Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

2009 HIGHLIGHTS

As we entered 2009, we were facing some of the most challenging market conditions that we've experienced in decades and we recognized that there was little we could do to influence that reality. Therefore, our focus remained on several key activities that we could control, including aggressive cost containment, headcount reduction, facility consolidation, maintaining strict discipline on pricing, and optimizing working capital levels. As a result of our efforts in these areas, we exited 2009 with significantly improved EBIT margins (despite much lower sales), and for the year, we generated the second highest level of operating cash flow in our history.

Our global markets stabilized in 2009, albeit at very low demand levels. For the full year, sales decreased 25% due primarily to weak market demand, but also to a combination of steel-related price deflation and our decision to exit specific customer programs with unacceptable profit margins.

We strive to achieve TSR in the top one-third of the S&P 500 over the long term, which we believe will require average TSR of 12-15% per year. For the period beginning January 1, 2008 through December 31, 2009, our 32% TSR ranks within the top 4% of the S&P 500.

Reflecting confidence in our strategic progress, margin improvement, strong cash generation, and the stability we believe has developed in our markets, in August 2009, we increased our quarterly dividend modestly to $.26 per share. We also utilized essentially all the Board's authorization enabling us to repurchase 10 million shares of our stock in 2009, with the majority of the purchases occurring during the last half of the year.

Our financial profile remains strong. We ended 2009 with net debt to net capital well below our long-term targeted range, no significant fixed-term debt maturing until 2013, and nearly $500 million available under our existing commercial paper program and revolver facility.

These topics are discussed in more detail in the sections that follow.

PART II

INTRODUCTION

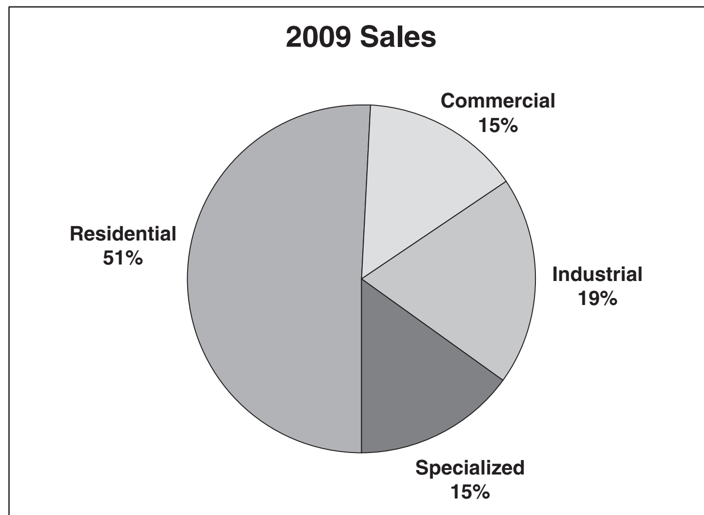
What We Do

Leggett & Platt is a diversified manufacturer, and member of the S&P 500 index, that conceives, designs, and produces a wide range of engineered components and products found in most homes, offices, and automobiles, and many retail stores. 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, carpet underlay, components for office furniture, drawn steel wire, automotive seat support and lumbar systems, and bedding industry machinery.

Our Segments

Our continuing operations are composed of 19 business units in four segments, with approximately 19,000 employees, and more than 140 production facilities located in 18 countries around the world. Our segments are described below.



Residential Furnishings

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

Commercial Fixturing & Components

Operations in this segment manufacture and sell store fixtures and point-of-purchase displays used in retail stores. We also produce chair controls, bases, and other components for office furniture manufacturers.

Industrial Materials

These operations primarily supply steel rod, drawn steel wire, steel billets, and welded steel tubing to other Leggett operations and to external customers. Our wire and tubing is used to make bedding, furniture, automotive seats, wire retail fixtures, mechanical springs, and many other end products.

Specialized Products

From this segment we supply lumbar systems and wire components used by automotive seating manufacturers. We manufacture and install the racks, shelving and cabinets used to outfit fleets of service vans. We also produce machinery, both for ourselves and for others, including bedding manufacturers.

Discontinued Operations and Divestitures

During the past two years, we have divested six businesses. In 2008, we sold our Aluminum Products segment and four smaller business units (Wood Products, Fibers, Plastics, and the dealer portion of Commercial Vehicle Products). In 2009, we sold the Coated Fabrics business unit. We received after-tax cash proceeds of $420 million for these six businesses, exceeding our original estimate of approximately $400 million. One additional business unit (Storage Products) is also targeted for divestiture. Results of operations for all of these businesses are classified as discontinued operations in our financial statements.

For the remaining divestiture, we expect to recover the carrying value of the net assets held for sale. Net assets classified as held for sale totaled $40 million at December 31, 2009 (this includes $22 million not associated with the Storage Products business). Although recent market conditions have delayed the timing of the final disposition, we are fully committed to selling this business.

Strategic Direction

In late 2007, we outlined significant changes to the Company's strategy. We adopted a new primary financial metric (Total Shareholder Return), adopted role-based portfolio management, implemented more rigorous strategic planning, and changed the priorities for use of cash. Our goals, in sequential order, were to i) divest low performing businesses, ii) return more cash to investors, iii) improve margins and returns, and iv) begin to carefully and conservatively grow the company at 4-5% of annual revenue. We have made significant progress over the past two years.

Total Shareholder Return (TSR) is the key financial measure that we use to monitor performance. TSR is driven by the change in our share price and the dividends we pay [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price]. We focus on four key sources of TSR: revenue growth, margin expansion, dividends, and share repurchases. Historically, our primary objective was profitable growth. Going forward, we intend to generate higher TSR through a balanced approach that employs all four sources of TSR. In 2008, dividends and stock buybacks largely drove our TSR; during 2009, we benefited significantly from margin improvement; and within a few years we expect that modest

annual sales growth will also contribute to TSR. Beginning in 2008, we introduced TSR-based incentives for senior executives and modified business unit bonuses to give more importance to achieving higher returns on the assets under their direct control. For the two-year period ended December 31, 2009, our TSR performance places us within the top 4% of the S&P 500 companies.

We narrowed our focus and eliminated (during 2008 and 2009) approximately 15% of our portfolio through the divestiture of the Aluminum Products segment and five additional business units (one divestiture remains). We also narrowed the scope of the Store Fixtures unit to focus primarily on the metals part of the fixtures industry, in alignment with Leggett's core competency of producing steel and steel-related products. These activities were largely complete by the end of 2008, and resulted in charges that impacted our operating results (primarily in 2007 and 2008). Those charges are discussed on page 37 under the section titled "Asset Impairments and Restructuring-related Charges."

We have implemented a more rigorous strategic planning process to assess our business units and help guide future decisions regarding business unit roles, capital allocation priorities, and new areas in which to grow. We review the portfolio classification of each unit on an annual basis to determine its appropriate role (Grow, Core, Fix, or Divest). This review includes criteria such as competitive position, market attractiveness, business unit size, and fit within our overall objectives, as well as financial indicators such as EBITDA growth, operating cash flows, and return on assets. To remain in the portfolio, business units are expected to consistently generate after-tax returns in excess of our cost of capital. Business units that fail to consistently attain minimum return goals will be moved to the Fix or Divest categories.

The majority of our business units are categorized as "Core". A much smaller percentage are categorized as "Grow"; consequently, we recognize as a strategic imperative the need to expand the Grow category by improving i) our success rate at developing innovative new products and ii) our abilities to identify new growth platforms. A few small business units are considered "Fix", and must improve their performance within a reasonable time frame (with some latitude given them due to the weak economy). Finally, a few small business units (and portions of business units) are considered non-strategic, and will likely be divested as the M&A market recovers and allows for reasonable sales prices.

The strategic changes have increased available cash. We expect to continue returning much of this cash to shareholders through dividends and share repurchases.

Customers

We serve a broad suite of customers, with no single one representing over 6% of our sales. Many are companies whose names are widely recognized; they include most manufacturers of furniture and bedding, a variety of other manufacturers, and many major retailers.

Major Factors That Impact Our Business

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

Market Demand

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

Demand weakness in the majority of our markets during 2009 led to lower unit orders, utilization levels, sales and earnings. Several factors, including weak global economies, a depressed housing market, and low consumer confidence contributed to conservative spending habits by consumers around the world. Short lead times in most of our markets allow for limited visibility into future demand trends; however, we currently expect demand to stabilize at these lower levels. Given our balance sheet strength, operating cash flow and access to credit, we expect to be able to endure an extended downturn in market demand with no material impact to our financial position or liquidity.

Activities completed over the past few years (including the divestiture of businesses under our strategic plan, closure of certain underperforming and underutilized facilities, elimination of sales with unacceptable margins, and other cost reduction initiatives) improved our cost position in advance of the late 2008 economic contraction, and we continued to tightly constrain spending in 2009. We face decisions about further facility consolidation but have chosen to retain excess capacity because we believe that eventually market demand will improve. With our currently low utilization levels, we should be able to readily accommodate that demand improvement when it occurs.

Raw Material Costs

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

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

Our ability to recover higher costs (through selling price increases) is crucial. When we experience significant increases in raw material costs, we typically implement price increases to recover the higher costs. Conversely, when costs decrease significantly, we generally pass those lower costs through to our customers. The timing of our price increases or decreases is a critical factor; we typically experience a lag in recovering higher costs, so we also expect to realize a lag as costs decline.

Steel is our principal raw material and at various times in past years we have experienced extreme cost fluctuations in this commodity. In most cases, the major changes (both increases and decreases) were passed through to customers via selling price adjustments. Steel costs increased significantly in 2008 and we implemented price increases to recover these higher costs. Market prices for steel began to decrease in late 2008, but with the precipitous drop in demand late in the year and our inability to cancel or return higher priced earlier purchases, we entered 2009 with high-cost steel in inventory. As steel costs decreased in 2009, we implemented selective price reductions; however at the lower commodity cost levels, we enhanced our margins.

As a producer of steel rod, we are also impacted by volatility in metal margins (the difference in the cost of steel scrap and the market price for steel rod). The increase in scrap costs in late 2009 and early 2010 has resulted in currently lower metal margins in the steel market and in our rod producing operation. While pricing trends in the steel market are difficult to predict, we expect the lower metal margins to continue in 2010.

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

When we raise our prices to recover higher raw material costs, this sometimes causes customers to modify their product designs and replace higher cost components with lower cost components. We experienced this de-contenting effect in our Residential Furnishings and Industrial Materials segments in recent years. As our customers changed the quantity and mix of components in their finished goods to address steel and chemical inflation, our profit margins were negatively impacted. We are responding by developing new products (including new types of mattress innersprings and boxsprings) that enable our customers to reduce their total costs, and in certain instances, provide higher margin and profit contribution for our operations.

Competition

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

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

We continue to face pressure from foreign competitors as some of our customers source a portion of their components and finished products from Asia. In instances where our customers move production of their finished products overseas, our operations must be located nearby to supply them efficiently. We currently operate 10 facilities in China.

In recent years we experienced increased competition in the U.S. from foreign bedding component manufacturers. We reacted to this competition by selectively adjusting prices,

and by developing new proprietary products that help our customers reduce total costs. The increased price competition for bedding components was partially due to lower wire costs in China. Certain foreign manufacturers also benefit from more lenient regulatory climates related to safety and environmental matters. In late 2007, we filed an antidumping suit related to innerspring imports from China, South Africa and Vietnam. We saw a distinct decline in unfair imports during 2008 after the antidumping investigations began. As a result, we regained market share and performance in our Bedding group improved. The investigations were brought to a favorable conclusion in early 2009. The current antidumping duty rates on innersprings from these countries are significant, ranging from 116% to 234%, and should remain in effect for at least another four years. Imported innersprings from these countries are now supposed to be sold at fair prices, however the duties on certain innersprings are being evaded by various means including shipping the goods through a third country and misclassifying the actual country of origin. Leggett, along with several U.S. manufacturers of steel wire products with active antidumping and antidumping/countervailing duty orders, formed a coalition and are working with members of Congress, the U.S. Department of Commerce, and U.S. Customs and Border Protection to seek stronger enforcement of existing antidumping and/or countervailing duty orders.

Asset Impairments and Restructuring-related Charges

Net impairment and restructuring-related charges (for both continuing and discontinued operations) totaled $405 million over the last three years ($16 million in 2009, $84 million in 2008, and $305 million in 2007). The majority of these charges, or $344 million, occurred as a result of the 2007 Strategic Plan announced in late 2007 ($154 million in continuing operations and $190 million in discontinued operations); we believe this activity to be substantially complete. For further information about asset impairments and restructuring, see Notes C and D to the Consolidated Financial Statements on pages 85 and 89.

For information regarding the methodology and assumptions we use for impairment testing, refer to Critical Accounting Policies and Estimates on page 55, and also Note C to the Consolidated Financial Statements on page 85.

RESULTS OF OPERATIONS—2009 vs. 2008

During 2009, sales from continuing operations decreased 25%, reflecting a combination of weak market demand, steel-related price deflation, and our decision to exit some specific sales with unacceptable margins. In the majority of our global markets, demand stabilized at low levels in early 2009.

Despite the significant sales decline, full-year earnings from continuing operations decreased only modestly, from $128 million in 2008 to $121 million in 2009. Cost structure improvements and pricing discipline offset nearly all the impact from lower sales.

Further details about our consolidated and segment results from continuing operations are discussed below. To comply with FASB guidance for presentation of noncontrolling interest (discussed on page 82), earnings for 2008 have been retrospectively adjusted to include the portion of earnings from our joint ventures that are attributable to the minority investors.

Consolidated Results (continuing operations)

The following table shows the changes in sales and earnings from continuing operations during 2009, and identifies the major factors contributing to the changes.

(Dollar amounts in millions, except per share data)	Amount	%
Net sales from continuing operations:		
Year ended December 31, 2008	$4,076	
Acquisition sales growth	1	— %
Small divestitures	(36)	(0.9)%
Internal sales decline:		
Approximate deflation	(90)	(2.2)%
Approximate exited volume	(175)	(4.3)%
Approximate unit volume decline	(721)	(17.7)%
Internal sales decline	(986)	(24.2)%
Year ended December 31, 2009	$3,055	(25.1)%
Earnings from continuing operations:		
(Dollar amounts, net of tax)		
Year ended December 31, 2008	$ 128	
Lower restructuring-related charges	5	
Lower asset impairments	8	
Bad debt expense associated with a customer bankruptcy	(6)	
Divestiture note write-down	(7)	
Lower net interest expense	5	
Unusual tax items	(6)	
Other factors, including lower unit volume offset by cost savings and pricing discipline	(6)	
Year ended December 31, 2009	$ 121	
Earnings Per Share (continuing operations)—2008	$ 0.73	
Earnings Per Share (continuing operations)—2009	$ 0.74	

Sales from continuing operations decreased 25% versus 2008, reflecting weak market demand, inflation-related price decreases, and our decision to exit specific customer programs with unacceptable profit margins (the largest portion in our Store Fixtures business).

Full-year earnings from continuing operations also decreased in 2009. The earnings impact from lower unit volume was largely offset by cost reduction initiatives and pricing discipline. Other factors impacting the year-over-year earnings comparison are presented in the table above. The divestiture note write-down (identified in the table) occurred when we learned in 2009 that the aluminum operations divested in July 2008 needed a capital infusion from the buyer due to deterioration in business conditions. This led to a reduction in the value of the note we accepted in 2008 as partial payment for the divesture. Leggett has accepted a more subordinate position in the capital structure of the divested operations.

LIFO Impact

All of our segments use the first-in, first-out (FIFO) method for valuing inventory. In our consolidated financials, an adjustment is made at the corporate level (i.e. outside the segments) to convert about 60% of our inventories to the last-in, first-out (LIFO) method. These are primarily our domestic, steel-related inventories. We experienced a large swing in the LIFO impact during the past two years. In 2008, significant steel cost inflation along with moderately higher inventory levels resulted in LIFO expense from continuing operations of $62 million. In 2009, steel cost decreases and lower inventory levels resulted in a LIFO benefit from continuing operations of $67 million. Segment-level earnings in 2008 generally benefited under the FIFO method from the effect of rising commodity costs, but in the first half of 2009, were significantly burdened as we consumed higher cost steel (both in inventory and committed under purchase agreements) while selling prices decreased.

The LIFO impact recognized at the corporate level is generally offset each year by FIFO impacts at the segment level; however, we experienced significant variability in our quarterly earnings in 2009 as these items were recognized. Earnings in the first two quarters of 2009 were significantly impacted as we consumed the majority of the higher cost steel but recognized only about half of the offsetting LIFO benefit (consistent with our historical practice of recording annual LIFO impacts evenly throughout the year). The remainder of the LIFO benefit was recognized in the last half of 2009, a period during which we experienced only minimal impact from higher cost steel.

For further discussion of inventories, see Note A to the Consolidated Financial Statements on page 78.

Interest and Income Taxes

Net interest expense decreased $8 million versus 2008, primarily the result of lower commercial paper borrowings and lower interest rates in 2009.

The consolidated worldwide effective income tax rate for 2009 was higher, at 39.0%, versus 33.8% in 2008. This increase is primarily due to i) tax adjustments resulting from

Mexican tax law changes, and ii) the lower level of earnings and mix among tax jurisdictions. In 2009, tax law changes in Mexico caused us to re-evaluate our deferred tax assets and liabilities in that jurisdiction. As a result of our analysis, we recorded a $6 million tax charge to earnings related to current and prior year losses that may expire before they can be utilized to reduce taxable earnings. In 2008, a tax benefit associated with the write-off of an acquired company's stock was offset by increased reserves for uncertain tax positions and valuation allowances against deferred tax assets for certain foreign entities.

Segment Results (continuing operations)

In the following section we discuss 2009 sales and earnings before interest and taxes (EBIT) from continuing operations for each of our segments. We provide additional detail about segment results and a reconciliation of segment EBIT to consolidated EBIT in Note F to the Consolidated Financial Statements on page 93.

Residential Furnishings

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2009	$1,693	$ 90	5.3%
Year ended December 31, 2008	2,120	151	7.1%
Decrease	$ (427)	$ (61)	
% decrease	(20)%	(40)%	
Internal sales decrease	(19)%		
Small divestitures	(1)%		

Residential Furnishings sales decreased in 2009, reflecting weak market demand and steel-related price deflation. Demand in our residential markets was weak throughout 2009 as consumers world-wide continued to defer purchases of large ticket items (such as mattress sets and upholstered furniture) that contain our products.

EBIT and EBIT margins decreased versus 2008, with the earnings impact from significantly lower unit volumes partially offset by cost reductions, pricing discipline, elimination of poorly performing operations, and the absence of 2008's restructuring-related and other costs ($18 million).

Commercial Fixturing & Components

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2009	$ 491	$ 8	1.6%
Year ended December 31, 2008	711	14	2.0%
Decrease	$(220)	$ (6)	
% decrease	(31)%	(43)%	
Internal sales decrease	(31)%		
Acquisitions (net of small divestitures)	0%		

Sales decreased in 2009 due to our decision in the Store Fixtures business to exit specific customer programs with unacceptable margins, reduced capital spending by retailers, and market softness in Office Furniture Components.

EBIT and EBIT margins also decreased versus the prior year, as the impact from lower sales more than offset benefits from cost reductions, prior elimination of poorly performing facilities, and other operating improvements, as well as the absence of 2008's restructuring-related costs ($11 million).

Industrial Materials

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2009	$ 647	$ 60	9.3%
Year ended December 31, 2008	966	96	9.9%
Decrease	$(319)	$(36)	
% decrease	(33)%	(38)%	
Internal sales decrease	(33)%		
Acquisitions (net of small divestitures)	0%		

2009 sales decreased, reflecting weak demand in many of our markets (including bedding, furniture, and automotive) and steel-related price deflation.

EBIT and EBIT margins also decreased versus 2008, as lower sales more than offset cost reductions.

Specialized Products

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2009	$ 501	$ 17	3.4%
Year ended December 31, 2008	682	45	6.6%
Decrease	$(181)	$(28)	
% decrease	(27)%	(62)%	
Internal sales decrease	(27)%		
Acquisitions (net of small divestitures)	0%		

Sales decreased in 2009, reflecting weak global demand in our markets.

EBIT and EBIT margins decreased versus the prior year, as the impact from lower sales more than offset benefits from cost reduction initiatives and other operating improvements, as well as the absence of 2008's restructuring-related costs ($5 million).

Results from Discontinued Operations

Full year earnings from discontinued operations, net of tax, increased $13 million, from a loss of $19 million in 2008 to a loss of $6 million in 2009. This earnings increase was primarily due to lower asset impairments and restructuring-related charges, partially offset by $3 million (net of tax) of environmental charges related to an aluminum property.

RESULTS OF OPERATIONS—2008 vs. 2007

During 2008, sales from continuing operations decreased 4%. We reported full-year net earnings from continuing operations of $128 million, which included $21 million of restructuring-related charges, impairments, and other items. Our 2008 earnings reflected soft market demand which led to lower unit volume in many of our businesses. In the majority of our markets, demand was soft throughout the year, but weakened appreciably late in the third quarter as consumers further reduced their spending in response to the financial market distress and general U.S. and global economic conditions. Market share gains in certain businesses offset some of the impact from weak demand.

During the year, we also experienced significant inflation in steel costs, and we successfully implemented price increases to recover the majority of these higher costs. Further details about our consolidated and segment results from continuing operations are discussed below. To comply with FASB guidance for presentation of noncontrolling interest (discussed on page 82), earnings have been retrospectively adjusted to include the portion of earnings from our joint ventures that are attributable to the minority investors.

Consolidated Results (continuing operations)

The following table shows the changes in sales and earnings from continuing operations during 2008, and identifies the major factors contributing to the changes.

(Dollar amounts in millions, except per share data)	Amount	%
Net sales from continuing operations:		
Year ended December 31, 2007	$4,250	
Acquisition sales growth	35	0.8%
Small divestitures	(41)	(0.9)%
Internal sales decline:		
Approximate inflation	285	6.7%
Approximate unit volume decline	(453)	(10.7)%
Internal sales decline	(168)	(4.0)%
Year ended December 31, 2008	$4,076	(4.1)%
Earnings from continuing operations:		
(Dollar amounts, net of tax)		
Year ended December 31, 2007	$ 65	
Goodwill impairment in Fixture & Display	120	
Restructuring-related charges	(4)	
Asset impairment	(4)	
Lower net interest expense	6	
Tax items	12	
Other factors including lower unit volume and production	(67)	
Year ended December 31, 2008	$ 128	
Earnings Per Share (continuing operations)—2007	$ 0.33	
Earnings Per Share (continuing operations)—2008	$ 0.73	

Sales from continuing operations decreased 4% versus 2007, primarily reflecting weak market demand and our decision to exit specific sales volume with unacceptable profit margins (primarily in our Store Fixtures business). These declines were partially offset by inflation-related price increases and market share gains.

Our U.S. bedding components business gained market share in 2008 as a result of: i) bedding manufacturers shifting innerspring purchases from international to domestic sources; ii) the deverticalization of a strong regional bedding manufacturer (they now buy components from us that they previously produced for themselves); and, iii) increased demand for innerspring mattresses, rather than premium-priced, non-innerspring products.

We experienced significant inflation in steel costs during 2008, and in response, we implemented price increases to recover the higher costs. The magnitude of our selling price increases varied by product line depending on steel content, but in our major Residential and Industrial businesses, prices increased substantially. By late 2008, steel costs began to decrease.

Full-year earnings from continuing operations were higher than in 2007, primarily due to:

- Non-recurrence of 2007 goodwill impairment charges related to our Fixture & Display group ($120 million)
- Non-recurrence of 2007 tax items ($12 million)—adjustments to valuation allowances related to potential foreign tax benefits
- Lower interest expense

Several factors negatively impacted earnings. The most significant were:

- Unit volume declines (down roughly 10% for the year)
- Higher restructuring-related charges and asset impairments ($19 million)
- Reduced production levels—with the significant pull-back in demand late in the year, we cut production (even below depressed demand levels) and reduced inventories

LIFO Impact

All of our segments use the first-in, first-out (FIFO) method for valuing inventory. In our consolidated financials, an adjustment is made at the corporate level (i.e. outside the segments) to convert about 60% of our inventories to the last-in, first-out (LIFO) method. These are primarily our domestic, steel-related inventories. Significant steel cost increases during the year, along with moderately higher levels of these steel-related inventories, resulted in LIFO expense from continuing operations of $62 million in 2008 (versus a $1 million benefit in 2007). Segment-level earnings in 2008 generally benefited under the FIFO method from the effect of rising commodity costs. For further discussion of inventories, see Note A to the Consolidated Financial Statements on page 78.

Interest and Income Taxes

Net interest expense decreased $9 million versus 2007, primarily the result of debt maturities paid in 2007 and 2008, as well as lower commercial paper borrowings.

The consolidated worldwide effective income tax rate for 2008 was also lower, at 33.8% versus 55.9% in 2007. The 2007 rate was negatively impacted by goodwill impairment charges totaling $143 million, of which $95 million were non-deductible. This caused the 2007 rate as a percent of pre-tax income to be much higher than normal. In 2008, a tax benefit associated with the write-off of an acquired company's stock was offset by increased reserves for uncertain tax positions and valuation allowances against deferred tax assets for certain foreign entities.

In the third quarter of 2008, we recorded a $4 million valuation allowance against certain foreign tax assets. The valuation allowance related to our Canadian automotive operations that produce lumbar supports. In late 2008, the automotive industry was in a dramatic state of decline, which reduced the demand for our components. In addition to demand factors, these operations were also negatively impacted by the strength in recent years of the Canadian dollar versus the U.S. dollar (our Canadian automotive operations sell in U.S. dollars while incurring labor and overhead costs in Canadian dollars, thereby reducing margins). As a result, we believed it was more likely than not that we would not realize the benefit of deferred tax assets associated with these operations. We provide a discussion regarding the recoverability of the Automotive unit's long-lived assets under Critical Accounting Policies on page 56.

Segment Results (continuing operations)

In the following section we discuss 2008 sales and earnings before interest and taxes (EBIT) from continuing operations for each of our segments. We provide additional detail about segment results and a reconciliation of segment EBIT to consolidated EBIT in Note F to the Consolidated Financial Statements on page 94.

Residential Furnishings

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2008	$2,120	$151	7.1%
Year ended December 31, 2007	2,254	174	7.7%
Decrease	$ (134)	$ (23)	
% decrease	(6)%	(13)%	
Internal sales decrease	(5)%		
Small divestitures	(1)%		

Residential Furnishings sales decreased in 2008, reflecting weak market demand. This decrease was partially offset by inflation-related price increases and market share gains in our U.S. bedding business (discussed under Consolidated Results above).

Demand in our U.S. residential markets was weak throughout 2008, but softened further in late September reflecting reduced spending by consumers on large ticket items that contain our products. International markets, which were relatively stronger earlier in the year, also experienced much softer demand in the latter part of the year as a result of deteriorating global economic conditions.

EBIT and EBIT margins decreased versus 2007 due to lower sales and higher asset impairments and restructuring-related costs (of $14 million), partially offset by a gain from the sale of a business (of $8 million) and operating improvements in certain locations.

Commercial Fixturing & Components

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2008	$ 711	$ 14	2.0%
Year ended December 31, 2007	837	(104)	(12.4)%
(Decrease) increase	$(126)	$ 118	
% (decrease) increase	(15)%	113%	
Internal sales decrease	(15)%		
Acquisitions (net of small divestitures)	0%		

Sales decreased in 2008 due to several factors, including our decision in the Store Fixtures business to exit specific sales volume with unacceptable margins, reduced capital spending by retailers, and lower demand for office furniture components.

EBIT and EBIT margins increased versus the prior year, primarily due to the non-recurrence of 2007's goodwill impairment charge (of $143 million), partially offset by lower sales.

Industrial Materials

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2008	$966	$96	9.9%
Year ended December 31, 2007	776	55	7.1%
Increase	$190	$41	
% increase	24%	75%	
Internal sales increase	24%		
Acquisitions (net of small divestitures)	0%		

2008 sales increased significantly, primarily from the pass through of higher steel costs and increased sales of steel billets. Ongoing weak demand in many of our markets (including bedding, furniture, and automotive) offset a portion of the sales gain.

EBIT and EBIT margins also increased versus 2007, primarily due to higher sales and operating improvements in certain locations.

Specialized Products

(Dollar amounts in millions)	Sales	EBIT	EBIT Margins
Year ended December 31, 2008	$682	$ 45	6.6%
Year ended December 31, 2007	715	70	9.8%
Decrease	$ (33)	$(25)	
% decrease	(5)%	(36)%	
Internal sales decrease	(5)%		
Acquisitions (net of small divestitures)	0%		

Sales decreased in 2008, primarily reflecting weak demand that continued throughout the year in our North American automotive business and the fleet portion of Commercial Vehicle Products. Our machinery and European and Asian automotive businesses posted full-year sales growth despite demand softening late in the year.

EBIT and EBIT margins decreased versus the prior year, mainly due to lower sales, higher restructuring-related costs (of $4 million), and higher steel costs with limited recovery.

Results from Discontinued Operations

Full year earnings from discontinued operations, net of tax, increased $52 million, from a loss of $71 million in 2007 to a loss of $19 million in 2008. This earnings increase was primarily due to lower asset impairments and restructuring-related charges (of $90 million), partially offset by the non-recurrence of a 2007 tax benefit (of $30 million) associated with a difference in book and tax basis of stock held in the Aluminum segment as a result of that business reaching held for sale status.

LIQUIDITY AND CAPITALIZATION

In this section, we provide details, reflecting both continuing and discontinued operations, about our:

- Uses of cash
- Cash from operations
- Debt position and total capitalization

We use cash for the following:

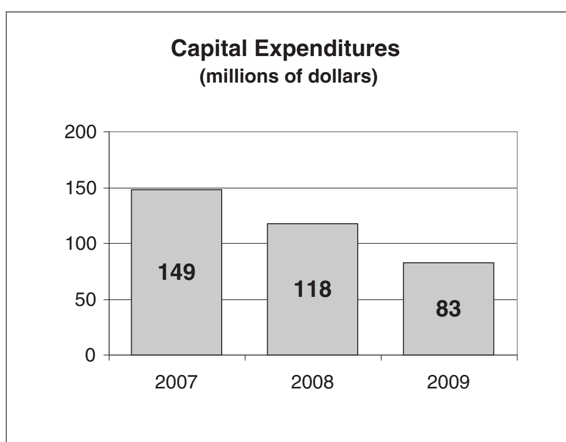
- Finance capital requirements (e.g. productivity, growth and acquisitions)
- Pay dividends
- Repurchase our stock

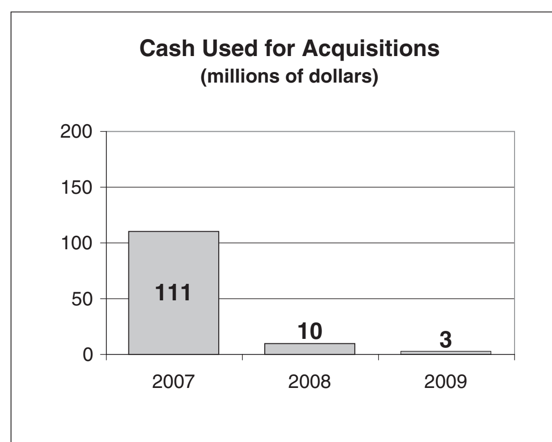
Our operations provide much of the cash we require, and debt may also be used to fund a portion of our needs. In 2008, cash proceeds from completed divestitures were an additional significant source of funds. In 2009, we generated our second highest level of cash from operations in our history, at $565 million. With less benefit from working capital reductions expected in 2010, operating cash should approximate $300 million, readily exceeding our annual requirement for capital expenditures and dividends. We ended 2009 with net debt to net capital of 23.7%, below our long-term target and year-end 2008 levels. Our long-term target is to have net debt as a percent of net capital in the 30%-40% range. Page 53 presents a table of the calculation of net debt as a percent of net capital at the end of the past two years.

Uses of Cash

Finance Capital Requirements

Improving returns of the existing asset base will continue to be a key focus. However, cash is available to fund selective growth, both internally (through capital expenditures) and externally (through acquisitions).





Capital expenditures include investments we make to modernize, maintain, and expand manufacturing capacity. With our move to role-based portfolio management, we are more restrictive in funding capital projects. Capital spending in 2010 is expected to be less than $90 million. Growth capital, which had historically been available to all our businesses, is now predominantly earmarked for our Grow business units. Operations designated as Core business units receive capital primarily for productivity enhancements, but expansion capital is limited.

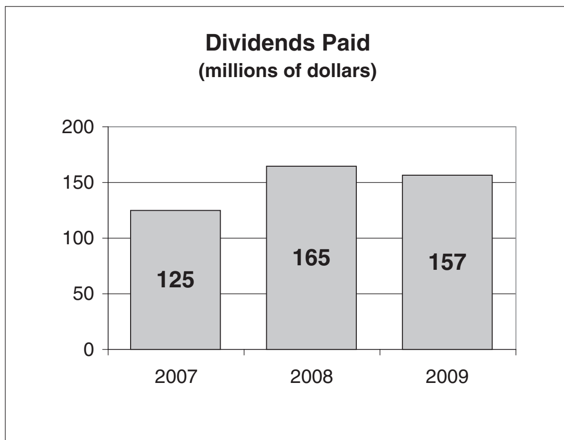
We have also set a higher bar for acquisitions, and plan to pursue disciplined growth through fewer, but more strategic, opportunities. We will seek acquisitions within our growth businesses, and will also look for longer-term opportunities to enter new, higher growth markets that meet strict criteria.

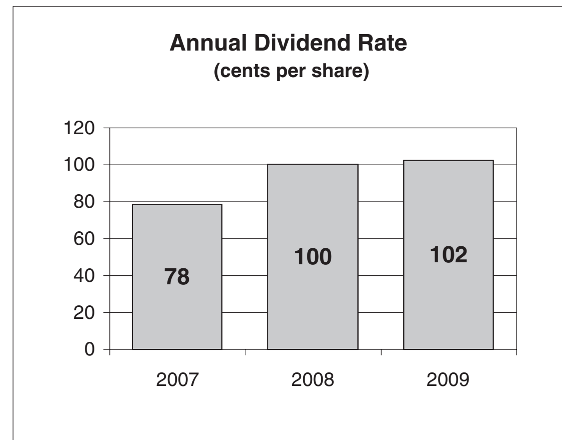
As a result of the new acquisition criteria, no significant acquisitions were completed in 2008 or 2009. In 2007, we acquired three businesses that were expected to add about $100 million to annual revenue ($20 million in Commercial Fixturing & Components, $50 million in Industrial Materials, and $30 million in Specialized Products). These businesses:

- established a foothold in Asian production of office chair controls
- manufactured coated wire products, including racks for dishwashers, and presented Leggett with expanded technologies and cross-segment selling opportunities
- broadened our suite of products for commercial vehicle interiors

In addition to the initial cash outlays for acquisitions (shown in the accompanying chart), we also assumed debt of $24 million in 2007. We provide additional details about acquisitions in Note R to the Consolidated Financial Statements on page 114.

Pay Dividends

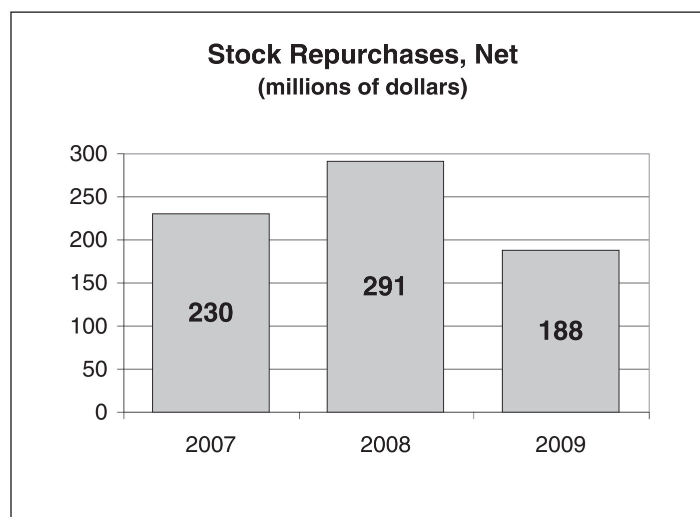




With continued improvement in margins and returns, a decrease in capital spending and acquisitions, and the completion of most of the divestitures, we expect (and have recently had) more available cash to return to shareholders. Higher annual dividends are one means by which that will occur. In late 2007, we raised our quarterly dividend by 39%,

to $.25 per share. In 2009 we modestly increased the quarterly dividend further, to $.26 per share, and extended to 38 years our record of consecutive annual dividend increases, at an average compound growth rate of 14%. Our targeted dividend payout is approximately 50-60% of net earnings, but has been higher recently and will likely remain above targeted levels in the near term. Maintaining and increasing the dividend remains a high priority. We expect to spend approximately $155 million on dividends in 2010 (slightly less than in 2009 because of share repurchases). Cash from operations has been, and is expected to continue to be, sufficient to readily fund both capital expenditures and dividends.

Repurchase Stock

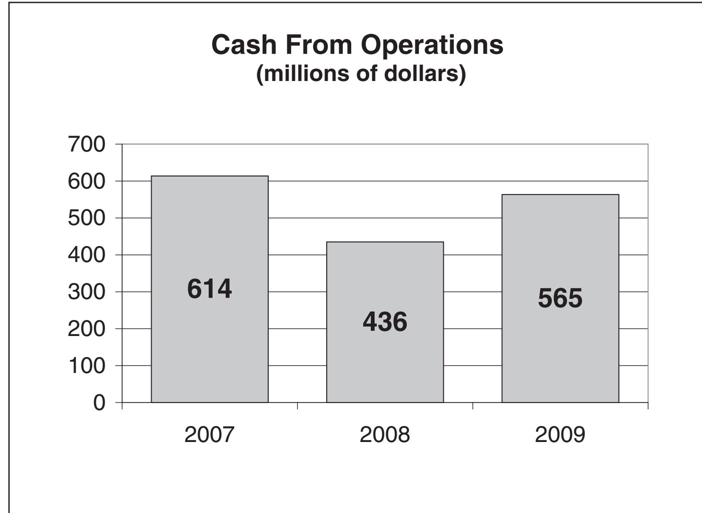


Share repurchases are the other means by which we return cash to shareholders. During the past three years, we repurchased a total of 38 million shares of our stock and reduced outstanding shares by about 16%. In 2009, we repurchased approximately 6% of shares outstanding at an average per-share price of $18.21. We expect to repurchase additional shares in 2010, with the amount of purchases dependent on factors such as general economic conditions, level of demand in our end markets, and the availability of excess cash. Although no specific repurchase schedule has been established, we have been authorized by the Board to repurchase up to 10 million shares in 2010.

PART II

Cash from Operations

Cash from operations is our primary source of funds. Earnings and changes in working capital levels are the two broad factors that generally have the greatest impact on our cash from operations.



In 2009, cash from operations increased $129 million versus 2008 primarily as a result of improving working capital trends.

- Accounts receivable—While the dollar amount of accounts receivable has decreased primarily due to weak sales, our days of sales outstanding has increased as customers have slowed payments during the continued economic downturn. We continue to focus on collection efforts to ensure customer accounts are paid on time.
- Inventory—Specific actions to reduce raw material purchases and production levels, along with price deflation, have resulted in a lower dollar amount of inventory. However, the number of days of inventory on hand increased versus the prior year due to weak sales.
- Accounts Payable—We continue efforts to optimize payment terms with our vendors and as a result have seen an increase in both dollars of accounts payable and number of days of payables outstanding.

Cash from operations in 2008, though strong, was $178 million lower than in 2007 primarily due to a smaller year-over-year decrease in working capital. Extremely weak market demand in the latter part of 2008 negatively impacted earnings. Working capital decreased in 2008 as a result of lower inventory and accounts receivable levels. Fourth quarter production cuts led to lower inventory levels (versus the prior year). Accounts receivable also declined primarily due to extremely weak sales late in the year.

The following table presents key working capital measures at the end of the past two years.

	Amount (in millions)			# Days Outstanding		
	2009	2008	Change	2009	2008	Change
Accounts Receivable, net [1]	$469	$550	($81)	56	49	7
Inventory, net [2]	$409	$495	($86)	62	53	9
Accounts Payable [3]	$199	$175	$24	30	19	11

(1) The accounts receivable ratio represents the days of sales outstanding calculated as: ending net accounts receivable ÷ (net sales ÷ number of days in the year).

(2) The inventory ratio represents days of inventory on hand calculated as: ending net inventory ÷ (cost of goods sold ÷ number of days in the year).

(3) The accounts payable ratio represents the days of payables outstanding calculated as: ending accounts payable ÷ (cost of goods sold ÷ number of days in the year).

Working capital levels vary by segment. The Commercial Fixturing & Components segment typically has relatively higher accounts receivable balances due to the longer credit terms required to service certain customers of the Fixture & Display group. This business group also generally requires higher inventory investments due to the custom nature of its 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

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

(Dollar amounts in millions)	2009	2008	2007
Long-term debt outstanding:			
Scheduled maturities	$ 764	$ 774	$ 796
Average interest rates [1]	*4.6%*	*4.7%*	*4.9%*
Average maturities in years [1]	*5.6*	*6.4*	*6.8*
Revolving credit/commercial paper	25	77	205
Total long-term debt	789	851	1,001
Deferred income taxes and other liabilities	161	116	124
Equity [2]	1,576	1,671	2,148
Total capitalization	$2,526	$2,638	$3,273
Unused committed credit:			
Long-term	$ 491	$ 523	$ 395
Short-term	—	—	—
Total unused committed credit	$ 491	$ 523	$ 395
Current maturities of long-term debt	$ 10	$ 22	$ 89
Cash and cash equivalents	$ 260	$ 165	$ 205
Ratio of earnings to fixed charges [3]	4.6 x	3.7 x	2.7 x

(1) ***These calculations include current maturities, but exclude commercial paper to reflect the averages of outstanding debt with scheduled maturities.***

(2) ***Equity decreased $480 million in 2008, primarily reflecting net share repurchases of $234 million, dividends of $165 million, and currency impacts of $146 million.***

(3) ***Fixed charges include interest expense, capitalized interest, plus implied interest included in operating leases. Earnings consist principally of income from continuing operations before income taxes, plus fixed charges.***

The next table shows the percent of long-term debt to total capitalization at December 31, 2009 and 2008, calculated in two ways:

- **Long-term debt to total capitalization as reported in the previous table.**
- **Long-term debt to total capitalization each reduced by total cash and increased by current maturities of long-term debt.**

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

(Dollar amounts in millions)	2009	2008
Long-term debt	$ 789	$ 851
Current debt maturities	10	22
Cash and cash equivalents	(260)	(165)
Net debt	$ 539	$ 708
Total capitalization	$2,526	$2,638
Current debt maturities	10	22
Cash and cash equivalents	(260)	(165)
Net capitalization	$2,276	$2,495
Long-term debt to total capitalization	31.2%	32.2%
Net debt to net capitalization	23.7%	28.4%

Total debt (which includes long-term debt and current debt maturities) decreased $74 million in 2009. During the year, we reduced our commercial paper borrowings by $52 million and paid off $22 million of other long-term debt that came due.

We can raise cash by issuing up to $600 million in commercial paper through a program that is backed by a $600 million revolving credit agreement with a syndicate of 14 lenders that terminates in 2012. Based on the information currently available to us, we believe that the participating banks continue to have the ability to meet their obligations under the agreement. At December 31, 2009, $25 million of commercial paper was outstanding under this program and is classified as long-term debt. We also maintain an active shelf registration. With anticipated operating cash flows, the commercial paper program and the active shelf registration, we believe we have sufficient funds available to support our ongoing operations, pay dividends, repurchase stock, and fund future growth.

Our commercial paper program continued to operate efficiently during the disruption of the global credit markets in late 2008; those markets stabilized during 2009. Changes in the credit markets and other events of the past year did not materially impact our weighted average effective borrowing rate for commercial paper. If a disruption in the credit market was to become so severe that we were unable to issue commercial paper, we have the contractual right to draw funds directly on our revolving credit agreement. In such event, the cost of borrowing under the revolving credit agreement could be higher than the cost of commercial paper borrowing.

The revolving credit agreement provides for the ability to issue letters of credit up to an aggregate $250 million. Any utilization of these commitments for letters of credit reduces our commercial paper/loan capacity by a corresponding amount. At December 31, 2009, we had issued $84 million of letters of credit under these commitments. Accordingly, at year end, an additional $491 million was available to us under our commercial paper program ($600 million in total program - $25 million of outstanding commercial paper - $84 million of issued letters of credit).

CONTRACTUAL OBLIGATIONS

The following table summarizes our future contractual cash obligations and commitments:

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
(Dollar amounts in millions)					
Long-term debt *	$ 795	$ 9	$ 27	$381	$378
Capitalized leases	4	1	2	1	—
Operating leases	110	33	42	19	16
Purchase obligations **	255	255	—	—	—
Interest payments ***	196	35	71	54	36
Deferred income taxes	49	—	—	—	49
Other obligations (including pensions and reserves for tax contingencies)	125	10	17	8	90
Total contractual cash obligations	$1,534	$343	$159	$463	$569

* *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. Long-term debt includes $25 million of outstanding commercial paper, which is generally due overnight. We have classified commercial paper as long-term debt (due in 1-3 years) since the commercial paper program is supported by a $600 million revolving credit agreement which terminates in 2012.*

** *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, 2009 at rates in effect at the end of the year. These totals include interest on the $25 million of outstanding commercial paper discussed above.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. To do so, we must make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosures. If we used different estimates or judgments our financial statements would change, and some of those changes could be significant. Our estimates are frequently based upon historical experience and are considered by management, at the time they are made, to be reasonable and appropriate. Estimates are adjusted for actual events, as they occur.

"Critical accounting estimates" are those that are: a) subject to uncertainty and change, and b) of material impact to our financial statements. Listed below are the estimates and judgments which we believe could have the most significant effect on our financial statements.

We provide additional details regarding our significant accounting policies in Note A to the Consolidated Financial Statements on page 78.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill Goodwill is assessed for impairment annually as of June 30 and as triggering events occur. In the past three years, no impairments have been recorded as a result of the annual impairment reviews. As a result of the deterioration in the economic and financial climate in the fourth quarter 2008, an interim goodwill impairment analysis was performed confirming that estimated fair value exceeded carrying values for all reporting units. In the fourth quarter 2007, we performed an interim goodwill impairment review as a result of the November 2007 Strategic Plan, and recorded goodwill impairment charges related to the Fixture & Display reporting unit of $143 million.	In order to assess goodwill for potential impairment, judgment is required to estimate the fair market value of each reporting unit (which is one level below reportable segments) using the combination of a discounted cash flow model and market approach using price to earnings ratios for comparable publicly traded companies with characteristics similar to the reporting unit. The cash flow model contains uncertainties related to the forecast of future results as many outside economic and competitive factors can influence future performance. Margins, sales levels, and discount rates are the most critical estimates in determining enterprise values using the cash flow model.	Fair market values for three of the 10 reporting units exceeded book value by 10-20%. The goodwill associated with these reporting units is $373 million. These reporting units are dependent on the global automotive markets and the commercial and residential construction markets. We expect future operating results to improve for all of these reporting units. If actual performance does not improve and remains at current levels, future goodwill impairments could be possible. The remaining reporting units (including Fixture & Display) have fair market values that exceed carrying value by more than 20%, and have goodwill of $555 million.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill (cont.) Additional goodwill impairments were recorded in 2007, 2008, and 2009 related to assets held for sale as discussed below.	The market approach requires judgment to determine the appropriate price to earnings ratio. Ratios are derived from comparable publicly-traded companies that operate in the same or similar industry as the reporting unit.	Information regarding material assumptions used to determine if a goodwill impairment exists can be found in Note C on page 85.
Assets Held for Sale Assets held for sale are carried at the lower of historical cost or net realizable value (fair market value less cost to sell). We review and update our estimates of net realizable value on a quarterly basis. As a result of the 2007 Strategic Plan, goodwill and other long-lived asset impairments of $138 million related to businesses targeted for divestiture were recorded in the fourth quarter of 2007 (in discontinued operations). Throughout 2008 and 2009, we recorded additional impairments of $32 million and $3 million, respectively (in discontinued operations), as updated estimates of fair value less costs to sell became more certain.	Fair market value for assets held for sale contains uncertainties surrounding the expected proceeds from the ultimate sale of the business or asset. This value is usually determined using offers received for these businesses prior to sale, or earnings multiples in the current market. For individual assets (closed facilities, etc.) periodic appraisals are performed to determine fair market value.	We could incur additional write-downs in the future if our estimates of fair value less costs to sell prove inaccurate, or if further assets or businesses are targeted for divestiture.
Other Long-lived Assets Other long-lived assets are tested for recoverability at year-end and whenever events or circumstances indicate the carrying value may not be recoverable.	Impairments of other long-lived assets usually occur when major restructuring activities take place, or we decide to discontinue product lines completely.	These impairments are very unpredictable, and are difficult to anticipate. Impairments were $3 million in 2009, $13 million in 2008, and $6 million in 2007.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Other Long-lived Assets (cont.) For other long-lived assets we estimate fair value at the lowest level where cash flows can be measured (usually at a branch level).	Our impairment assessments have uncertainties because they require estimates of future cash flows to determine if undiscounted cash flows are sufficient to recover carrying values of these assets. For assets where future cash flows are not expected to recover carrying value, fair value is estimated which requires an estimate of market value based upon asset appraisals for like assets.	As a result of the circumstances that caused us to record a $4 million valuation allowance for deferred tax assets of a Canadian automotive facility in the fourth quarter 2008, we tested the carrying value of this entity for recoverability and concluded that no impairments were indicated. In 2009, we monitored cash flows generated by this entity and again concluded that cash flows are sufficient to recover the current carrying value of $51 million as of December 31, 2009. We believe that future restructuring and shut-down activities should be equal to or less than those in 2009, however this could change if certain product lines or businesses do not meet return expectations. This could cause us to decide to exit a business which could trigger long-lived asset impairment.
Inventory Reserves In determining the value of inventories, we reduce the carrying value of inventories to reflect an estimate of net realizable value for obsolete and slow moving inventory. If we have had no sales of a given product for 12 months, those items are generally deemed to have no value and are written down completely. If we have more than a one-year's supply of a product, we value that inventory at net realizable value (what we think we will recover).	Our inventory reserve contains uncertainties because the calculation requires management to make assumptions about the value of products that are obsolete or slow-moving (i.e. not selling very quickly). Changes in customer behavior and requirements can cause inventory to quickly become obsolete or slow moving.	At December 31, 2009, we had recorded an inventory reserve of $42 million (approximately 9% of FIFO inventories) to account for obsolete inventories. Additions to inventory reserves have averaged $22 million in each of the past three years. Approximately two-thirds of historical write-downs relate to the Commercial Fixturing & Components and Specialized Products segments due to the custom nature of their products.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Inventory Reserves (cont.)	The calculation also uses an estimate of the ultimate recoverability of items identified as slow moving based upon historical experience (65% on average).	We are implementing new inventory optimization processes that should reduce the impact of write-downs in the future. We do not expect any significant changes in customer or industry trends that would increase the exposure to inventory obsolescence.
Workers' Compensation We are substantially self-insured for costs related to workers' compensation, which requires us to estimate the liability associated with this obligation.	Our estimates of self-insured reserves contain uncertainties regarding the potential amounts we might have to pay (since we are self-insured). We consider a number of factors, including historical claim experience, demographic factors, and potential recoveries from third party insurance carriers.	Over the past five years, we have incurred, on average, $14 million annually for costs associated with workers' compensation. Average year-to-year variation over the past five years has been approximately $3 million. At December 31, 2009, we had accrued $46 million to cover future self-insurance liabilities. Internal safety statistics indicate improving safety trends in the last two years. Usually, safety statistics are leading indicators of exposure trends. As a result of headcount reductions and improved safety trends, we expect worker compensation costs to remain at current lower levels for the foreseeable future.
Credit Losses For accounts and notes receivable, we estimate a bad debt reserve for the amount that will ultimately be uncollectible. When we become aware of a specific customer's potential inability to pay, we record a bad debt reserve for the amount we believe may not be collectible.	Our bad debt reserve contains uncertainties because it requires management to estimate the amount uncollectible based upon an evaluation of several factors such as the length of time that receivables are past due, the financial health of the customer, industry and macroeconomic considerations, and historical loss experience.	A significant change in the financial status of a large customer could impact our estimates.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Credit Losses (cont.)	Our customers are diverse and many are small-to-medium sized companies, with some being highly leveraged. Bankruptcy can occur with some of these customers relatively quickly and with little warning.	The average annual amount of customer-related credit losses was $17 million (less than 1% of annual net sales) over the last three years. At December 31, 2009, our reserves for doubtful accounts not held for sale totaled $23 million (about 5% of our accounts and notes receivable of $435 million). Weak market demand has intensified pressure on highly leveraged customers in some of our industries. In each of 2008 and 2009, we experienced bad debt expense that was approximately $15 million higher than pre-2008 levels. We expect a return to more normal levels, however if weak market demand persists, other bankruptcies could be possible. We also recognized an $11 million loss in 2009 related to the Aluminum divestiture note. At December 31, 2009, we had $17 million of notes outstanding, primarily related to divested businesses, and have concluded that no reserve is required for these notes.
Pension Accounting For our pension plans, we must estimate the cost of benefits to be provided (well into the future) and the current value of those benefit obligations.	The pension liability calculation contains uncertainties because it requires management to estimate an appropriate discount rate to calculate the present value of future benefits paid, which also impacts current year pension expense.	The discount rates used to calculate the pension liability and pension expense has remained consistent at approximately 6% for the last three years. A 25 basis point decrease in the discount rate would increase pension expense by approximately $.3 million and decrease the plans' funded status by approximately $6 million.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Pension Accounting (cont.)	Determination of pension expense requires an estimate of expected return on pension assets based upon the mix of investments held (bonds and equities). Other assumptions include rates of compensation increases, withdrawal and mortality rates, and retirement ages. These estimates impact the pension expense or income we recognize and our reported benefit obligations.	The expected return on assets decreased in 2009 to 6.9%, from a rate in 2008 of 7.9%, and 7.8% in 2007. The reduction in the rate was primarily driven by a change in asset allocation toward more conservative investments (ie. bonds). A 25 basis point reduction in the expected return on assets would increase pension expense by $.4 million, but have no effect on the plans' funded status. Assuming a long-term investment horizon, we do not expect a material change to the return on asset assumption.
Income Taxes In the ordinary course of business, we must make estimates of the tax treatment of many transactions, even though the ultimate tax outcome may remain uncertain for some time. These estimates become part of the annual income tax expense reported in our financial statements. Subsequent to year end, we finalize our tax analysis and file income tax returns. Tax authorities periodically audit these income tax returns and examine our tax filing positions, including (among other things) the timing and amounts of deductions, and the allocation of income among tax jurisdictions. We adjust income tax expense in our financial statements in the periods in which the actual outcome becomes more certain.	Our tax liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures related to our various filing positions. Our effective tax rate is also impacted by changes in tax laws, the current mix of earnings by taxing jurisdiction, and the results of current tax audits and assessments.	Potential changes in tax laws under the new Administration could impact assumptions related to the non-repatriation of certain foreign earnings. If all non-repatriated earnings were taxed, we would incur additional taxes of approximately $35 million. The recovery of net operating losses (NOL's) has been closely evaluated for the likelihood of recovery based upon factors such as the age of losses, viable tax planning strategies, and future taxable earnings expectations. We believe that appropriate valuation allowances have been recorded as necessary. However, if earnings expectations or other assumptions change such that additional valuation allowances are required, we could incur additional tax expense.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Income Taxes (cont.)	At December 31, 2009 and 2008, we had $28 million and $31 million, respectively, of net deferred tax assets on our balance sheet related to operating loss and tax credit carryforwards. The ultimate realization of these deferred tax assets is dependent upon the amount, source, and timing of future taxable income. Valuation allowances are established against future potential tax benefits to reflect the amounts we believe have no more than a 50% probability of being realized. In addition, assumptions have been made regarding the non-repatriation of earnings from certain subsidiaries. Those assumptions may change in the future, thereby affecting future period results for the tax impact of possible repatriation.	Tax audits by various taxing authorities are expected to increase as governments continue to look for ways to raise additional revenue. Based upon past experience, we do not expect any major changes to our tax liability as a result of this increased audit activity; however, we could incur additional tax expense if we have audit adjustments higher than recent historical experience.
Contingencies We evaluate various legal, environmental, and other potential claims against us to determine if an accrual or disclosure of the contingency is appropriate. If it is probable that an ultimate loss will be incurred, we accrue a liability for the estimate of the ultimate loss.	Our disclosure and accrual of loss contingencies (i.e., losses that may or may not occur) contain uncertainties because they are based on our assessment of the likelihood that the expenses will actually occur, and our estimate of the likely cost. Our estimates and judgments are subjective and can involve matters in litigation, the results of which are generally very unpredictable.	The largest claim against us is the Gray v. Derderian case, which is discussed below. We have agreed to a settlement with the plaintiff group, and have insurance coverage in excess of the settlement amount of $18.2 million. The only contingencies remaining are court approval and ultimate payment by our insurance carrier. In the highly unlikely event that our insurance carrier goes bankrupt prior to payment, we believe there are sufficient reserves (statutorily required) to cover the $18.2 million settlement. We also have several environmental clean-up activities related to current and closed facilities that mostly involve soil and groundwater contamination. Based upon facts available at this time, we believe reserves are adequate, however cost estimates could change as we determine more about the severity and cost of remediation.

Contingencies

Our disclosure and accrual of loss contingencies (i.e., losses that may or may not occur) are based on our assessment of the likelihood that the expenses will actually occur, and our estimate of the likely cost. Our estimates and judgments are subjective and can involve matters in litigation, the results of which are generally very unpredictable.

On July 22, 2004, we were named as one of approximately 80 defendants in several cases consolidated as Gray v. Derderian, Case No. 1:04-CV-312-L, U.S.D.C. R.I. This litigation resulted from a nightclub fire in West Warwick, Rhode Island involving multiple deaths and injuries. There are in excess of 550 plaintiffs in the litigation. Along with other foam manufacturing defendants, Leggett is alleged to have manufactured and sold bulk polyurethane foam to a foam fabricator in Rhode Island, who in turn, is alleged to have fabricated and sold foam sheets to the nightclub. The foam was among other materials alleged to have caught fire when pyrotechnics were ignited inside the nightclub.

We believe we did not manufacture the foam subject to the lawsuit and that we have valid defenses to the claims. Nevertheless, with our consent, our primary insurance carrier reached a tentative settlement with counsel for all plaintiffs on April 29, 2008 and we executed the final settlement agreement on October 6, 2009. The settlement agreement is subject to various court approvals and the signature of all plaintiffs. Pursuant to the settlement agreement, we would pay a $2 million self-insured retention. The remainder of the $18.2 million settlement would be paid by our insurance carrier. We do not believe the settlement or the outcome will have a material effect on Leggett's financial condition, operating cash flows or results of operations. We recorded $2 million of expense in 2008 and currently have a $16.2 million receivable from the insurance carrier and an $18.2 million liability related to this matter, that is included in current assets and current liabilities, respectively, in the Consolidated Balance Sheets.

NEW ACCOUNTING STANDARDS

We adopted new accounting guidance in 2009 as discussed in Note A to the Consolidated Financial Statements on page 82. The Financial Accounting Standards Board has also issued accounting guidance effective for future periods (that we have not yet adopted), but we do not believe this new guidance will have a material impact on our future financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

(Unaudited)
(Dollar amounts in millions)

Interest Rates

The table below provides information about the Company's debt obligations sensitive to changes in interest rates. Substantially all of the debt shown in the table below is denominated in United States dollars. The fair value of fixed rate debt was less than its carrying value by $71.1 at December 31, 2009, and less than its carrying value by $107.1 at December 31, 2008. The increase in the fair market value of the Company's debt is primarily due to the decrease in credit spreads over risk-free rates as compared to the prior year end. The fair value of fixed rate debt was calculated using a Bloomberg secondary market rate, as of December 31, 2009 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 variable rate debt is not significantly different from its recorded amount.

	Scheduled Maturity Date							
Long-term debt as of December 31,	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**2009**	**2008**
Principal fixed rate debt	$ —	$ —	$ —	$200.0	$180.0	$350.0	**$730.0**	$745.0
Average interest rate	*— %*	*— %*	*— %*	*4.70%*	*4.65%*	*4.77%*	***4.72%***	*4.77%*
Principal variable rate debt	8.5	0.5	0.5	—	—	21.5	**31.0**	31.5
Average interest rate	*0.43%*	*0.52%*	*0.52%*	*— %*	*— %*	*0.56%*	***0.52%***	*1.83%*
Miscellaneous debt*							**38.4**	97.1
Total debt							**799.4**	873.6
Less: current maturities							**(10.1)**	(22.4)
Total long-term debt							**$789.3**	$851.2

* Includes $25 and $77 of commercial paper in 2009 and 2008, respectively, supported by a $600 revolving credit agreement which terminates in 2012.

Derivative Financial Instruments

The Company is subject to market and financial risks related to interest rates, foreign currency, and commodities. In the normal course of business, the Company utilizes derivative instruments (individually or in combinations) to reduce or eliminate these risks. The Company seeks to use derivative contracts that qualify for hedge accounting treatment; however, some instruments may not qualify for hedge accounting treatment. It is the Company's policy not to speculate using derivative instruments. Information regarding cash flow hedges, fair value hedges and net investment hedges is provided in Note S on page 115 to the Notes to the Consolidated Financial Statements and is incorporated by reference into this section.