## 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) | | |
|---|---|---|
| **Net sales:** | | |
| Year ended December 31, 2003 | $4,388 | |
| Acquisition sales growth | 189 | 4.3% |
| Same location sales growth | 509 | 11.6% |
| Year ended December 31, 2004 | $5,086 | |
| **Net earnings:** | | |
| 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) | |
| Year ended December 31, 2004 | $ 285 | |

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) | | |
|---|---|---|
| **Net sales:** | | |
| 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 | |
| **Net earnings:** | | |
| 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 barbeque 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 | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| 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.