivables, net property, plant and equipment and unamortized purchased intangibles. These segment assets are reflected in the segment information at their estimated average for the year. Acquired companies' long-lived assets as disclosed include property, plant and equipment, goodwill and other intangibles, and long-term assets. Centrally incurred costs, allocated general and administrative costs and miscellaneous corporate income and expense include depreciation and other costs and income related to assets that are not allocated or otherwise included in the segment assets.

Prior years' segment results have been restated for an organizational move of two small operations from Residential Furnishings to Specialized Products.

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

Year ended December 31	External Sales	Inter-Segment Sales	Total Sales	EBIT
<b>2004</b>				
Residential Furnishings	\$2,467.5	\$ 14.1	\$2,481.6	\$265.0
Commercial Fixturing & Components	1,072.2	6.0	1,078.2	55.3
Aluminum Products	505.7	16.0	521.7	45.5
Industrial Materials	530.3	287.2	817.5	121.5
Specialized Products	509.8	54.0	563.8	50.5
Intersegment eliminations				.4
Adjustment to LIFO method				(76.5)
	<b>\$5,085.5</b>	<b>\$377.3</b>	<b>\$5,462.8</b>	<b>\$461.7</b>
<b>2003</b>				
Residential Furnishings	\$2,180.1	\$ 6.3	\$2,186.4	\$208.5
Commercial Fixturing & Components	957.8	7.2	965.0	26.8
Aluminum Products	453.5	13.2	466.7	35.6
Industrial Materials	369.2	209.6	578.8	37.7
Specialized Products	427.6	58.8	486.4	52.3
Intersegment eliminations				(3.8)
Adjustment to LIFO method				(1.8)
	<b>\$4,388.2</b>	<b>\$295.1</b>	<b>\$4,683.3</b>	<b>\$355.3</b>
<b>2002</b>				
Residential Furnishings	\$2,124.0	\$ 9.6	\$2,133.6	\$222.2
Commercial Fixturing & Components	892.6	6.0	898.6	48.4
Aluminum Products	472.7	14.6	487.3	31.3
Industrial Materials	395.6	215.6	611.2	51.0
Specialized Products	386.9	50.7	437.6	51.6
Intersegment eliminations				(.7)
Adjustment to LIFO method				(3.2)
	<b>\$4,271.8</b>	<b>\$296.5</b>	<b>\$4,568.3</b>	<b>\$400.6</b>

Year ended December 31	Assets	Additions to Property Plant and Equipment	Acquired Companies' Long-Lived Assets	Depreciation and Amortization
<b>2004</b>				
Residential Furnishings	\$1,395.7	\$ 59.9	\$ 3.6	\$ 72.4
Commercial Fixturing & Components	964.9	17.7	15.2	32.5
Aluminum Products	375.8	22.3	-	23.4
Industrial Materials	303.3	14.9	.3	14.5
Specialized Products	480.0	31.9	26.3	23.1
Unallocated assets	626.8	10.4	-	11.3
Adjustment to year-end vs. average assets	50.7			
	<b>\$4,197.2</b>	<b>\$157.1</b>	<b>\$45.4</b>	<b>\$177.2</b>
<b>2003</b>				
Residential Furnishings	\$1,328.0	\$ 50.7	\$45.7	\$ 70.2
Commercial Fixturing & Components	950.2	20.8	24.6	30.2
Aluminum Products	376.3	18.5	-	23.0
Industrial Materials	263.2	14.7	-	17.2
Specialized Products	414.2	23.0	14.4	16.8
Unallocated assets	615.3	8.9	-	9.6
Adjustment to year-end vs. average assets	(57.5)			
	<b>\$3,889.7</b>	<b>\$136.6</b>	<b>\$84.7</b>	<b>\$167.0</b>
<b>2002</b>				
Residential Furnishings	\$1,245.5	\$ 44.4	\$ 8.1	\$ 68.9
Commercial Fixturing & Components	882.4	11.1	2.9	31.5
Aluminum Products	409.8	19.4	-	23.9
Industrial Materials	269.9	26.5	6.5	17.4
Specialized Products	373.9	16.7	7.9	15.0
Unallocated assets	425.4	5.9	-	7.9
Adjustment to year-end vs. average assets	(105.8)			
	<b>\$3,501.1</b>	<b>\$124.0</b>	<b>\$25.4</b>	<b>\$164.6</b>

Revenues from external customers, by product line, are as follows:

Year Ended December 31	2004	2003	2002
Residential Furnishings			
Bedding components	\$ 895.2	\$ 778.7	\$ 798.5
Residential furniture components	805.1	697.1	692.9
Finished & consumer products	643.0	606.4	544.0
Other residential furnishings products	124.2	97.9	88.6
	<b>2,467.5</b>	<b>2,180.1</b>	<b>2,124.0</b>
Commercial Fixturing & Components			
Store displays, fixtures & storage products	824.2	744.0	654.4
Office furnishings & plastic components	248.0	213.8	238.2
	<b>1,072.2</b>	<b>957.8</b>	<b>892.6</b>
Aluminum Products			
Die cast products	474.6	422.4	420.7
Tool & die operations (including smelting in 2002)	31.1	31.1	52.0
	<b>505.7</b>	<b>453.5</b>	<b>472.7</b>
Industrial Materials			
Wire, wire products & steel tubing	530.3	369.2	395.6
Specialized Products			
Automotive products & specialized machinery	509.8	427.6	386.9
	<b>\$5,085.5</b>	<b>\$4,388.2</b>	<b>\$4,271.8</b>

The Company's operations outside of the United States are principally in Canada, Europe and Mexico. The geographic information that follows regarding sales is based on the area of manufacture.

Year Ended December 31	2004	2003	2002
<b>External sales</b>			
United States	\$4,029.3	\$3,467.7	\$3,426.0
Canada	421.0	424.0	412.2
Europe	403.2	315.1	268.2
Mexico	145.7	135.3	129.1
Other	86.3	46.1	36.3
	<b>\$5,085.5</b>	<b>\$4,388.2</b>	<b>\$4,271.8</b>
<b>Long-lived assets</b>			
United States	\$1,553.9	\$1,551.8	\$1,591.1
Canada	227.9	207.8	163.8
Europe	228.2	198.5	175.6
Mexico	71.9	68.0	60.0
Other	50.5	44.2	22.6
	<b>\$2,132.4</b>	<b>\$2,070.3</b>	<b>\$2,013.1</b>

### M. Contingencies

The Company is involved in various legal proceedings including matters which involve claims against the Company under employment, intellectual property, environmental and other laws. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with claims and proceedings, and the costs can be reasonably estimated, appropriate liabilities are recorded in the financial statements and charges are made against earnings. No claim or proceeding has resulted in a material charge against earnings, nor are the total liabilities recorded material to the Company's financial position. While the results of any ultimate resolution are uncertain, management believes the possibility of a material adverse effect on the Company's consolidated financial position, results of operations and cash flows from claims and proceedings is remote.

### N. Restructuring Activity

On January 1, 2003, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Previously, the Company utilized Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity ("restructuring") be recognized when the liability is incurred. The Company regularly engages in restructuring activities resulting from its ongoing efforts to improve operations and control expenses. The costs incurred for the restructuring activities in which the Company is currently engaged have not been material to the Company's earnings or financial position. In addition, future expenditures associated with these restructurings, all of which are expected to be complete within twelve months, are expected to be less than \$2.

Over the last three years, the Company has sold, consolidated or shutdown several facilities, none of which actions individually resulted in a material charge to earnings. These restructurings have had the following impact on the Company's financial statements:

Year ended December 31	2004	2003	2002
<b>Charged to other deductions (income), net</b>			
Write-downs of property, plant and equipment	\$ .2	\$ 1.2	\$ 9.3
Write-off of goodwill	-	.1	3.2
Severance and other restructuring costs, net of proceeds	3.9	(1.9)	.8
	<b>\$4.1</b>	<b>\$ (.6)</b>	<b>\$13.3</b>

Severance and restructuring costs associated with facility restructurings charged to cost of goods sold were \$3.0 in 2004 and \$0 in 2003 and 2002. Write-down of property, plant and equipment and inventory associated with restructurings charged to cost of goods sold were \$2.2 in 2004, \$0 in 2003 and \$1.6 in 2002.

Restructuring liabilities at year-end	\$1.4	\$ .6	\$ 3.6
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Adjustments of previously established liabilities for restructurings have been negligible for 2004-2002. Net sales for the 12-month period prior to divestiture for businesses sold were \$0 in 2004, \$23 in 2003, and \$40 in 2002. The earnings impact from these divested businesses is not material.

### O. Other (Income) Expense

The components of other (income) expense were as follows:

Year ended December 31	2004	2003	2002
(Gain) loss on asset sale/impairment	\$(16.3)	\$ 1.9	\$ 3.8
Restructuring charges	4.1	(.6)	13.3
Currency (gain) loss	(2.1)	(.1)	(.3)
Other	(2.3)	(3.1)	(.1)
	<b>\$(16.6)</b>	<b>\$(1.9)</b>	<b>\$16.7</b>

### P. Derivative Financial Instruments

The Company's risk management strategies include the use of derivative instruments to manage the fixed/variable interest rate mix of its debt portfolio, to manage its exposure to fluctuating natural gas prices, and to hedge against its exposure to variability in foreign exchange rates. Where appropriate, the Company reduces forward price exposure by the transfer of price risk to another party. In this sense, hedging is equivalent to purchasing price protection insurance that will lock in future costs. It is the Company's policy not to speculate in derivative instruments.

The Company manages a portion of the fixed/variable interest rate risk of its debt portfolio through the use of interest rate swap agreements. During 2000, \$350 of 7.65% fixed rate debt which matures on February 15, 2005 and, in 1999, \$14 of 6.90% fixed rate debt which matured in June 2004 were issued and converted to variable rate debt by use of interest rate swap agreements. In March 2003, the Company sold its rights under the \$350 interest rate swap agreement for \$39.9 in cash proceeds. The unamortized market value of the \$350 interest rate swap agreement was \$2.5 at

December 31, 2004 and \$22.5 at December 31, 2003. In addition, the market value of the \$14 swap agreement discussed above was \$.6 at December 31, 2003.

In August 2004, the Company entered into fixed price swap agreements to hedge portions of its anticipated purchases of natural gas. The Company hedged approximately 20% of its anticipated natural gas consumption of the 12-month period beginning in September 2004, 15% of its anticipated consumption for the 12-month period beginning September 2005, and 10% of its anticipated consumption for the 12-month period beginning September 2006. Approximately \$11.1 of natural gas contracts were outstanding as of December 31, 2004. The average price under these contracts is \$6.135 per mmbtu. Through December 31, 2004, there was no significant gain or loss, realized or unrealized, on these contracts.

Where appropriate, the Company designates forward currency contracts as hedges against the Company's exposure to variability in exchange rates on certain cash flows denominated in foreign currencies. In December 2003, the Company hedged 70% of the expected Peso expenses for certain Mexican subsidiaries through 2004. During 2004, hedges were used to reduce volatility from USD raw materials purchases for certain UK subsidiaries, and again to hedge about 70% of expected Mexican peso (MXN) needs for 2005. The amount of contracts outstanding at December 31, 2004 was approximately \$15.8 (\$14.8 pay USD/receive MXN; \$1.0 pay GBP/receive USD). The fair value of these contracts at December 31, 2004 was not material.

The changes in fair value of the unexpired natural gas and foreign currency contracts are recorded in other comprehensive income and reclassified to cost of goods sold in the period in which earnings are impacted by the hedged items.

In December 2003, the Company entered into a 38.3 Swiss Francs (CHF) five-year cross-currency swap agreement with Wachovia Bank, N.A. This agreement is designated as a net investment hedge of the Company's Swiss subsidiaries. In addition, the terms of this agreement include that the Company will receive interest on \$30 USD at a fixed rate of 6.35% and pay interest on 38.3 CHF at a fixed rate of 4.71%. At December 31, 2004, the unrealized loss on this agreement was \$4.5 and is included in the foreign currency translation component of accumulated other comprehensive income.

All hedges accorded hedge accounting treatment are considered highly effective. There were no transactions that ceased to qualify for hedge accounting treatment in the years ended December 31, 2004 and 2003.

## Q. New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued revised Statement of Financial Accounting Standards No. 123, "Share-Based Payment" (SFAS No. 123R). SFAS 123R clarifies and expands Statement 123's guidance in several areas, including recognizing share-based compensation cost, measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. SFAS 123R is effective for Leggett & Platt beginning with the first day of our fiscal third quarter (July 1, 2005) and applies to all awards granted, modified, repurchased or cancelled on or after that date. We adopted, as of January 1, 2003, the provisions of Statement 123 as originally issued and, as such, have evaluated SFAS No. 123R and believe it will not have a material impact on our financial reporting and disclosures.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." This Statement revises the criteria used to determine whether nonmonetary exchanges are measured based on the recorded amounts of the assets exchanged or on their fair value. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, and is not expected to have a material effect on the Company's financial reporting and disclosures.

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends prior guidance to clarify the accounting for abnormal amounts of freight, handling cost and wasted material. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 151 will have a material impact on our financial reporting and disclosures.

In December 2004, the Financial Accounting Standards Board issued FASB Staff Positions FAS 109-1 and FAS 109-2, providing guidance regarding certain accounting and reporting issues associated with the American Jobs Creation Act of 2004. FASB Staff Position 109-1 has not had, nor is it expected to have, a material impact on our financial reporting or disclosures.

Regarding FAS 109-2, the Company is still in the process of evaluating the effects of the repatriation provision of the American Jobs Creation Act and expects to complete that evaluation by December 31, 2005. To date, the Company has not remitted any amounts under the repatriation provision. Currently, the related range of income tax effects of such a repatriation cannot be reasonably estimated.

## Disclosures About Market Risk

Leggett & Platt, Incorporated

(Unaudited)

(Dollar amounts in millions)

### Interest Rate

The table below provides information about the Company's debt sensitive to changes in interest rates. The Company has no other significant financial instruments sensitive to changes in interest rates. Substantially all of the debt shown in the table is denominated in United States dollars. During 2000, \$350 of 7.65% fixed rate debt maturing in February 2005 was issued and converted to variable rate debt by use of an interest rate swap agreement. This swap agreement, which contains the same payment date as the original issue, was used primarily to

manage the fixed/variable interest rate mix of its debt portfolio. In March 2003, the Company sold its rights under the agreement for \$39.9, which is being amortized over the remaining period of the related debt.

The fair value of fixed rate debt was calculated using the U.S. Treasury Bond rate as of December 31, 2004 and December 31, 2003 for similar remaining maturities, plus an estimated "spread" over such Treasury securities representing the Company's interest costs under its medium-term note program. The fair value of fixed rate debt was greater than its carrying value by \$6.6 and \$14.3 at December 31, 2004 and 2003, respectively. The fair value of variable rate debt is not significantly different from its recorded amount.

Long-term debt as of December 31,	Scheduled Maturity Date						2004	2003
	2005	2006	2007	2008	2009	Thereafter		
Principal fixed rate debt	\$375.0	\$75.0	\$25.0	\$71.5	\$15.0	\$535.2	\$1,096.7	\$1,016.7
Average interest rate	2.33%	7.12%	7.40%	6.31%	7.26%	4.62%	4.22%	4.35%
Principal variable rate debt	.5	.5	2.5	.5	.5	31.0	35.5	50.0
Average interest rate	1.75%	1.75%	1.82%	1.75%	1.75%	1.81%	1.80%	1.32%
Miscellaneous debt**							48.5	64.9
Total debt							1,180.7	1,131.6
Less: current maturities							(401.3)	(119.4)
Total long-term debt							\$ 779.4	\$1,012.2

\*\*Miscellaneous debt includes \$2.5 in 2004 and \$23.1 in 2003 of market adjustments resulting from the interest rate swap agreements.

### Exchange Rate

The Company does not hedge all net foreign currency exposures related to transactions denominated in other than its associated functional currencies. The Company may occasionally hedge firm specific commitments or other anticipated foreign currency cash flows. The decision by management to hedge any such transactions is made on a case-by-case basis. The amount of forward contracts outstanding at December 31, 2004 was approximately \$15.8 (\$14.8 Pay USD/Receive MXN; \$1.0 Pay GBP/Receive USD). The highest amount during 2004 was approximately \$16.7 (\$15.7 Pay USD/Receive MXN; \$1.0 Pay GBP/Receive USD). In 2004, these contracts were primarily used to reduce volatility from USD raw materials purchases for certain UK subsidiaries and to hedge about 70% of expected Mexican peso needs for 2005.

The Company views its investment in foreign subsidiaries as a long-term commitment, and, except for the cross-currency swap agreement disclosed below, does not hedge translation exposures. The investment in a foreign subsidiary may take the form of either permanent capital or notes. The Company's net investment in foreign subsidiaries subject to translation exposure at December 31 is as follows:

Functional Currency	2004	2003
Canadian Dollar	\$280.9	\$254.7
European Currencies	344.5	271.0
Mexican Peso	56.7	49.8
Other	75.5	61.0
	\$757.6	\$636.5

### Cross-Currency Swap Agreement

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

During 2004, the Company paid interest of \$1.5 on the CHF portion and received interest of \$1.9 on the USD portion of the agreement. At December 31, 2004, the unrealized loss on the cross-currency swap was approximately \$4.5.

### Commodity Price

Other than for planned purchases of natural gas, the Company does not generally use derivative commodity instruments to hedge its exposures to changes in commodity prices. In August 2004, the Company entered into fixed price swap agreements to hedge portions of its anticipated purchases of natural gas. The Company hedged approximately 20% of its anticipated natural gas consumption for the 12-month period beginning in September 2004, 15% of its anticipated consumption for the 12-month period beginning September 2005, and 10% of its anticipated consumption for the 12-month period beginning September 2006. Approximately \$11.1 of natural gas contracts were outstanding as of December 31, 2004. Through December 31, 2004, there was no significant gain or loss, realized or unrealized, on these contracts.

## Quarterly Summary of Earnings

Leggett & Platt, Incorporated

(Unaudited)  
(Dollar amounts in millions, except per share data)

Year ended December 31	First	Second	Third	Fourth	Total
<b>2004</b>					
Net sales	\$1,187.2	\$1,278.1	\$1,338.0	\$1,282.2	\$5,085.5
Gross profit	215.1	243.4	242.5	214.8	915.8
Earnings before income taxes	93.0	116.4	121.1	92.1	422.6
Net earnings	62.8	76.8	80.2	65.6	285.4
Earnings per share					
Basic	.32	.39	.41	.34	1.46
Diluted	.32	.39	.41	.33	1.45
<b>2003</b>					
Net sales	\$1,037.6	\$1,052.7	\$1,156.7	\$1,141.2	\$4,388.2
Gross profit	181.3	183.8	194.7	211.9	771.7
Earnings before income taxes	76.6	72.4	78.1	88.0	315.1
Net earnings	49.4	46.7	50.8	59.0	205.9
Earnings per share					
Basic	.25	.24	.26	.30	1.05
Diluted	.25	.24	.26	.30	1.05

## Selected Financial Data

Leggett & Platt, Incorporated

(Unaudited)  
(Dollar amounts in millions, except per share data)

	2004	2003	2002	2001	2000
<b>Summary of Operations</b>					
Net sales	\$5,085.5	\$4,388.2	\$4,271.8	\$4,113.8	\$4,276.3
Earnings from continuing operations	285.4	205.9	233.1	187.6	264.1
Earnings per share from continuing operations					
Basic	1.46	1.05	1.17	.94	1.33
Diluted	1.45	1.05	1.17	.94	1.32
Cash dividends declared per share	.58	.54	.50	.48	.42
<b>Summary of Financial Position</b>					
Total assets	\$4,197.2	\$3,889.7	\$3,501.1	\$3,412.9	\$3,373.2
Long-term debt	779.4	1,012.2	808.6	977.6	988.4

As discussed in Note A of the Notes to Consolidated Financial Statements, the Company began recognizing stock option expense under SFAS No. 123 in 2003 for options granted after January 1, 2003. In addition, earnings and earnings per share from continuing operations in 2001 and 2000 include the amortization of goodwill. Under the provisions of SFAS No. 142, as of 2002 goodwill is no longer being amortized into expense. Excluding goodwill amortization, earnings from continuing operations for 2001 and 2000 would have been \$207.8 and \$282.9, respectively; basic earnings per share would have been \$1.04 and \$1.42; and diluted earnings per share would have been \$1.04 and \$1.41.

## Stock Market and Ownership Data

Leggett & Platt, Incorporated

Leggett & Platt's common stock is listed on The New York Stock Exchange (symbol LEG), and is a component of the S&P 500 Index. The table below highlights quarterly and annual stock market information.

	Price Range			Millions of Shares		Dividends	
	High	Low	Close	Traded	Outstanding (avg. diluted)	Declared	Yield
<b>1998:</b>	\$28.75	\$16.88	\$22.00	71.3	200.7	\$.315	1.4%
<b>1999:</b>	\$28.31	\$18.63	\$21.44	108.4	200.9	\$.36	1.7%
<b>2000:</b>	\$22.56	\$14.19	\$18.94	122.1	200.4	\$.42	2.2%
<b>2001:</b>	\$24.45	\$16.85	\$23.00	106.5	200.4	\$.48	2.1%
<b>2002:</b>	\$27.40	\$18.60	\$22.44	128.3	199.8	\$.50	2.2%
<b>2003:</b>							
First Quarter	\$23.15	\$17.16	\$18.28	37.1	197.8	\$.13	2.8%
Second Quarter	22.81	18.25	20.50	32.9	197.0	.13	2.5%
Third Quarter	23.69	20.04	21.63	33.4	196.5	.14	2.6%
Fourth Quarter	22.60	19.74	21.63	37.2	196.5	.14	2.6%
For the Year	\$23.69	\$17.16	\$21.63	140.6	197.0	\$.54	2.5%
<b>2004:</b>							
First Quarter	\$25.74	\$21.19	\$23.71	33.4	197.1	\$.14	2.4%
Second Quarter	27.24	21.80	26.71	43.8	197.0	.14	2.1%
Third Quarter	28.81	25.56	28.10	35.2	196.8	.15	2.1%
Fourth Quarter	30.68	26.05	28.43	35.1	196.6	.15	2.1%
For the Year	\$30.68	\$21.19	\$28.43	147.5	196.9	\$.58	2.0%

Price and volume data reflect composite transactions; price range reflects intra-day prices; data source is Bloomberg.

### Shareholders

The Company estimates it has approximately 52,000 shareholders, which includes 14,000 shareholders of record (i.e. stock certificates are issued in the name of the owner) and 38,000 beneficial shareholders (i.e. stock is held for the owner by their stockbroker in the name of the brokerage firm). At year-end, institutional investors (e.g. mutual funds, pension funds) as a group held an estimated 67% of the Company's shares; the ten largest positions held 31%. In addition, management and employees, directors, retirees, merger partners, and their family members collectively held approximately 20% of the Company's shares.

### Dividend Record

Cash dividends have been paid on the Company's common stock each year since 1939. At the current indicated annual dividend of \$.60 per share, 2005 will mark 34 consecutive years of increase in Leggett's annual dividends; over this period dividends have doubled about every 5 years, yielding an average compound growth rate of over 14%. To our knowledge, only one other Fortune 500 firm has achieved as long a string of consecutive dividend increases at the growth rate we have sustained.

### Dividend Policy

The Company targets dividend payout of roughly one-third the average net earnings for the most recent three years; payout may exceed the guideline following periods of weak economy. Leggett believes in consistently paying cash dividends, is proud of its dividend growth record, and intends to extend that record far into the future. Quarterly cash dividends are usually declared in February, May, August, and November, and paid about two weeks after the start of the following quarter. For 2005, the Company's anticipated record dates are March 15, June 15, Sept. 15, and Dec. 15; anticipated payments dates are April 15, July 15, Oct. 14, and Jan. 13, 2006.

### NYSE Certification

The New York Stock Exchange requires that the CEO file an annual certification indicating that there are no violations of the NYSE listing standards. This certification was executed by our CEO on May 17, 2004 and filed after last year's annual meeting. The full text is as follows:

"As the Chief Executive Officer of Leggett & Platt, Incorporated and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of the NYSE's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed as an attachment hereto."

The Company has not notified the NYSE of any listing standards violation because, to the best of our knowledge, none exist. Furthermore, the CEO and CFO filed certifications with the SEC, as required by the Sarbanes-Oxley Act, regarding the quality of the Company's public disclosure. These certifications can be found as Exhibits 31.1 and 31.2 in the 10-K filed on February 28, 2005.