

Leggett & Platt, Incorporated
Notes to Consolidated Financial Statements
(Dollar amounts in millions, except per share data)
December 31, 2009, 2008 and 2007

A—Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Leggett & Platt, Incorporated and its majority-owned subsidiaries (“we” or “our”). To facilitate timely financial reporting, many subsidiaries outside of the United States are consolidated as of and for a fiscal year ended November 30. Management does not expect foreign exchange restrictions to significantly impact the ultimate realization of amounts consolidated in the accompanying financial statements for subsidiaries located outside the United States. All intercompany transactions and accounts have been eliminated in consolidation.

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

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

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

INVENTORIES: All inventories are stated at the lower of cost or market. We generally use standard costs which include materials, labor and production overhead at normal production capacity. The cost for approximately 60% of our inventories is determined by the last-in, first-out (LIFO) method and is primarily used to value domestic inventories with raw material content consisting of steel, wire, chemicals and foam scrap. For the remainder of the inventories, we principally use the first-in, first-out (FIFO) method, which is representative of our standard costs. For these inventories, the FIFO cost at December 31, 2009 and 2008 approximated expected replacement cost.

Inventories are reviewed at least quarterly for slow moving and potentially obsolete items using actual inventory turnover, and if necessary, are written down to estimated net realizable value. Reserves for slow moving and obsolete inventory not held for sale on a FIFO basis were \$42.1 and \$38.0, as of December 31, 2009 and 2008, respectively, for a net increase of \$4.1.

PLANNED DIVESTITURES: Significant accounting policies associated with a decision to dispose of a business are discussed below:

Discontinued Operations—A business is classified as a discontinued operation when (i) the operations and cash flows of the business can be clearly distinguished and have been or will be eliminated from our ongoing operations; (ii) the business has either been disposed of or is classified as held for sale; and (iii) we will not have any significant continuing involvement in the operations of the business after the disposal transactions. Significant judgments are involved in determining whether a business meets the criteria for discontinued operations reporting and the period in which these criteria are met.

If a business is reported as a discontinued operation, the results of operations through the date of sale, including any gain or loss recognized on the disposition, are presented on a separate line of the income statement. Interest on debt directly attributable to the discontinued operation is allocated to discontinued operations. Gains and losses related to the sale of businesses that do not meet the discontinued operation criteria are reported in continuing operations and separately disclosed if significant.

Assets Held for Sale—An asset or business is classified as held for sale when (i) management commits to a plan to sell and it is actively marketed; (ii) it is available for immediate sale and the sale is expected to be completed within one year; and (iii) it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. In isolated instances, assets held for sale may exceed one year due to events or circumstances beyond our control. Upon being classified as held for sale, the recoverability of the carrying value must be assessed. Evaluating the recoverability of the assets of a business classified as held for sale follows a defined order in which property and intangible assets subject to amortization are considered only after the recoverability of goodwill and other assets are assessed. After the valuation process is completed, the assets held for sale are reported at the lower of the carrying value or fair value less cost to sell and the assets are no longer depreciated or amortized. The assets and related liabilities are aggregated and reported on separate lines of the balance sheet.

Assets Held for Use—If a decision to dispose of an asset or a business is made and the held for sale criteria are not met, it is considered held for use. Assets of the business are evaluated for recoverability in the following order: (i) assets other than goodwill, property and intangibles; (ii) property and intangibles subject to amortization; and (iii) goodwill. In evaluating the recoverability of property and intangible assets subject to amortization, in a held for use business, the carrying value is first compared to the sum of the undiscounted cash flows expected to result from the use and eventual disposition. If the carrying value exceeds the undiscounted expected cash flows, then a fair value analysis is performed. An impairment charge is recognized if the carrying value exceeds the fair value. There are inherent judgments and estimates used in determining future cash flows and it is possible that additional impairment charges may occur in future periods. In addition, the sale of assets can result in the recognition of a gain or loss that differs from that anticipated prior to the closing date.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment is stated at cost, less accumulated depreciation. Assets are depreciated by the straight-line method and salvage value, if any, is assumed to be minimal. Depreciable lives primarily range from 3 to 20 years for machinery and equipment with a weighted average life of 9 years; 10 to 40 years for buildings with a weighted average life of 28 years; and 3 to 15 years for other items with a weighted average life of 7 years. Accelerated methods are used for tax purposes.

Property is tested for recoverability at year end and whenever events or changes in circumstances indicate that its carrying value may not be recoverable as discussed above.

GOODWILL: Goodwill results from the acquisition of existing businesses and is not amortized; it is assessed for impairment annually and as triggering events may occur. We perform our annual review in the second quarter of each year. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. Reporting units are business groups one level below the operating segment level for which discrete financial information is available and reviewed by segment management.

If the carrying value of the group exceeds its fair value, the second step of the process is necessary and involves a comparison of the implied fair value and the carrying value of the goodwill of that group. If the carrying value of the goodwill of a group exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

In evaluating the recoverability of goodwill, it is necessary to estimate the fair values of the business groups. In making this assessment, we estimate the fair market values of our reporting units using a discounted cash flow model and comparable market values for similar entities using price to earnings ratios. Key assumptions and estimates used in the cash flow model include discount rate, internal sales growth, margins, capital expenditure

requirements, and working capital requirements. Recent performance of the group is an important factor, but not the only factor, in our assessment. There are inherent assumptions and judgments required in the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

OTHER INTANGIBLE ASSETS: Substantially all other intangible assets are amortized using the straight-line method over their estimated useful lives ranging from 1 to 40 years with a weighted average of 15 years and are evaluated for impairment using a process similar to that used in evaluating the recoverability of property, plant and equipment.

STOCK-BASED COMPENSATION: The cost of employee services received in exchange for all equity awards granted is based on the fair market value of the award as of the grant date. Expense is recognized net of an estimated forfeiture rate using the straight line method over the vesting period of the award.

SALES RECOGNITION: We recognize sales when title and risk of loss pass to the customer. The terms of our sales are split approximately evenly between FOB shipping point and FOB destination. The timing of our recognition of FOB destination sales is determined based on shipping date and distance to the destination. We have no significant or unusual price protection, right of return or acceptance provisions with our customers nor is it our practice to replace goods damaged or lost in transit. Sales allowances and discounts can be reasonably estimated throughout the period and are deducted from sales in arriving at net sales.

SHIPPING AND HANDLING FEES AND COSTS: Shipping and handling costs are included as a component of “Cost of goods sold.” Shipping and handling costs billed to customers are included in “Net sales.”

RESTRUCTURING COSTS: Restructuring costs are items such as employee termination, contract termination, plant closure and asset relocation costs related to exit activities. Restructuring-related items are inventory writedowns and gains or losses from sales of assets recorded as the result of exit activities. We recognize a liability for costs associated with an exit or disposal activity when the liability is incurred. Certain termination benefits for which employees are required to render service are recognized ratably over the respective future service periods.

INCOME TAXES: The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of our assets and liabilities and are adjusted for changes in tax rates and laws, as appropriate. A valuation allowance is provided to reduce deferred tax assets when management cannot conclude that it is more likely than not that a tax benefit will be realized. A provision is also made for taxes on undistributed earnings of foreign subsidiaries and related companies to the extent that such earnings are not deemed to be permanently invested. This provision would be substantially offset by available foreign tax credits.

The calculation of our U.S., state, and foreign tax liabilities involves dealing with uncertainties in the application of complex global tax laws. We recognize potential liabilities for anticipated tax issues which might arise in the U.S. and other tax jurisdictions based on management’s estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. Conversely, if the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to tax expense would result.

CONCENTRATION OF CREDIT RISKS, EXPOSURES AND FINANCIAL INSTRUMENTS: We manufacture, market, and distribute engineered products for the various end markets described in Note F. Operations are principally located in the United States, although we also have operations in Europe, Asia, Canada, Latin America, Australia and South Africa.

We perform ongoing credit evaluations of our customers' financial conditions and generally require no collateral from our customers, some of which are highly leveraged. We maintain allowances for potential credit losses and such losses have generally been within management's expectations.

We have no material guarantees or liabilities for product warranties which require disclosure.

From time to time, we will enter into contracts to hedge foreign currency denominated transactions, natural gas purchases, and interest rates related to our debt. To minimize the risk of counterparty default, only highly-rated financial institutions that meet certain requirements are used. We do not anticipate that any of the financial institution counterparties will default on their obligations.

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

OTHER RISKS: Although we obtain insurance for workers' compensation, automobile, product and general liability, property loss and medical claims, we have elected to retain a significant portion of expected losses through the use of deductibles. Accrued liabilities include estimates for both unpaid, reported claims and for claims incurred but not yet reported. Provisions for losses are recorded based upon estimates of the aggregate liability for claims incurred utilizing our prior experience and information provided by our third-party administrators and insurance carriers.

DERIVATIVE FINANCIAL INSTRUMENTS: We utilize derivative financial instruments to manage market and financial risks related to interest rates, foreign currency and commodities. We seek to use derivative contracts that qualify for hedge accounting treatment; however some instruments that economically manage currency risk may not qualify for hedge accounting treatment. It is our policy not to speculate using derivative instruments.

Under hedge accounting, we formally document our hedge relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for entering into the hedge transaction. The process includes the linking of the derivative instruments that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions. We also formally assess both at inception and on a quarterly basis thereafter, whether the derivatives used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be highly effective, deferred gains or losses are recorded in the Consolidated Statements of Operations.

Derivatives are recorded in the Consolidated Balance Sheets at fair value in "Other current" or "Sundry" assets or "Other current" or "Other long-term" liabilities.

On the date the contract is entered into, we designate the derivative as one of the following types of hedging instruments and account for it as follows:

Cash Flow Hedge—The hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is designated as a cash flow hedge. The effective portion of the change in fair value of a cash flow hedge is recorded in accumulated other comprehensive income. When the hedged item impacts the income statement, the gain or loss included in other comprehensive income is reported on the same line of the Consolidated Statements of Operations as the hedged item to match the gain or loss on the derivative to the gain or loss on the hedged item. Any ineffective portion of the changes in the fair value of the cash flow hedge is reported in the Consolidated Statements of Operations on the same line as the hedged item.

Fair Value Hedge—The hedge of a recognized asset or liability or an unrecognized firm commitment is designated as a fair value hedge. For fair value hedges, both the effective and ineffective portions of the changes

in fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings and reported in the Consolidated Statements of Operations on the same line as the hedged item.

Net Investment Hedge—The hedge of a net investment in a foreign operation is designated as a net investment hedge. The effective portion of the change in the fair value of derivatives, based upon spot rates, used as a net investment hedge of a foreign operation is recorded in other comprehensive income on the Consolidated Statements of Changes in Equity. Any ineffective portion of the change in the fair value of an instrument designated as a net investment hedge is recorded in the Consolidated Statements of Operations.

FOREIGN CURRENCY TRANSLATION: The functional currency for most foreign operations is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for income and expense accounts using monthly average exchange rates. The cumulative effects of translating the functional currencies into the U.S. dollar are included in comprehensive income.

RECLASSIFICATIONS: Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2009 presentation:

- In the Consolidated Balance Sheets—noncontrolling interests have been reclassified from “Other long-term liabilities” to “Noncontrolling interest” within “Equity.”
- In the Consolidated Statements of Operations—noncontrolling interests have been reclassified from “Other expense (income), net” to “(Earnings) attributable to noncontrolling interest, net of tax.”
- In the Consolidated Statements of Cash Flows—noncontrolling interests have been reclassified between “Net earnings” and “Other adjustments to reconcile net earnings to net cash provided by operating activities” and to reflect separate presentation of “Provision for losses on accounts and notes receivables.”
- In the Consolidated Statements of Changes in Equity—balance sheet activity as well as comprehensive income information has been added for noncontrolling interest.
- In Notes F, G, I and O of Notes to Consolidated Financial Statements—Segment Information, EBIT for Commercial Fixturing & Components and Specialized Products has been retrospectively adjusted to include noncontrolling interest.
- In Note F of Notes to Consolidated Financial Statements—Segment Information, long-lived assets by geographic location have been retrospectively adjusted to include only tangible long-lived assets.

NEW ACCOUNTING GUIDANCE: In June 2009, the FASB issued authoritative guidance codifying generally accepted accounting principles in the United States (“GAAP”) which was effective beginning with our September 30, 2009 reporting period. While the guidance was not intended to change GAAP, it did change the way we reference these accounting principles in the Notes to Consolidated Financial Statements.

In December 2007, the FASB issued guidance for presentation of noncontrolling interest in consolidated financial statements, which was effective for us beginning January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements, but as required by the guidance, noncontrolling interest is now presented as a component of equity. Also, net income attributable to the parent and to the noncontrolling interest is presented separately. Prior year information has been retrospectively adjusted as described above.

In December 2008, the FASB issued guidance for additional disclosure surrounding defined benefit pension plan assets effective for our December 31, 2009 financial statements and is included in Note M.

B—Discontinued Operations and Assets Held for Sale

During 2007 we completed an extensive review of our business portfolio and determined that we would exit certain of our business activities. This included the divestiture of some operations, the pruning of some business and the closure of certain underperforming plants, referred to as the 2007 Strategic Plan. Details related to completed divestitures are discussed below.

Third quarter 2009

- Coated Fabrics unit—No significant gains or losses were realized on the sale of this unit, which was previously reported in the Residential Furnishings segment.

Fourth quarter 2008

- Fibers unit—The sale of this unit resulted in a pre-tax loss of \$8.6 (\$7.8 loss net of tax) that is reported within earnings from discontinued operations. This unit was previously reported in the Residential Furnishings segment.

Third quarter 2008

- Aluminum Products segment—This segment was sold for \$300 in cash, a \$25 subordinated promissory note (fair value of \$14.1), and shares of preferred stock (no book value, with face value not to exceed \$25, dependent upon future performance of the divested business). The sale of this business resulted in a pre-tax gain of \$7.6 (\$16.0 gain after taxes) that is reported within earnings from discontinued operations.

Late in the second quarter of 2009, we learned that this business needed a capital infusion due to deterioration in business conditions and determined that the collectability of the promissory note was not reasonably assured. We recorded a \$10.6 non-cash reduction in the value of the promissory note that is reported in “Other expense (income), net” on the Statements of Operations. On June 30, 2009, we surrendered the promissory note, and in exchange, received \$15 face amount (fair value of \$3.5) of redeemable preferred stock. The fair value estimate incorporated various inputs related to the aluminum operations including: historical financial information, assumptions about future revenue, earnings, and cash flows and earnings ratios for comparable publicly-traded companies with similar characteristics. Management believes it was in our best interest to accept the preferred stock in exchange for the promissory note due to the higher likelihood of recovery resulting from the modification to the buyer’s capital structure.

- Wood Products unit—The sale of this unit resulted in a pre-tax loss of \$4.1 (\$4.4 loss net of tax) that is reported within earnings from discontinued operations. This unit was previously part of the Residential Furnishings segment.
- Plastics unit—The sale of this unit resulted in a pre-tax loss of \$9.4 (\$6.7 loss net of tax) that is reported within earnings from discontinued operations. This unit was previously reported in the Commercial Fixturing & Components segment.
- The dealer portion of the Commercial Vehicle Products unit—The sale of this business resulted in a pre-tax gain of \$.4 (\$.3 gain after taxes) that is reported within earnings from discontinued operations. This business was previously reported in the Specialized Products segment.

First quarter 2008

- One automotive seating components operation—The sale of this business resulted in a pre-tax loss of \$2.5 (\$1.7 loss net of tax) that is reported within earnings from discontinued operations. This business was previously part of the Specialized Products segment.
- One metal store fixture operation—This operation was classified as held for sale at December 31, 2007, but did not meet the requirements for discontinued operations. The results for this operation (including a pre-tax gain on sale of \$1.5) are included in the Commercial Fixturing & Components segment. The pre-tax gain is reported in “Other expense (income), net”.

First quarter 2007

- In 2007 we sold our Prime Foam Products unit which was previously part of the Residential Furnishings segment.

At December 31, 2009 we had one remaining business held for sale (Storage Products). Pre-tax proceeds (fair value less costs to sell) from Storage Products are expected to recover the carrying value of the assets held for sale as presented in the following tables. Although market conditions have delayed the timing of this disposition we are fully committed to selling and actively marketing this business. The net assets held for sale may fluctuate due to changes in working capital until this business is divested.

Results from discontinued operations and activity directly related to these divestitures subsequent to the date of sale for the years ended December 31 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
External sales:			
Residential Furnishings:			
Prime Foam Products Unit	\$ —	\$ —	\$ 44.4
Wood Products Unit	—	42.3	52.6
Fibers Unit	—	77.6	88.3
Coated Fabrics Unit (1)	12.4	36.0	56.4
Commercial Fixturing & Components:			
Plastics Unit	—	33.4	44.7
Storage Products Unit	54.8	79.5	92.9
Aluminum Products Segment	—	270.5	493.8
Specialized Products:			
Dealer portion of the Commercial Vehicle Products Unit	—	45.4	88.5
An automotive seating components operation	—	3.9	37.3
External sales	<u>\$67.2</u>	<u>\$588.6</u>	<u>\$ 998.9</u>
Earnings (loss):			
Residential Furnishings:			
Prime Foam Products Unit	\$.1	\$ (2.5)	\$ 25.4
Wood Products Unit (3)	(.3)	(1.9)	(12.4)
Fibers Unit (3)	(.2)	(15.9)	5.0
Coated Fabrics Unit (3)	(.7)	(7.0)	(13.4)
Commercial Fixturing & Components:			
Plastics Unit	(.2)	(4.2)	5.0
Storage Products Unit (2)(3) .....	.9	(9.1)	5.7
Aluminum Products Segment (3)(4)	(4.0)	24.7	(77.7)
Specialized Products:			
Dealer portion of the Commercial Vehicle Products Unit (3)	(.4)	(13.0)	(25.0)
An automotive seating components operation (3)	—	(3.1)	(15.1)
Loss before interest and income taxes	(4.8)	(32.0)	(102.5)
Interest expense	—	(1.0)	(2.3)
Income tax (expense) benefit	<u>(1.3)</u>	<u>14.5</u>	<u>34.2</u>
Loss from discontinued operations, net of tax	<u>\$ (6.1)</u>	<u>\$ (18.5)</u>	<u>\$ (70.6)</u>

(1) In the first quarter 2008, the Coated Fabrics unit met the criteria for held for sale and discontinued operations. All others met the criteria during 2007.

(2) In the fourth quarter 2009, pre-tax impairment charges of \$3.0 were recorded for the Storage Products unit to reflect an updated estimate of fair value less costs to sell, as discussed in Note C.

- (3) During 2008 and 2007, goodwill and other impairment charges were recorded to reflect estimates of fair value less costs to sell, as discussed in Note C.
- (4) In the fourth quarter 2009 we recorded charges for an environmental issue related to an aluminum property that was sold prior to the divestiture of this business.

Net assets held for sale by segment at December 31 were as follows:

	2009			2008		
	Assets	Liabilities	Net Assets	Assets	Liabilities	Net Assets
Residential Furnishings	\$ 9.4	\$—	\$ 9.4	\$14.2	\$3.1	\$11.1
Commercial Fixturing & Components	23.5	3.2	20.3	33.9	4.3	29.6
Aluminum Products	1.1	—	1.1	1.4	—	1.4
Industrial Materials	2.1	—	2.1	3.6	—	3.6
Specialized Products	7.5	—	7.5	8.1	—	8.1
Net assets held for sale	<u>\$43.6</u>	<u>\$ 3.2</u>	<u>\$40.4</u>	<u>\$61.2</u>	<u>\$7.4</u>	<u>\$53.8</u>

These tables include \$22.2 and \$21.9 of property, plant and equipment held for sale at December 31, 2009 and 2008, respectively, primarily associated with the closings of various operations and prior year restructurings not associated with the 2007 Strategic Plan. These amounts also include land and buildings retained when we divested the Aluminum Products segment.

The major classes of assets and liabilities held for sale included in our Consolidated Balance Sheets were as follows:

	2009	2008
Receivables, net	\$ 4.8	\$10.4
Inventories	11.4	20.4
Prepaid expenses and other current assets	.2	.2
Total current assets held for sale	<u>16.4</u>	<u>31.0</u>
Property, plant and equipment, net	27.2	27.0
Goodwill	—	3.0
Patents and other intangible assets, net	—	.2
Total non-current assets held for sale	<u>27.2</u>	<u>30.2</u>
Total assets held for sale	<u>\$43.6</u>	<u>\$61.2</u>
Accounts payable	\$ 2.3	\$ 4.6
Accrued expenses	.9	2.8
Total current liabilities held for sale	<u>3.2</u>	<u>7.4</u>
Total liabilities held for sale	<u>\$ 3.2</u>	<u>\$ 7.4</u>
Net assets held for sale	<u>\$40.4</u>	<u>\$53.8</u>

C—Impairment Charges

Goodwill

Goodwill is required to be tested for impairment at least once a year or as triggering events may occur. We perform our annual goodwill impairment review in June of each year as discussed in Note A.

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

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

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

2007 Goodwill Impairment Reviews

During the annual review performed in June 2007, it was determined that no impairments were indicated for any of the reporting units because forecasted results indicated that operations would generate sufficient cash flows to recover their carrying amounts.

Later in the year, as part of the strategic review (discussed in Note B), which was broader in scope, more strategic in nature, and more long-term oriented than any previous reviews, we assessed the structure and financial attractiveness of our various markets, and our competitive position in those markets. Based upon new facts and perspectives obtained from this review, we reduced the operating margin and growth rate expectations for several of our business units. We determined the finalization and approval of the activities associated with the strategic plan was considered a triggering event and step one of the impairment test indicated potential goodwill impairment in the Fixture & Display and Aluminum Products reporting units.

We performed the second step of the goodwill impairment test for these reporting units to determine the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying value of the goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

As a result of this process, we recorded goodwill impairment charges in the fourth quarter of 2007 related to the Fixture & Display and Aluminum Products reporting units of \$142.6 and \$83.3, respectively. The significant assumptions included a 10-year compound annual growth rate of 5% and 4% related to Fixture & Display and Aluminum Products, respectively. Terminal values for each reporting unit were calculated using a long-term growth rate of 3%. Future cash flows were discounted to present value using a discount rate of 12% for Fixture & Display and 13% for Aluminum Products.

2008 Goodwill Impairment Reviews

The annual goodwill impairment review performed in June 2008, indicated no goodwill impairments.

The deterioration in the economic and financial climate in the fourth quarter of 2008 and the associated revision to earnings as a result of lower demand was considered a triggering event. An interim goodwill impairment analysis was performed in the fourth quarter 2008 that confirmed fair values exceeded carrying value for all reporting units. Future cash flow assumptions were reduced to reflect lowered sales and production levels for 2009 and 2010, returning to historical levels thereafter. Other significant assumptions included (i) 10-year compound annual growth rates ranging from 2-6%; (ii) terminal values for each reporting unit using a long-term growth rate of 3%; and (iii) discount rates ranging from 11-12%.

2009 Goodwill Impairment Review

The annual goodwill impairment review performed in June 2009, indicated no goodwill impairments. There were no triggering events in 2009 that required an additional goodwill review.

Reporting units' fair values in relation to their respective carrying values are:

<u>Percentage of fair value in excess of carrying value</u>	<u>December 31, 2009 goodwill value</u>
10 – 20%	\$373.4
20 – 30%	112.3
30% +	<u>442.5</u>
	<u>\$928.2</u>

Significant assumptions used in the June 2009 review included (i) 10-year compound annual growth rates ranging from 2-9%; (ii) terminal values for each reporting unit using a long-term growth rate of 3%; and (iii) discount rates ranging from 10.5-12.0%. If actual results differ from estimates used in these calculations, we could incur future impairment charges.

Businesses Held for Sale

In November 2007, we determined that we would exit certain of our business activities, and adopted a new strategic plan which required us to perform certain impairment reviews in the fourth quarter. As a result of this review, goodwill and asset impairments were recorded in 2007 relating to held-for-sale locations as summarized in the table below.

In 2008, asset impairment charges were recorded as updated estimates of fair value less costs to sell became more certain. Pre-tax goodwill impairment charges of \$25.6 were necessary and recorded for the Fibers (\$11.0), Coated Fabrics (\$4.1), and Storage Products (\$10.5) units during the third quarter 2008 as a result of the deterioration in the economy and credit markets and the impact on available credit for potential buyers.

In the fourth quarter of 2009, we recorded \$3.0 impairment for the remaining goodwill associated with the Storage Products Unit. As a result, the carrying value of these assets held for sale approximated fair value less costs to sell at December 31, 2009. Fair value and the resulting impairment charge were based primarily upon offers from potential buyers.

Other Long-Lived Assets

As discussed in Note A, other long-lived assets are tested for recoverability at year end and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

As a result of the deterioration in the economic and financial climate in the fourth quarter of 2008, we performed an impairment review and determined that intangible assets associated with supply agreements in Latin America were impaired due to a significant reduction in the expected future cash flows associated with these agreements, resulting in an impairment of \$9.5 in the Residential Furnishings segment.

We also recorded other various impairments as presented in the table below which did not individually result in a material charge to earnings for the periods presented. These impairments are primarily related to intangibles in 2008 and to property, plant and equipment in 2009 and 2007. Fair value and the resulting impairment charges were based primarily upon offers from potential buyers for fixed assets and discounted cash flows for intangibles.

The pre-tax impact of impairment charges on continuing and discontinued operations is summarized in the following table. Asset impairments associated with continuing operations are reported on the Statements of Operations in "Impairment of goodwill" and "Other expense, net." Charges associated with discontinued operations are reported on the Statements of Operations in "Loss from discontinued operations, net of tax." Of the total impairment charges for the years ended December 31, 2009, 2008 and 2007, \$3.0, \$32.3 and \$276.7, respectively, were associated with the 2007 Strategic Plan.

	2009			2008		
	Goodwill Impairment	Other Long-Lived Asset Impairments	Total Impairments	Goodwill Impairment	Other Long-Lived Asset Impairments	Total Impairments
Impairment charges recognized in continuing operations						
Residential Furnishings	\$ —	\$.6	\$.6	\$ —	\$10.0	\$10.0
Commercial Fixturing & Components:						
Fixture & Display Group	—	.6	.6	—	2.2	2.2
Industrial Materials	—	.3	.3	—	.6	.6
Specialized Products	—	1.0	1.0	—	.5	.5
Total impairment charges recognized in continuing operations	<u>\$ —</u>	<u>\$ 2.5</u>	<u>\$ 2.5</u>	<u>\$ —</u>	<u>\$13.3</u>	<u>\$13.3</u>
Impairment charges recognized in discontinued operations						
Residential Furnishings:						
Wood Products Unit	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Coated Fabrics Unit	—	—	—	4.1	—	4.1
Fibers Unit	—	—	—	11.0	—	11.0
Commercial Fixturing & Components:						
Storage Products Unit	3.0	—	3.0	10.5	.3	10.8
Aluminum Products Segment	—	.3	.3	—	—	—
Specialized Products:						
Dealer portion of the Commercial Vehicle Products Unit	—	—	—	—	5.6	5.6
An automotive seating components operation	—	—	—	—	—	—
Total impairment charges recognized in discontinued operations	<u>\$ 3.0</u>	<u>\$.3</u>	<u>\$ 3.3</u>	<u>\$25.6</u>	<u>\$ 5.9</u>	<u>\$31.5</u>
Total impairment charges	<u>\$ 3.0</u>	<u>\$ 2.8</u>	<u>\$ 5.8</u>	<u>\$25.6</u>	<u>\$19.2</u>	<u>\$44.8</u>

	2007		
	Goodwill Impairment	Other Long- Lived Asset Impairments	Total Impairments
Impairment charges recognized in continuing operations			
Residential Furnishings	\$ —	\$ 1.8	\$ 1.8
Commercial Fixturing & Components:			
Fixture & Display Group	142.6	3.4	146.0
Industrial Materials	—	.9	.9
Specialized Products	—	—	—
Total impairment charges recognized in continuing operations	<u>\$142.6</u>	<u>\$ 6.1</u>	<u>\$148.7</u>
Impairment charges recognized in discontinued operations			
Residential Furnishings:			
Wood Products Unit	\$ 2.9	\$10.1	\$ 13.0
Coated Fabrics Unit	—	5.2	5.2
Fibers Unit	—	—	—
Commercial Fixturing & Components:			
Storage Products Unit	—	—	—
Aluminum Products Segment	83.3	6.1	89.4
Specialized Products:			
Dealer portion of the Commercial Vehicle Products Unit	10.3	10.0	20.3
An automotive seating components operation	3.9	6.6	10.5
Total impairment charges recognized in discontinued operations	<u>\$100.4</u>	<u>\$38.0</u>	<u>\$138.4</u>
Total impairment charges	<u>\$243.0</u>	<u>\$44.1</u>	<u>\$287.1</u>

D—Restructuring

We have historically implemented various cost reduction initiatives to improve our operating cost structures. These cost initiatives have, among other actions, included workforce reductions and the closure or consolidation of certain operations. Except for the “2007 Strategic Plan” described below, none of these initiatives have individually resulted in a material charge to earnings for any of the periods presented. Our total restructuring-related costs for the three years ended December 31 were comprised of:

	Year ended December 31		
	2009	2008	2007
Continuing Operations			
Charged to other expense, net:			
Severance and other restructuring costs	\$ 8.7	\$ 17.9	\$14.2
Loss (gain) from sale of assets	.3	(10.4)	(8.9)
	<u>9.0</u>	<u>7.5</u>	<u>5.3</u>
Charged to cost of goods sold:			
Inventory obsolescence and other	.5	11.8	4.5
	<u>.5</u>	<u>11.8</u>	<u>4.5</u>
Discontinued Operations			
Severance and other restructuring costs	.1	3.0	1.3
Inventory obsolescence and other	—	—	6.6
Loss from sale of assets	.4	16.5	—
	<u>.5</u>	<u>19.5</u>	<u>7.9</u>
Total restructuring and other special charges	<u>\$10.0</u>	<u>\$ 38.8</u>	<u>\$17.7</u>

Total restructuring and other special charges associated with discontinued operations are reported on the Statements of Operations in “Earnings (loss) from discontinued operations, net of tax.”

2007 Strategic Plan

As discussed in Note B, in November 2007, we adopted a strategic plan which included the exit of certain businesses. These exit activities were substantially complete by the end of 2008.

The following table contains information, by segment, regarding the amount of each major type of restructuring-related cost incurred in connection with the exit activities.

	<u>Restructuring Charges 2009</u>	<u>(Gain)/Loss on Sale of Assets 2009</u>	<u>Total Amount Incurred in 2009</u>	<u>Total Amount Incurred in 2008</u>	<u>Total Amount Incurred in 2007</u>	<u>Total Amount Incurred To Date</u>
Continuing Operations						
Residential Furnishings	\$ —	\$ —	\$ —	\$.5	\$ —	\$.5
Commercial Fixturing & Components	<u>1.0</u>	<u>—</u>	<u>1.0</u>	<u>1.9</u>	<u>4.5</u>	<u>7.4</u>
Total Continuing Operations (1)	<u>1.0</u>	<u>—</u>	<u>1.0</u>	<u>2.4</u>	<u>4.5</u>	<u>7.9</u>
Discontinued Operations						
Residential Furnishings	—	.3	.3	12.7	5.7	18.7
Commercial Fixturing & Components	—	.1	.1	9.4	—	9.5
Aluminum Segment	—	—	—	(7.6)	—	(7.6)
Specialized Products	<u>.1</u>	<u>—</u>	<u>.1</u>	<u>3.0</u>	<u>.5</u>	<u>3.6</u>
Total Discontinued Operations (2) . .	<u>.1</u>	<u>.4</u>	<u>.5</u>	<u>17.5</u>	<u>6.2</u>	<u>24.2</u>
Total (3)	<u>\$ 1.1</u>	<u>\$.4</u>	<u>\$ 1.5</u>	<u>\$19.9</u>	<u>\$10.7</u>	<u>\$32.1</u>

- (1) Restructuring charges associated with continuing operations are reported on the Statements of Operations in “Other expense, net.” Inventory obsolescence associated with continuing operations are reported in “Cost of goods sold.”
 - 2009 restructuring charges of \$1.0 are comprised of \$.2 employee termination cost and \$.8 of other restructuring costs.
 - 2008 restructuring charges of \$2.4 are comprised of \$1.0 employee termination cost, \$.3 of contract termination costs, \$1.8 of other restructuring costs, \$1.9 of inventory obsolescence, and (\$2.6) of gain on sales of assets.
 - 2007 restructuring charges of \$4.5 are comprised of \$.8 employee termination costs, \$2.0 of contract termination costs and \$1.7 of inventory obsolescence.
- (2) Charges associated with discontinued operations are reported on the Statements of Operations in “Earnings (loss) from discontinued operations, net of tax.”
 - 2009 restructuring charges of \$.1 are comprised entirely of other restructuring costs.
 - 2008 restructuring charges of \$17.5 are comprised of \$.6 employee termination costs, \$.4 of other exit costs, primarily plant closure and asset relocation, and \$16.5 of loss from sale of asset.
 - 2007 restructuring charges of \$6.2 are comprised of \$.1 employee termination costs, \$.4 of other exit costs and \$5.7 of inventory obsolescence.
- (3) Cash charges totaled \$1.1, \$4.1 and \$3.3 for the years ended December 31, 2009, 2008 and 2007, respectively.

The accrued liability associated with the 2007 Strategic Plan consisted of the following:

	<u>Balance at December 31, 2007</u>	<u>2008 Charges</u>	<u>2008 Payments</u>	<u>Balance at December 31, 2008</u>	<u>2009 Charges</u>	<u>2009 Payments</u>	<u>Balance at December 31, 2009</u>
Termination benefits	\$.8	\$1.6	\$2.2	\$.2	\$.2	\$.4	\$ —
Contract termination costs	2.0	.4	2.4	—	—	—	—
Other restructuring costs . .	<u>—</u>	<u>2.1</u>	<u>1.8</u>	<u>.3</u>	<u>.9</u>	<u>.9</u>	<u>.3</u>
	<u>\$ 2.8</u>	<u>\$4.1</u>	<u>\$6.4</u>	<u>\$.5</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>	<u>\$.3</u>

Other Initiatives

Apart from the 2007 Strategic Plan, we have implemented various cost reduction initiatives over the last three years to improve our operating cost structures. None of these actions has individually resulted in a material charge to earnings. Total costs associated with these other initiatives have had the following impact on our financial statements:

	<u>Year ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Continuing Operations			
Charged to other expense, net:			
Severance and other restructuring costs	\$ 7.7	\$14.8	\$11.4
Loss (gain) from sale of assets	<u>.3</u>	<u>(7.8)</u>	<u>(8.9)</u>
	<u>8.0</u>	<u>7.0</u>	<u>2.5</u>
Charged to cost of goods sold:			
Inventory obsolescence and other	<u>.5</u>	<u>9.9</u>	<u>2.8</u>
	<u>.5</u>	<u>9.9</u>	<u>2.8</u>
Discontinued Operations			
Severance and other restructuring costs	—	2.0	.8
Inventory obsolescence and other	—	—	.9
	<u>—</u>	<u>2.0</u>	<u>1.7</u>
Total of Other Initiatives	<u>\$ 8.5</u>	<u>\$18.9</u>	<u>\$ 7.0</u>

For the years ended 2009, 2008, and 2007, respectively, restructuring and other special charges (income) associated with continuing operations by segment were: Residential Furnishings—\$2.9, \$4.4, \$7.1; Commercial Fixturing & Components—\$4.0, \$6.9, \$(2.3); Industrial Materials—\$.1, \$.4, \$(.6); Specialized Products—\$1.5, \$5.2, \$1.1.

The accrued liability associated with Other Initiatives consisted of the following:

	<u>Balance at December 31, 2007</u>	<u>2008 Charges</u>	<u>2008 Payments</u>	<u>Balance at December 31, 2008</u>	<u>2009 Charges</u>	<u>2009 Payments</u>	<u>Balance at December 31, 2009</u>
Termination benefits	\$.7	\$ 8.0	\$ 6.6	\$2.1	\$3.8	\$ 4.6	\$1.3
Contract termination costs	4.0	1.7	2.6	3.1	.3	2.9	.5
Other restructuring costs . .	<u>.5</u>	<u>7.1</u>	<u>5.8</u>	<u>1.8</u>	<u>3.6</u>	<u>4.9</u>	<u>.5</u>
	<u>\$5.2</u>	<u>\$16.8</u>	<u>\$15.0</u>	<u>\$7.0</u>	<u>\$7.7</u>	<u>\$12.4</u>	<u>\$2.3</u>

E—Goodwill and Other Intangible Assets

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

	<u>Residential Furnishings</u>	<u>Commercial Fixturing & Components</u>	<u>Industrial Materials</u>	<u>Specialized Products</u>	<u>Total</u>
Gross goodwill as of January 1, 2008	\$401.4	\$ 328.4	\$69.2	\$274.9	\$1,073.9
Accumulated impairment losses as of January 1, 2008	—	(142.6)	—	—	(142.6)
Net goodwill as of January 1, 2008	401.4	185.8	69.2	274.9	931.3
Additions for current year acquisitions .....	.4	.5	—	—	.9
Adjustments to and additional consideration for prior year acquisitions .....	.5	8.9	—	.1	9.5
Reclass to non-current assets held for sale	(6.5)	—	—	—	(6.5)
Goodwill written off related to sale of business	(3.0)	—	—	—	(3.0)
Foreign currency translation adjustment/other	(21.9)	(12.6)	(1.0)	(21.1)	(56.6)
Net 2008 activity	(30.5)	(3.2)	(1.0)	(21.0)	(55.7)
Gross goodwill as of December 31, 2008	370.9	325.2	68.2	253.9	1,018.2
Accumulated impairment losses as of December 31, 2008	—	(142.6)	—	—	(142.6)
Net goodwill as of December 31, 2008	370.9	182.6	68.2	253.9	875.6
Additions for current year acquisitions	—	—	.4	—	.4
Adjustments to and additional consideration for prior year acquisitions .....	.2	7.6	—	2.0	9.8
Reclass to non-current assets held for sale	—	—	—	—	—
Goodwill written off related to sale of business	—	—	—	—	—
Foreign currency translation adjustment/other	15.1	7.8	.2	19.3	42.4
Net 2009 activity	15.3	15.4	.6	21.3	52.6
Gross goodwill as of December 31, 2009	386.2	340.6	68.8	275.2	1,070.8
Accumulated impairment losses as of December 31, 2009	—	(142.6)	—	—	(142.6)
Net goodwill as of December 31, 2009	<u>\$386.2</u>	<u>\$ 198.0</u>	<u>\$68.8</u>	<u>\$275.2</u>	<u>\$ 928.2</u>

In 2009 and 2008, we recorded goodwill impairment charges as outlined in Note C.

Intangible assets purchased during 2009 and 2008 included in “Other intangibles” on the Consolidated Balance Sheets are as follows:

	Year ended December 31			
	2009		2008	
	Gross Carrying Amount	Weighted Average Amortization Period in Years	Gross Carrying Amount	Weighted Average Amortization Period in Years
Non-compete agreements	\$ —	—	\$ 2.6	10.0
Customer related intangibles	—	—	.7	11.1
Patents and trademarks	1.4	19.2	6.0	15.8
Supply agreements, deferred financing and other costs	3.2	5.2	5.0	9.7
	<u>\$4.6</u>	<u>9.4</u>	<u>\$14.3</u>	<u>12.4</u>

Total additions to intangibles above include \$0 and \$2.0, related to business acquisitions in 2009 and 2008, respectively.

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

	Year ended December 31			
	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	\$ 27.8	\$18.0	\$ 28.5	\$15.5
Customer related intangibles	151.0	40.1	159.9	29.6
Patents and trademarks	59.5	23.9	58.5	20.1
Supply agreements, deferred financing and other costs	31.0	16.2	27.4	11.7
	<u>\$269.3</u>	<u>\$98.2</u>	<u>\$274.3</u>	<u>\$76.9</u>

Estimated amortization expense for continuing operations in each of the next five years is as follows:

Year ended December 31	
2010	\$20.2
2011	19.1
2012	17.6
2013	16.1
2014	14.4

F—Segment Information

We have four operating segments that are generally focused on broad end-user markets for our diversified products. Residential Furnishings derives its revenues from components for bedding, furniture and other furnishings, as well as related consumer products. Commercial Fixturing & Components derives its revenues from retail store fixtures, displays and components for office and institutional furnishings. Industrial Materials derives its revenues from drawn steel wire, specialty wire products and welded steel tubing sold to trade customers as well as other Leggett segments. Specialized Products derives its revenues from automotive seating components, specialized machinery and equipment, and commercial vehicle interiors.

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

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

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

A summary of segment results for the years ended December 31, 2009, 2008 and 2007 are shown in the following tables.

To comply with the FASB guidance regarding noncontrolling interest discussed under “New Accounting Guidance” in Note A, EBIT for 2008 and 2007 have been retrospectively adjusted as follows to include noncontrolling interest: 2008—Commercial Fixturing & Components—(from \$13.8 to \$14.4); Specialized Products—(from \$40.7 to \$44.7); 2007—Specialized Products—(from \$64.6 to \$70.1).

	Year ended December 31			
	External Sales	Inter-Segment Sales	Total Sales	EBIT From Continuing Operations
2009				
Residential Furnishings	\$1,684.8	\$ 8.4	\$1,693.2	\$ 90.3
Commercial Fixturing & Components	487.1	4.3	491.4	7.6
Industrial Materials	437.6	209.2	646.8	60.3
Specialized Products	445.6	55.3	500.9	17.3
Write-down of aluminum divestiture note				(10.6)
Intersegment eliminations				(1.4)
Adjustment to LIFO method				66.8
	<u>\$3,055.1</u>	<u>\$277.2</u>	<u>\$3,332.3</u>	<u>\$ 230.3</u>
2008				
Residential Furnishings	\$2,102.3	\$ 17.5	\$2,119.8	\$ 150.7
Commercial Fixturing & Components	696.9	14.4	711.3	14.4
Industrial Materials	658.2	308.0	966.2	95.5
Specialized Products	618.7	63.0	681.7	44.7
Intersegment eliminations				(11.1)
Adjustment to LIFO method				(61.9)
	<u>\$4,076.1</u>	<u>\$402.9</u>	<u>\$4,479.0</u>	<u>\$ 232.3</u>
2007				
Residential Furnishings	\$2,238.4	\$ 15.6	\$2,254.0	\$ 174.3
Commercial Fixturing & Components	819.8	17.6	837.4	(104.4)
Industrial Materials	523.1	252.6	775.7	54.6
Specialized Products	668.7	46.3	715.0	70.1
Intersegment eliminations				0.7
Adjustment to LIFO method				1.1
	<u>\$4,250.0</u>	<u>\$332.1</u>	<u>\$4,582.1</u>	<u>\$ 196.4</u>

Average assets for our segments are shown in the table below and reflect the basis for return measures used by management to evaluate segment performance. These segment totals include working capital (all current assets and current liabilities) plus net property, plant and equipment. Segment assets for all years are reflected at their estimated average for the year. Acquired companies' long-lived assets as disclosed below include property, plant and equipment and other long-term assets.

	Year ended December 31			
	Assets	Additions to Property, Plant and Equipment	Acquired Companies' Long-Lived Assets	Depreciation And Amortization
2009				
Residential Furnishings	\$ 692.1	\$ 38.6	\$.2	\$ 58.8
Commercial Fixturing & Components	213.5	3.8	—	14.1
Industrial Materials	237.2	15.4	.7	17.4
Specialized Products	213.0	21.9	—	28.8
Average current liabilities included in segment numbers above	339.9	—	—	—
Assets held for sale	43.6	—	—	.1
Unallocated assets**	1,436.1	3.3	—	11.1
Difference between average assets and year-end balance sheet	(114.2)	—	—	—
	<u>\$3,061.2</u>	<u>\$ 83.0</u>	<u>\$.9</u>	<u>\$130.3</u>
2008				
Residential Furnishings	\$ 801.9	\$ 66.3	\$ 4.5	\$ 61.4
Commercial Fixturing & Components	301.5	11.0	3.2	17.0
Industrial Materials	306.1	11.5	.1	17.2
Specialized Products	265.0	14.4	—	32.5
Average current liabilities included in segment numbers above	348.1	—	—	—
Assets held for sale	61.2	6.5	—	.2
Unallocated assets**	1,310.3	8.6	—	12.1
Difference between average assets and year-end balance sheet	(232.2)	—	—	—
	<u>\$3,161.9</u>	<u>\$118.3</u>	<u>\$ 7.8</u>	<u>\$140.4</u>
2007				
Residential Furnishings	\$ 801.9	\$ 59.2	\$ 2.4	\$ 61.9
Commercial Fixturing & Components	340.3	14.7	29.3	18.3
Industrial Materials	276.8	10.0	63.8	17.1
Specialized Products	275.5	28.8	41.7	32.9
Average current liabilities included in segment numbers above	318.3	—	—	—
Assets held for sale	554.5	27.1	—	40.1
Other*	17.8	—	—	—
Unallocated assets**	1,559.6	9.0	—	13.1
Difference between average assets and year-end balance sheet	(72.2)	—	—	—
	<u>\$4,072.5</u>	<u>\$148.8</u>	<u>\$137.2</u>	<u>\$183.4</u>

* Businesses sold or classified as held for sale during the year ended December 31, 2007.

** Primarily goodwill, other intangibles, cash and long-term notes receivable.

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

	Year Ended December 31		
	2009	2008	2007
Residential Furnishings			
Bedding group	\$ 635.1	\$ 774.1	\$ 721.1
Furniture group	549.6	671.4	727.2
Fabric & carpet underlay group	500.1	656.8	790.1
	<u>1,684.8</u>	<u>2,102.3</u>	<u>2,238.4</u>
Commercial Fixturing & Components			
Fixture & display group	342.4	477.7	593.1
Office furniture components group	144.7	219.2	226.7
	<u>487.1</u>	<u>696.9</u>	<u>819.8</u>
Industrial Materials			
Wire group	374.3	555.8	419.0
Tubing group	63.3	102.4	104.1
	<u>437.6</u>	<u>658.2</u>	<u>523.1</u>
Specialized Products			
Automotive group	255.5	339.0	366.5
Commercial vehicle products group	105.1	150.6	176.7
Machinery group	85.0	129.1	125.5
	<u>445.6</u>	<u>618.7</u>	<u>668.7</u>
	<u>\$3,055.1</u>	<u>\$4,076.1</u>	<u>\$4,250.0</u>

Our operations outside of the United States are principally in Europe, China, Canada and Mexico. The geographic information that follows is based on the area of manufacture.

	Year Ended December 31		
	2009	2008	2007
External sales			
United States	\$2,289.1	\$3,025.4	\$3,144.7
Europe	278.1	409.0	402.0
China	233.1	267.2	224.0
Canada	170.1	247.4	337.4
Mexico	41.8	75.7	79.8
Other	42.9	51.4	62.1
	<u>\$3,055.1</u>	<u>\$4,076.1</u>	<u>\$4,250.0</u>
Tangible long-lived assets			
United States	\$ 451.9	\$ 475.3	\$ 454.6
Europe	113.7	97.4	99.4
China	38.8	42.3	40.0
Canada	33.3	35.5	58.0
Mexico	16.7	19.5	62.2
Other	14.2	11.4	12.7
	<u>\$ 668.6</u>	<u>\$ 681.4</u>	<u>\$ 726.9</u>

G—Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	Year ended December 31		
	2009	2008	2007
Earnings from continuing operations	\$ 121.1	\$ 127.5	\$ 64.9
(Earnings) attributable to noncontrolling interest, net of tax	(3.2)	(4.6)	(5.5)
Net earnings from continuing operations attributable to Leggett & Platt, Inc. common shareholders	117.9	122.9	59.4
Loss from discontinued operations, net of tax	(6.1)	(18.5)	(70.6)
Net earnings (loss) attributable to Leggett & Platt, Inc. common shareholders	\$ 111.8	\$ 104.4	\$ (11.2)
Weighted average number of common shares used in basic EPS	159,331,228	167,952,381	179,367,322
Additional dilutive shares principally from the assumed exercise of outstanding stock options	633,395	233,949	460,436
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	159,964,623	168,186,330	179,827,758
Basic EPS attributable to Leggett & Platt, Inc. common shareholders			
Continuing operations	\$.74	\$.73	\$.33
Discontinued operations	(.04)	(.11)	(.39)
Basic EPS attributable to Leggett & Platt common shareholders	\$.70	\$.62	\$ (.06)
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders			
Continuing operations	\$.74	\$.73	\$.33
Discontinued operations	(.04)	(.11)	(.39)
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders	\$.70	\$.62	\$ (.06)
Shares issuable under employee and non-employee stock options	12.6	13.8	13.5
Anti-dilutive shares excluded from diluted EPS computation	3.8	10.8	8.1

H—Accounts and Other Receivables

Accounts and other receivables at December 31 consisted of the following:

	2009	2008
Trade	\$433.3	\$515.7
Other	58.3	62.3
Total accounts and other receivables	491.6	578.0
Allowance for doubtful accounts	(22.1)	(27.5)
Total	\$469.5	\$550.5

I—Supplemental Balance Sheet Information

Sundry assets, accrued expenses, other current liabilities and other long-term liabilities at December 31 consisted of the following:

	<u>2009</u>	<u>2008</u>
Sundry assets		
Pension plan assets	\$ 3.1	\$.5
Notes receivable, net of allowance of \$1.3 and \$10.3 at December 31, 2009 and 2008, respectively	18.2	45.9
Deferred tax assets	14.2	10.6
Other	17.0	13.5
	<u>\$ 52.5</u>	<u>\$ 70.5</u>
Accrued expenses		
Wages and commissions payable	\$ 48.2	\$ 56.6
Workers' compensation, medical, auto and product liability	80.0	78.0
Sales promotions	24.9	26.4
General taxes, excluding income taxes	12.8	14.2
Accrued interest	10.5	10.9
Other	53.3	48.8
	<u>\$229.7</u>	<u>\$234.9</u>
Other current liabilities		
Outstanding checks in excess of book balances	\$ 25.6	\$ 13.2
Dividends payable	38.7	39.0
Other	28.4	32.0
	<u>\$ 92.7</u>	<u>\$ 84.2</u>
Other long-term liabilities		
Deferred compensation	\$ 17.9	\$ 19.2
Liability for pension benefits	39.6	29.1
Reserves for tax contingencies	44.5	38.4
Other	10.3	11.7
	<u>\$112.3</u>	<u>\$ 98.4</u>

J—Long-Term Debt

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

	<u>2009</u>	<u>2008</u>
Term notes, net—average interest rates of 4.7% and 4.8% for 2009 and 2008, respectively, due dates through 2018	\$727.8	\$742.5
Industrial development bonds, principally variable interest rates of .5% and 2.1% for 2009 and 2008, respectively, due dates through 2030	31.0	31.5
Capitalized leases	4.4	5.0
Commercial paper—weighted average interest rates of .2% and 3.2% for 2009 and 2008, respectively	25.0	77.6
Other, partially secured	11.2	17.0
	<u>799.4</u>	<u>873.6</u>
Less current maturities	10.1	22.4
	<u>\$789.3</u>	<u>\$851.2</u>

Capitalized leases consist primarily of machinery, vehicle and office equipment leases.

We can raise cash by issuing up to \$600 in commercial paper through a program that is backed by a \$600 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 of commercial paper was outstanding under this program and is classified as long-term debt. The revolving credit agreement also provides for the ability to issue letters of credit up to an aggregate of \$250, of which approximately \$84 were issued under the revolver as of December 31, 2009, resulting in \$491 available under the commercial paper program at year-end.

Under the syndicated agreement, depending on the prior notice period, we may elect to borrow based on 1) the greater of (a) the agent bank's primary lending rate, or (b) the weighted average rate on overnight Federal funds transactions, plus 1/2 of 1% 2) the rate published in Moneyline Telerate (for the available currency and interest period chosen for the loan by the company) plus a fixed spread percentage, 3) a competitive variable or set rate, or 4) for short-term administrative convenience, the weighted average rate on overnight Federal funds transactions, plus 3/4 of 1%. This agreement will terminate on April 30, 2012.

The revolving credit agreement and certain other long-term debt contain restrictive covenants which, among other things, limit a) the amount of total indebtedness to 60% of our total capitalization (each as defined in the revolving credit agreement), b) the amount of total secured debt to 15% of our total consolidated assets, and c) the amount of assets sold, transferred or disposed of in any trailing four quarter period to 20% of total consolidated assets. We remained well within the compliance guidelines for all such covenants during the years ended December 31, 2009 and 2008.

During the disruption of global credit markets experienced late in 2008 our commercial paper program continued to operate efficiently. Credit markets stabilized during 2009, however if a disruption in the credit markets 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 credit agreement could be higher than the cost of commercial paper borrowing.

Maturities of long-term debt are as follows:

Year ended December 31	
2010	\$ 10.1
2011	2.0
2012	26.9
2013	201.6
2014	180.5
Thereafter	<u>378.3</u>
	<u>\$799.4</u>

K—Lease Obligations

We lease certain operating facilities, most of our automotive and trucking equipment and various other assets. Lease terms, including purchase options, renewals and maintenance costs, vary by lease.

Total rental expense from continuing operations was \$47.5, \$56.9 and \$63.2 for the years ended December 31, 2009, 2008 and 2007, respectively.

Future minimum rental commitments for all long-term non-cancelable operating leases included in continuing operations are as follows:

Year ended December 31	
2010	\$ 32.9
2011	24.3
2012	17.9
2013	11.4
2014	8.0
Later years	15.8
	<u>\$110.3</u>

The above lease obligations expire at various dates through 2017. Aggregate rental commitments above include renewal amounts where it is our intention to renew the lease.

Total rental expense for discontinued operations, which are not included in the amounts above, was \$3.3, \$7.7 and \$9.7 for the years ended December 31, 2009, 2008 and 2007, respectively. The future minimum rental commitments for the discontinued operations are \$3.5 in 2010, \$2.9 in 2011, \$1.9 in 2012, \$1.4 in 2013, \$1.2 in 2014 and \$1.2 in later years.

L—Capital Stock and Stock-Based Compensation

CAPITAL STOCK

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

	<u>Common Stock</u>	<u>Treasury Stock</u>
Balance, January 1, 2007	198,799,543	(20,845,693)
Shares issued	—	2,156,678
Treasury stock purchased	—	(11,385,103)
Balance, December 31, 2007	198,799,543	(30,074,118)
Shares issued	—	2,924,212
Treasury stock purchased	—	(15,835,692)
Balance, December 31, 2008	198,799,543	(42,985,598)
Shares issued	—	3,841,370
Treasury stock purchased	—	(10,861,686)
Balance, December 31, 2009	<u>198,799,543</u>	<u>(50,005,914)</u>

Stock options and stock units are granted pursuant to our Flexible Stock Plan. At December 31, 2009, a total of 22,835,936 common shares were authorized for issuance under the Flexible Stock Plan. This amount represents 12,574,358 unexercised options; 6,246,697 outstanding stock units; and 4,014,881 shares that remain available for grant (of the outstanding stock units, 4,037,874 are vested and 2,208,823 are unvested).

We issue shares from treasury for stock option exercises and stock unit conversions, as well as for employee purchases of common stock made through the Discount Stock Plan and Stock Bonus Plan.

STOCK-BASED COMPENSATION

We use various forms of share-based compensation which are summarized below. Awards are provided in the form of common stock, stock options, stock units, restricted stock, restricted units and performance stock units. One stock unit is equivalent to one common share for accounting and earnings per share purposes.

The following table recaps the impact of stock-based compensation on the results of operations (including discontinued operations) for each of the years ended December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Amortization of the grant date fair value of stock options (1)(4)	\$ 5.2	\$ 7.0	\$ 8.5
Stock-based retirement plans including discounts (2)	7.4	8.5	10.7
Discounts on Discount Stock Plan and Deferred Compensation Program (3)(4)	2.1	2.7	3.2
Performance Stock Unit Awards (5)	5.5	2.6	—
Restricted Stock Unit Awards (6)	2.4	—	—
Other, primarily non-employee directors restricted stock . . . . .	.8	.8	.6
Total stock-based compensation expense	<u>\$23.4</u>	<u>\$21.6</u>	<u>\$23.0</u>
Recognized tax benefits	<u>\$ 8.9</u>	<u>\$ 8.2</u>	<u>\$ 8.8</u>
Stock-based compensation elected by employees in lieu of cash compensation	<u>\$14.6</u>	<u>\$20.0</u>	<u>\$26.0</u>

When the tax deduction for an exercised stock option or converted stock unit exceeds the compensation cost that has been recognized in income, a “windfall” tax benefit is created. The windfall benefit is not recognized in income, but rather on the balance sheet as additional contributed capital. When the current tax deduction for an exercised stock option or converted stock unit is less than the deferred tax asset recorded in regard to the compensation cost that has been recognized in income, a tax “shortfall” is created. To the extent we have accumulated tax “windfalls” the shortfall is recognized on the balance sheet as a reduction of additional contributed capital. The net shortfall resulting from exercises and conversions for the year ended December 31, 2009 was \$3.1, (including a \$1.4 tax benefit discussed in Note N) leaving an accumulated tax windfall of \$22.7 in additional contributed capital.

(1) Stock Option Grants

We grant stock options annually on a discretionary basis to a broad group of employees. Options generally become exercisable in one-third increments at 18 months, 30 months and 42 months after the date of grant. Options have a maximum term of ten years and the exercise prices are equal to Leggett’s closing stock price on the grant date. Prior to 2005, we granted options with a below market exercise price under the terms of our Deferred Compensation Program. In 2005, we amended the Program to provide for “at market” stock options. During 2009, discretionary and deferred compensation grants totaled 2 million options with an aggregate grant date fair value of \$4.4 under the Black-Scholes option pricing model.

The estimated grant date fair value of options is amortized by the straight-line method over the options’ total vesting period except for employees who terminate due to retirement. A “retirement” termination occurs if the employee is age 65, or age 55 with 20 years of Company service at termination. For retirement terminations, options continue to vest and remain exercisable for 3 years and 6 months after termination of employment. Therefore, the expense for these options is accelerated when the employee is retirement eligible.

Beginning with the January 2010 grant we gave employees the choice to receive options or to receive a cash payment in lieu of options. The value of the cash alternative was equal to approximately one-half of the Black Scholes value of the option grant the employee would have otherwise received.

(2) Stock-Based Retirement Plans

We have two stock-based retirement plans: the tax-qualified Stock Bonus Plan (SBP) for non-highly compensated employees, and the non-qualified Executive Stock Unit Program (ESUP) for highly compensated employees. We make matching contributions to both plans.

- Participants in the SBP may contribute up to 6% of their compensation above a certain threshold to purchase Leggett stock or other investment alternatives at market prices. We immediately match 50% of the employee contributions. Employees are allowed to fully diversify their employee deferral accounts immediately and their employer accounts after three years of service. Dividends earned on Company stock held in the SBP are reinvested or paid in cash at the participant's election.
- Participants in the ESUP may contribute up to 10% (depending upon salary level) of their compensation above the same threshold applicable to the SBP. We immediately match 50% of the employee contributions. Contributions to the ESUP, including dividend equivalents, are used to acquire stock units at 85% of the common stock market price. Stock units are converted to common stock at a 1-to-1 ratio upon distribution from the program. The ESUP offers no diversification opportunity.

In addition to the automatic 50% match, we will make another matching contribution of up to 50% of the employee's contributions for the year if certain profitability levels as defined in the SBP and the ESUP are obtained.

Company matches in the SBP and ESUP fully vest upon three and five years, respectively, of cumulative service, subject to certain participation requirements. Distributions under both plans are triggered by an employee's retirement, death, disability or separation from Leggett.

During 2009, employees contributed a total of approximately \$7.2 into these plans, including \$.8 related to 2008 bonuses paid in 2009. The Company match expensed in 2009 totaled \$5.7 and the discount expense on stock units was \$1.7.

(3) Discount Stock Plan

Under the Discount Stock Plan (DSP), a tax-qualified \$423 stock purchase plan, eligible employees may purchase shares of Leggett common stock at 85% of the closing market price on the last business day of each month. Prior to January 2009 shares purchased under the plan were issued annually and dividends earned prior to issuance were used to purchase additional shares. Starting in January 2009, shares were purchased and issued on the last business day of each month. These shares generally cannot be sold or transferred for one year. Employees purchased 397,825 shares under the DSP during 2009 at an average purchase price of \$13.08 per share, net of the discount. In 2009, the total discount expense related to the DSP was approximately \$.9. Since inception of the DSP in 1982, a total of 21,360,022 shares have been purchased by employees. Eligible employees may purchase a maximum of 23,000,000 shares under the plan.

(4) Deferred Compensation Program

We offer a Deferred Compensation Program under which key managers and outside directors may elect to receive stock options, stock units or interest-bearing cash deferrals in lieu of cash compensation. Stock options under this program are granted on December 31 of the year immediately prior to the year the compensation is earned. The number of options granted equals the deferred compensation times five, divided by the stock's market price on the date of grant. Options vest as the associated compensation is earned and are exercisable beginning 15 months after the grant date. Stock is issued when the option is exercised.

Deferred stock units (DSU) under this program are acquired every two weeks (when the compensation would have otherwise been paid) at a 20% discount to the market price of our common stock when purchased and they vest immediately. Expense is recorded as the compensation is earned. Stock units earn dividends at the

same rate as cash dividends paid on our common stock. These dividends are used to acquire stock units at a 20% discount. Stock units are converted to common stock and distributed in accordance with the participant’s pre-set election. Participants must begin receiving distributions no later than ten years after the effective date of the deferral and installment distributions cannot exceed ten years. Employees deferred compensation (including bonuses) of \$5.0 into the DSU plan and \$.6 into stock options during 2009.

Below is a summary of the number of options and units employees received in exchange for compensation during 2009 and the related grant date fair value:

	<u>Options</u>	<u>Units</u>
Number of options or units	170,736	347,696
Total grant date fair value	\$.6	\$ 5.0

(5) Performance Stock Unit Awards

Beginning in 2008, we granted Performance Stock Unit (PSU) awards to selected officers and other key managers. The value of these awards is determined using a Monte Carlo simulation, and expense is recognized over the three-year performance period. The grant date fair values of these awards were \$15.76 in 2009 and \$15.95 in 2008 and are based upon assumptions similar to those used for stock options as discussed on the following page. These awards contain the following conditions:

- A service requirement—Awards generally “cliff” vest three years following the grant date; and
- A market condition—Awards are based on our Total Shareholder Return [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price] as compared to the TSR of a group of peer companies. The peer group consists of all the companies in the Industrial, Materials and Consumer Discretionary sectors of the S&P 900 (approximately 330 companies). Participants will earn from 0% to 175% of the base award (the base award was total shares of 584,650 in 2009 and 516,525 in 2008) depending upon how our Total Shareholder Return ranks within the peer group at the end of the 3-year performance period.

(6) Restricted Stock Unit Awards

Restricted Stock Unit (RSU) awards are granted on a discretionary basis to selected managers. The value of these awards is determined by the stock price on the day of the award, and expense is recognized over the vesting period. In 2009, we made special RSU grants to three executive officers in connection with new employment agreements. One fourth of these awards vested when the officer’s contract was signed in 2009 and one fourth vests annually on each of the three remaining anniversary dates.

COMPENSATION COST NOT YET RECOGNIZED

As of December 31, 2009, the unrecognized cost of non-vested stock options was \$3.3. This amount is expected to be recognized over a weighted-average period of one year. The unrecognized cost of stock unit awards was \$12.9, to be recognized over a weighted-average period of .9 years.

STOCK OPTIONS

A summary of our stock option activity for the plans discussed above (including discontinued operations) as of December 31, 2009 and changes during the year then ended, is as follows:

	<u>Employee Stock Options</u>	<u>Deferred Compensation Options</u>	<u>Other Options*</u>	<u>Total Options</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding at December 31, 2008	9,511,298	4,141,727	145,751	13,798,776	\$18.68
Granted	1,905,475	38,257	12,344	1,956,076	15.78
Exercised	(219,809)	(1,432,185)	(3,720)	(1,655,714)	4.44
Expired	(1,351,013)	(1,264)	—	(1,352,277)	20.78
Forfeited	(172,503)	—	—	(172,503)	18.85
Outstanding at December 31, 2009	<u>9,673,448</u>	<u>2,746,535</u>	<u>154,375</u>	<u>12,574,358</u>	<u>\$19.87</u>

* Primarily outside directors options

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total intrinsic value of stock options exercised	\$21.5	\$7.4	\$10.2
Cash received from stock options exercised	3.4	4.8	7.2
Total fair value of stock options vested	7.3	7.2	6.2

Information related to stock options at December 31, 2009 is as follows:

<u>December 31, 2009</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life In Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding	12,574,358	\$19.87	6.1	\$ 6,628,418
Vested or expected to vest	12,487,880	19.90	6.0	6,224,040
Exercisable	8,985,570	21.02	5.1	(5,540,299)

The following table summarizes the weighted-average per share fair value and related assumptions used to calculate the grant date fair value of options granted during the twelve months ended December 31, 2009, 2008 and 2007. Fair values were calculated using the Black-Scholes option pricing model.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Weighted-average per share fair value	\$2.27	\$2.43	\$4.94
Risk-free interest rate	1.9%	3.3%	4.5%
Expected life in years	6.7	6.6	6.7
Expected volatility (over expected life)	31.4%	27.3%	24.5%
Expected dividend yield (over expected life)	6.4%	6.0%	3.6%

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

STOCK UNITS

A summary of the nonvested stock units outstanding for the plans discussed above at December 31, 2009 and changes during the twelve months then ended is presented below:

	<u>ESUP</u>	<u>DSU</u>	<u>PSU*</u>	<u>RSU</u>	<u>Other</u>	<u>Total Units</u>	<u>Weighted Average Grant Date Fair Value per Unit</u>
Nonvested at January 1, 2009	59,605	—	903,750	41,254	—	1,004,609	\$ 9.56
Granted based on current service	808,307	413,568	—	348,824	24,941	1,595,640	14.23
Granted based on future conditions	—	—	1,023,317	—	—	1,023,317	9.00
Vested	(804,727)	(413,568)	—	(112,636)	(24,941)	(1,355,872)	14.20
Forfeited	(7,358)	—	(51,013)	(500)	—	(58,871)	9.95
Nonvested at December 31, 2009	<u>55,827</u>	<u>—</u>	<u>1,876,054</u>	<u>276,942</u>	<u>—</u>	<u>2,208,823</u>	<u>\$ 9.81</u>

* PSU awards are at maximum payout

At December 31, 2009, there were 4,037,874 fully vested stock units outstanding with an aggregate intrinsic value of \$82.1. The intrinsic value of nonvested stock units was \$45.1 at December 31, 2009. The total intrinsic value of stock units converted to common stock during 2009, 2008 and 2007 was \$1.1, \$1.0 and \$2.5, respectively.

M—Employee Benefit Plans

The accompanying balance sheets reflect an asset or liability for the funded status of our domestic and foreign defined benefit pension plans. On January 1, 2008, we adopted new guidance that required the funded status of our plans to be measured as of year end beginning with the December 31, 2008 balance sheet. We previously used September 30 as the measurement date for our most significant plans. We chose to perform a measurement that covered the 15-month period of October 1, 2007 through December 31, 2008. Upon implementation, a proportionate allocation was made to cover the net benefit income for the transition period and we recorded a \$.5 (net of tax) increase to beginning retained earnings on January 1, 2008.

A summary of our pension obligations and funded status as of December 31, 2009, 2008 and 2007 and changes during the years then ended, is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Change in Benefit Obligation			
Benefit obligation, beginning of period	\$226.7	\$239.4	\$241.6
Service cost	2.3	2.2	4.4
Interest cost	13.5	13.1	13.3
Plan participants' contributions	.6	.8	2.2
Actuarial losses (gains)	7.2	3.7	(6.6)
Benefits paid	(18.4)	(19.0)	(15.7)
Foreign currency exchange rate changes	2.6	(9.1)	2.6
(Divestitures) acquisitions	—	(4.4)	10.1
Plan amendments and curtailments	—	—	(12.5)
Benefit obligation, end of period	234.5	226.7	239.4
Change in Plan Assets			
Fair value of plan assets, beginning of period	197.6	263.0	226.8
Actual return (loss) on plan assets	13.1	(35.7)	34.4
Employer contributions	2.9	1.3	2.6
Plan participants' contributions	.6	.8	2.2
Benefits paid	(18.4)	(19.0)	(15.7)
(Divestitures) acquisitions	—	(4.6)	10.1
Foreign currency exchange rate changes	1.6	(8.2)	2.6
Fair value of plan assets, end of period	197.4	197.6	263.0
Plan Assets (Under) Over Benefit Obligations	<u>\$(37.1)</u>	<u>\$(29.1)</u>	<u>\$ 23.6</u>
Funded status recognized in the Consolidated Balance Sheets			
Other assets—sundry	\$ 3.1	\$.5	\$ 35.2
Other current liabilities	(.6)	(.5)	(.6)
Other long-term liabilities	(39.6)	(29.1)	(11.0)
Total net funded status	<u>\$(37.1)</u>	<u>\$(29.1)</u>	<u>\$ 23.6</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Aggregated plans with accumulated benefit obligations in excess of plan assets:			
Projected benefit obligation	\$197.7	\$191.6	\$35.7
Accumulated benefit obligation	195.9	189.4	34.9
Fair value of plan assets	160.8	162.3	25.2
Aggregated plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligation	197.7	194.2	71.2
Fair value of plan assets	160.8	164.4	59.5

The accumulated benefit obligation for all defined benefit pension plans was \$230.8, \$222.2 and \$234.6 at December 31, 2009, 2008 and 2007, respectively.

Included in the above plans is a subsidiary's unfunded supplemental executive retirement plan. The subsidiary owns insurance policies with cash surrender values of \$2.4, \$2.3 and \$2.2 at December 31, 2009, 2008 and 2007, respectively, for the participants in this non-qualified plan. These insurance policies are not included in the plan's assets.

Comprehensive Income

Following are the amounts included in accumulated other comprehensive income (net of tax) as of December 31, 2009 and 2008 that had not yet been recognized as a component of net periodic pension cost:

	<u>2009</u>	<u>2008</u>
Net loss (before tax)	\$ 66.4	\$ 62.1
Net prior service cost (before tax)	1.4	1.6
Deferred income taxes	<u>(25.3)</u>	<u>(23.4)</u>
	<u>\$ 42.5</u>	<u>\$ 40.3</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income during the year ended December 31, 2009:

Net actuarial loss	\$ 7.3
Amortization of net actuarial loss	(4.0)
Amortization of prior service cost	(.2)
Deferred income taxes	(1.9)
Foreign currency exchange rate changes and other	<u>1.0</u>
	<u>\$ 2.2</u>

Of the amounts in accumulated other comprehensive income as of December 31, 2009, the portions expected to be recognized as components of net periodic pension cost in 2010 are as follows:

Net loss	\$ 3.3
Net prior service cost . . . . .	.2

Net Pension Income (Expense)

Components of net pension income (expense) for the years ended December 31 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ (2.3)	\$ (2.2)	\$ (4.4)
Interest cost	(13.5)	(13.1)	(13.3)
Expected return on plan assets	12.9	19.1	18.1
Settlement loss	—	(1.3)	—
Amortization of prior service cost	(.2)	(.2)	(.1)
Recognized net actuarial loss	<u>(4.1)</u>	<u>(.1)</u>	<u>(1.1)</u>
Net pension income (expense)	<u>\$ (7.2)</u>	<u>\$ 2.2</u>	<u>\$ (.8)</u>

Weighted Average Assumptions:

Discount rate used in net pension costs	6.0%	6.0%	5.6%
Discount rate used in benefit obligation	5.9%	6.0%	6.0%
Expected return on plan assets	6.9%	7.9%	7.8%
Rate of compensation increase	4.0%	4.1%	4.1%

We use the average of the Citigroup Pension Discount Curve rate and Merrill Lynch AA-AAA 10-year Bond Index rate to determine the discount rate used for our significant pension plans (rounded to the nearest 25 basis points). The Citigroup Pension Discount Curve rate is a calculated rate using yearly spot rates matched against expected future benefit payments. The Merrill Lynch Index rate is based on the weighted average yield of a portfolio of high grade Corporate Bonds with an average duration approximating the plans' projected benefit

payments, adjusted for any callable bonds included in the portfolio. The discount rate used for the benefit obligation for our most significant pension plans was 5.75% for 2009, 6.0% for 2008 and 6.0% for 2007. The discount rates used for our other, primarily foreign, plans are based on rates appropriate for the respective country and the plan obligations.

The overall, expected long-term rate of return is based on each plan's historical experience and our expectations of future returns based upon each plan's investment holdings as discussed below.

Pension Plan Assets

In December 2008, the FASB issued guidance for additional disclosure surrounding plan assets of defined benefit pension plans effective for the December 31, 2009 financial statements. The fair value of our major categories of pension plan assets is disclosed below using a three level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following categories:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Other significant inputs observable either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.).
- Level 3: Unobservable inputs that are not corroborated by market data.

Presented below are our major categories of investments at December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual and pooled funds				
Fixed income	\$ 90.9	\$ —	\$ —	\$ 90.9
Equities	59.4	—	—	59.4
Common stock	31.0	—	—	31.0
Money market funds, cash and other	15.9	.2	—	16.1
Total investments at fair value	<u>\$197.2</u>	<u>\$.2</u>	<u>\$ —</u>	<u>\$197.4</u>

Plan assets are invested in diversified portfolios of equity, debt and government securities. The aggregate allocation of these investments is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Asset Category			
Equity securities	46%	43%	75%
Debt securities	46	54	17
Other, including cash	8	3	8
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Our investment policy and strategies are established with a long-term view in mind. We strive for a sufficiently diversified asset mix to minimize the risk of a material loss to the portfolio value due to the devaluation of any single investment. In determining the appropriate asset mix, our financial strength and ability to fund potential shortfalls that might result from poor investment performance are considered. Approximately 60% of our significant plans (the “frozen” plans) are employing a Liability Driven Investment strategy and have a target allocation of 75% bonds and 25% equities. The remaining significant plans (the “active” plans) have a target allocation of 75% equities and 25% bonds, as historical equity returns have tended to exceed bond returns over the long term.

Assets of our domestic plans represent the majority of plan assets and are allocated to seven different investments: five mutual funds and two separate accounts.

The mutual funds, all passively managed low-cost index funds, include:

- Total Stock Market Index: Large, mid-, and small-cap equity diversified across growth and value styles; using index sampling.
- Developed Markets Index: International large-cap equity; developed markets in Europe and the Pacific region; full-replication approach.
- Total Bond Market Index: Broadly diversified exposure to investment-grade U.S. bond market; using index sampling.
- Long-term Bond Index: Diversified exposure to the long-term, investment-grade U.S. bond market; index sampling.
- Extended Duration Treasury Index: Diversified exposure to the long-term Treasury STRIPS market; using index sampling.

The separate accounts are invested as follows:

- Small cap U.S. equities: Portfolio of small capitalization U.S. stocks benchmarked to the Russell 2000 Value Index.
- U.S. equities: Broad portfolio of U.S. stocks benchmarked to the Russell 1000 Index.

Future Contributions and Benefit Payments

We expect to contribute \$2.0 to our defined benefit pension plans in 2010.

Estimated benefit payments, expected over the next ten years are: 2010—\$14.6; 2011—\$14.8; 2012—\$14.8; 2013—\$15.2; 2014—\$15.3 and 2015-2019—\$81.5.

Other Benefit Plans

Total expense from continuing operations for multiemployer plans and other defined contribution plans was \$6.7, \$8.5 and \$9.8 in 2009, 2008 and 2007, respectively.

Contributions to union sponsored, defined benefit, multiemployer pension plans were less than \$.2 in continuing operations and less than \$1.0 in discontinued operations for each of the years ended December 31, 2009, 2008 and 2007. These plans are not administered by us and contributions are determined in accordance with provisions of negotiated labor contracts. While we have no present intention of withdrawing from any of these plans, nor have we been informed that there is any intention to terminate such plans, we do not believe there would be a material withdrawal liability in such event.

N—Income Taxes

The components of earnings from continuing operations before income taxes are as follows:

	<u>Year ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Domestic	\$168.4	\$113.9	\$ 91.4
Foreign	30.0	78.7	55.9
	<u>\$198.4</u>	<u>\$192.6</u>	<u>\$147.3</u>

Income tax expense from continuing operations is comprised of the following components:

	<u>Year ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current			
Federal	\$16.1	\$36.9	\$ 65.7
State and local	5.7	3.5	5.1
Foreign	15.6	21.8	18.0
	<u>37.4</u>	<u>62.2</u>	<u>88.8</u>
Deferred			
Federal	41.2	4.2	(18.3)
State and local .....	.9	(4.1)	(9.3)
Foreign	(2.2)	2.8	21.2
	<u>39.9</u>	<u>2.9</u>	<u>(6.4)</u>
	<u>\$77.3</u>	<u>\$65.1</u>	<u>\$ 82.4</u>

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

	<u>Year ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (decreases) in rate resulting from:			
State taxes, net of federal benefit	1.5	(.4)	.5
Worthless stock deduction	—	(3.5)	—
Taxes on foreign earnings	(7.4)	(2.2)	(7.6)
Change in valuation allowance	8.8	5.6	8.6
Goodwill impairment	(.1)	.6	23.3
Permanent differences (other than goodwill impairment)	—	(.6)	(1.1)
Other	1.2	(.7)	(2.8)
Effective tax rate	<u>39.0%</u>	<u>33.8%</u>	<u>55.9%</u>

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 \$6.0 tax charge to earnings related to current and prior year tax losses that may expire before they can be utilized.

During 2008, we realized a \$7.8 tax benefit associated with the write-off of an acquired company's stock, which had a favorable impact on the tax rate.

During 2007, \$94.7 of the total goodwill impairment charged to continuing operations was nondeductible, which had an adverse impact on the tax rate.

We recognized net excess tax benefits (costs) of approximately \$1.4, (\$.3), and \$1.4 in 2009, 2008 and 2007, respectively, related to the exercise of employee stock options, which have been recorded to additional contributed capital as discussed in Note L.

We file tax returns in each jurisdiction where we are required to do so. In the U.S. and many of the state jurisdictions, and in many foreign countries where we file tax returns, a statute of limitations period exists. After a statute period expires, the tax authorities may no longer assess additional income tax for the expired period. In addition, we are no longer eligible to file claims for refund for any tax that we may have overpaid.

The total amount of our unrecognized tax benefits at December 31, 2009, is \$44.5, of which \$28.2 (\$24.9 continuing operations and \$3.3 discontinued operations) would impact our effective tax rate, if recognized. A reconciliation of the beginning and ending balance of our gross unrecognized tax benefits for the years 2009, 2008 and 2007 is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unrecognized tax benefits, January 1	\$32.1	\$29.6	\$25.5
Gross increases—tax positions in prior periods	6.9	4.8	1.3
Gross decreases—tax positions in prior periods	(2.6)	(2.5)	(2.5)
Gross increases—current period tax positions	3.4	4.3	6.7
Change due to exchange rate fluctuations	2.2	(1.5)	—
Settlements	(.5)	(.3)	(.3)
Lapse of statute of limitations	(3.3)	(2.3)	(1.1)
Unrecognized tax benefits, December 31	\$38.2	\$32.1	\$29.6
Interest	5.4	5.3	4.2
Penalties .....	.9	1.0	1.0
Total reserve for tax contingencies, December 31	\$44.5	\$38.4	\$34.8

We recognize interest and penalties related to unrecognized tax benefits as part of income tax expense in the Consolidated Statements of Operations, which is consistent with prior reporting periods.

As of December 31, 2009, four tax years were subject to audit by the United States Internal Revenue Service (IRS), covering the years 2006 through 2009. Amended federal returns have also been filed for 2005 and 2004 with refunds of \$6.0 and \$3.0 expected, respectively. These return filings are also subject to review by the IRS, with the largest issue related to a research and development credit. Additionally, six tax years were undergoing (or subject to) audit by the Canada Revenue Agency, covering the periods 2003 through 2008. Examinations are in progress for each of these years and are at various stages of completion, but to date we are not aware of any material adjustments. Lastly, various state and other foreign jurisdiction tax years remain open to examination as well, though we believe assessments (if any) would be immaterial to our consolidated financial statements.

We are not aware of any changes that would materially impact our tax expense for the increase or decrease in the total amount of unrecognized tax benefits within the next 12 months.

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

	December 31			
	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	\$ 47.2	\$ (98.0)	\$ 34.5	\$ (79.0)
Inventories	1.9	(20.0)	3.0	(20.4)
Accrued expenses	107.0	(1.1)	115.5	(.3)
Net operating loss and tax credit carryforwards	80.2	—	67.7	—
Pension cost	16.0	(1.9)	12.7	(1.9)
Intangible assets	5.2	(98.8)	4.3	(87.1)
Uncertain tax positions	16.3	—	14.8	—
Other	8.9	(15.5)	19.7	(18.3)
Gross deferred tax assets (liabilities)	282.7	(235.3)	272.2	(207.0)
Valuation allowance	(67.0)	—	(46.3)	—
Total deferred taxes	\$215.7	\$ (235.3)	\$225.9	\$ (207.0)
Net deferred tax (liability) asset		\$ (19.6)		\$ 18.9

The valuation allowance primarily relates to net operating loss and tax credit carryforwards for which utilization is uncertain. Cumulative tax losses in certain state and foreign jurisdictions during recent years, and limited carryforward periods in certain jurisdictions, were factors considered in determining the valuation allowance. This includes valuation allowances of approximately \$7.3 and \$11.2 recorded in 2009 and 2008, respectively, for certain Canadian net operating losses.

Generally, no significant amounts of carryforwards expire in any one year. However, \$14.3 of the carryforwards will expire in 2015, if not used beforehand.

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

Deferred income taxes and withholding taxes have not been provided on undistributed earnings which management has deemed to be permanently reinvested. The cumulative undistributed earnings as of December 31, 2009, which we have deemed to be permanently reinvested, are approximately \$223.2. If such earnings were distributed, the resulting incremental taxes would be approximately \$34.9 based on present income tax laws, which are subject to change.

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

	<u>December 31</u>	
	<u>2009</u>	<u>2008</u>
Other current assets	\$ 17.7	\$ 27.2
Sundry	14.2	10.6
Other current liabilities	(2.5)	(1.7)
Deferred income taxes	(49.0)	(17.2)
	<u>\$ (19.6)</u>	<u>\$ 18.9</u>

O—Other Expense

The components of other expense from continuing operations were as follows:

	<u>Year ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Gain on asset sale	\$ (3.6)	\$(14.6)	\$(11.4)
Restructuring charges	8.7	17.9	14.2
Asset impairments	2.5	13.3	6.1
Write-down of aluminum divestiture note	10.6	—	—
Currency loss	(1.5)	—	2.2
Other income	(1.0)	(5.4)	(7.3)
	<u>\$ 15.7</u>	<u>\$ 11.2</u>	<u>\$ 3.8</u>

P—Accumulated Other Comprehensive Income

The following table sets forth the changes in each component of accumulated other comprehensive income:

	Foreign Currency Translation Adjustments	Net Investment Hedges	Cash Flow Hedges	Other Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
Balance January 1, 2007	\$ 104.5	\$(1.2)	\$(1.3)	\$ (.2)	\$(26.2)	\$ 75.6
Period change—Gross	96.0	(1.8)	4.0	.2	35.6	134.0
Period change—Income Tax Effect	(2.0)	.7	(1.1)	—	(13.7)	(16.1)
Balance December 31, 2007	198.5	(2.3)	1.6	—	(4.3)	193.5
Period change—Gross	(146.5)	1.1	(3.1)	—	(57.3)	(205.8)
Period change—Income Tax Effect	—	1.2	1.2	—	21.3	23.7
Balance December 31, 2008	52.0	—	(.3)	—	(40.3)	11.4
Period change—Gross	95.2	—	1.2	—	(4.1)	92.3
Period change—Income Tax Effect	—	—	(.8)	—	1.9	1.1
Balance December 31, 2009	<u>\$ 147.2</u>	<u>\$ —</u>	<u>\$.1</u>	<u>\$ —</u>	<u>\$(42.5)</u>	<u>\$ 104.8</u>

Q—Fair Value

Effective January 1, 2008, we adopted the FASB guidance for fair value measurements, except as it applies to non-financial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis, for which this guidance was effective January 1, 2009.

The primary areas in which we utilize fair value measures of non-financial assets and liabilities that were included in the January 1, 2009 effective date are allocating purchase price to the assets and liabilities of acquired companies as discussed in Note R and evaluating long-term assets for potential impairment as discussed in Notes B and C.

The areas in which we utilize fair value measures that were included in the January 1, 2008 adoption are cash equivalents, short-term investments and derivatives hedging financial risks primarily related to interest rates, foreign currency, and commodities.

The FASB guidance does not require any new fair value measurements, but requires expanded disclosure about fair value measurements and establishes a three level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following categories:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Short-term investments in this category are valued using discounted cash flow techniques with all significant inputs derived from or corroborated by observable market data. Derivative assets and liabilities in this category are valued using models that consider various assumptions and information from market-corroborated sources. The models used are primarily industry-standard models that consider items such as quoted prices, market interest rate curves applicable to the instruments being valued as of the end of each period, discounted cash flows, volatility factors, current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.
- Level 3: Unobservable inputs that are not corroborated by market data.

The following tables present assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008:

As of December 31, 2009:				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash equivalents:				
Money market funds	\$186.4	\$—	\$—	\$186.4
Short-term investments:				
Bank time deposits	—	5.2	—	5.2
Derivative assets	—	.6	—	.6
Total assets	<u>\$186.4</u>	<u>\$ 5.8</u>	<u>\$—</u>	<u>\$192.2</u>
Liabilities:				
Derivative liabilities	\$.6	\$.3	\$—	\$.9
Total liabilities	<u>\$.6</u>	<u>\$.3</u>	<u>\$—</u>	<u>\$.9</u>
As of December 31, 2008:				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash equivalents:				
Money market funds	\$ 76.8	\$—	\$—	\$ 76.8
Short-term investments:				
Bank time deposits	—	2.7	—	2.7
Other	—	4.0	—	4.0
Derivative assets	—	2.1	—	2.1
Total assets	<u>\$ 76.8</u>	<u>\$ 8.8</u>	<u>\$—</u>	<u>\$ 85.6</u>
Liabilities:				
Derivative liabilities	\$ 1.7	\$ 1.1	\$—	\$ 2.8
Total liabilities	<u>\$ 1.7</u>	<u>\$ 1.1</u>	<u>\$—</u>	<u>\$ 2.8</u>

R—Acquisitions

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions consummated in 2009, 2008 and 2007 and any additional consideration paid for prior years' acquisitions:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Accounts receivable	\$.2	\$.6	\$ 14.3
Inventory .....	.1	.2	8.3
Property, plant and equipment .....	.3	1.7	24.2
Goodwill .....	.4	.9	37.5
Other intangible assets	—	2.0	73.1
Accounts payable and accrued liabilities	(.2)	—	(19.6)
Other assets and liabilities, net .....	.5	(.2)	(6.2)
Assumed debt	—	—	(23.9)
Additional consideration for prior years' acquisitions	<u>1.5</u>	<u>5.1</u>	<u>3.6</u>
Net cash consideration	<u>\$ 2.8</u>	<u>\$10.3</u>	<u>\$111.3</u>

During 2009, we acquired one Industrial Materials business that distributes erosion control products. The purchase price over fair value of the net identifiable assets acquired was \$.4. Adjustments to and additional consideration for prior year acquisitions increased goodwill by \$9.8, resulting in a total increase in goodwill of \$10.2, of which \$2.6 is expected to provide an income tax benefit. We are finalizing all the information required to complete purchase price allocations related to this acquisition and do not anticipate any material modifications.

The unaudited pro forma consolidated net sales, net earnings and earnings per share as though the 2009 and 2008 acquisitions had occurred on January 1 of each year presented, are not materially different from the amounts reflected in the accompanying financial statements.

During 2008, we acquired two businesses with purchase price over the fair value of the net identifiable assets acquired of \$.9. Adjustments to and additional consideration for prior year acquisitions increased goodwill by \$9.5, resulting in a total increase in goodwill of \$10.4, of which \$1.4 is expected to provide an income tax benefit. In Commercial Fixturing & Components, we acquired one business that produces parts for our office furniture components division. In Residential, we acquired machinery and the process technology used to manufacture carpet underlay.

During 2007, we acquired three businesses with purchase price over the fair value of the net identifiable assets acquired of \$37.5. Adjustments to and additional consideration for prior year acquisitions increased goodwill by \$1.4, resulting in a total increase in goodwill of \$38.9, of which \$10.3 is expected to provide an income tax benefit. These acquired businesses manufacture and distribute products primarily for office components, industrial materials and commercial vehicle products.

The results of operations of the above acquired companies have been included in the consolidated financial statements since the dates of acquisition. The terms of certain of our acquisition agreements provide for additional consideration to be paid if the acquired company's performance exceeds certain targeted levels. Such additional consideration may be paid in cash, and is recorded when earned as additional purchase price. At December 31, 2009, there is no substantial remaining consideration payable.

S—Derivative Financial Instruments

Risk Management Strategy & Objectives

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

As of December 31, 2009 and 2008, we have recorded the following assets and liabilities representing the fair value for our most significant derivative financial instruments. The fair values of the derivatives reflect the change in the market value of the derivative from the date of the trade execution, and do not consider the offsetting underlying hedged item.

As of December 31, 2009:

	Total USD Equivalent Notional Amount	Assets		Liabilities	
		Other Current Assets	Sundry	Other Current Liabilities	Other Long- Term Liabilities
Derivatives designated as hedging instruments					
Cash flow commodity hedges	\$ 3.6	\$ —	\$ —	\$.5	\$.2
Cash flow currency hedges:					
Future USD sales of a Canadian subsidiary	6.3	.6	—	—	—
Total cash flow hedges .....		.6	—	.5	.2
Fair value hedges:					
USD inter-company note receivable on a Canadian subsidiary	7.0	—	—	.1	—
Total fair value hedges		—	—	.1	—
Derivatives not qualifying for hedge accounting treatment					
Hedge of EUR inter-company note receivable from a European subsidiary	28.0	—	—	—	.1
		\$.6	\$ —	\$.6	\$.3

As of December 31, 2008:

	Total USD Equivalent Notional Amount	Assets		Liabilities	
		Other Current Assets	Sundry	Other Current Liabilities	Other Long- Term Liabilities
Derivatives designated as hedging instruments					
Cash flow commodity hedges	\$ 9.2	\$ —	\$ —	\$ 1.6	\$.1
Cash flow currency hedges:					
CAD interest payments from Canadian subsidiary	5.1	1.2	—	—	—
Future USD sales of a Canadian subsidiary	25.3	.3	—	.8	—
Total cash flow hedges		1.5	—	2.4	.1
Fair value hedges:					
MXN payables to a Mexican subsidiary ...	1.6	—	—	.3	—
HUF inter-company note receivable from Hungarian subsidiary	1.9	.3	—	—	—
Total fair value hedges .....		.3	—	.3	—
Derivatives not qualifying for hedge accounting treatment					
Hedge of EUR inter-company note receivable from a European subsidiary	28.0	—	.3	—	—
		\$ 1.8	\$.3	\$ 2.7	\$.1

Cash Flow Hedges

At December 31, 2009 and 2008, we had outstanding derivative financial instruments that hedge forecasted transactions and anticipated cash flows. The effective changes in fair value of unexpired contracts are recorded in accumulated other comprehensive income and reclassified to income or expense in the period in which earnings are impacted and are presented as operating cash flows when the contracts are settled.

Commodity Cash Flow Hedges

The commodity cash flow hedges primarily manage natural gas commodity price risk. There were \$3.6 and \$9.2 in outstanding notional amounts related to commodity hedges at December 31, 2009 and 2008, respectively, all of which had maturities less than three years. We routinely hedge commodity price risk up to 36 months.

Foreign Currency Cash Flow Hedges

The foreign currency hedges manage risk associated with exchange rate volatility of various currencies. The foreign currency cash flow hedges outstanding at December 31, 2009 and 2008 primarily hedged Canadian dollar exposures and had maturity dates within two years. In general, foreign currency cash flow hedges have maturities within two years.

Fair Value Hedges

Our fair value hedges manage foreign currency risk associated with subsidiaries' inter-company assets and liabilities. Hedges designated as fair value hedges recognize gain or loss currently in earnings and are presented as operating cash flows when the contracts are settled. These fair value hedges generally have a maturity date within one year.

Net Investment Hedges

We had no net investment hedge activity in 2009. In September 2008, we liquidated a \$30.0 net investment hedge of a Swiss subsidiary. Investment hedge settlements are presented as investing cash flows when contracts are settled.

Hedge Effectiveness

We have determined all hedges to be highly effective and as a result, have not recorded any material amounts for ineffectiveness.

Derivatives Not Qualifying for Hedge Accounting Treatment

At December 31, 2009, we had one derivative transaction that did not qualify for hedge accounting treatment. Gains or losses on this transaction are recorded directly to income and expense in the period impacted, and offset the majority of gains and losses on the underlying Euro inter-company debt.

The following table sets forth the pre-tax gains (losses) from continuing operations for our hedging activities for the years ended December 31, 2009 and 2008. This schedule includes reclassifications from accumulated other comprehensive income as well as derivative settlements recorded directly to income or expense.

	Income Statement Classification of Gain (Loss) on Derivatives	Amount of Gain (Loss) Recorded in Income Twelve Months Ended December 31		
		2009	2008	2007
Derivatives designated as hedging instruments				
Commodity cash flow hedges	Cost of goods sold	\$(3.7)	\$ 1.1	\$(2.3)
Foreign currency cash flow hedges	Net sales	1.1	(1.5)	3.6
Foreign currency cash flow hedges	Cost of goods sold	—	—	.5
	Other expense			
Foreign currency cash flow hedges	(income), net	(.2)	(.2)	(.1)
Foreign currency cash flow hedges	Interest expense	1.2	1.4	—
		<u>(1.6)</u>	<u>.8</u>	<u>1.7</u>
Total cash flow hedges				
	Other expense			
Fair value hedges	(income), net	1.3	.1	—
Derivatives not qualifying for hedge accounting treatment				
	Other expense			
Hedge of EUR inter-company note receivable-European subsidiary	(income), net	(4.1)	3.5	(.8)
Hedge of EUR inter-company note receivable-European subsidiary	Interest expense	—	(.4)	—
Total derivative instruments		<u>\$(4.4)</u>	<u>\$ 4.0</u>	<u>\$.9</u>

T—Contingencies

We are involved in various legal proceedings including matters which involve claims against us under employment, intellectual property, environmental, taxation and other laws. When it appears probable in management's judgment that we will incur monetary damages or other costs in connection with claims and proceedings, and the costs can be reasonably estimated, appropriate liabilities are recorded in the financial statements and charges are made against earnings. No claim or proceeding has resulted in a material charge against earnings, nor are the total liabilities recorded material to our financial position for any of the periods presented. While the results of any ultimate resolution cannot be predicted with certainty, management believes the possibility of a material adverse effect on our consolidated financial position, results of operations, cash flows and liquidity from claims and proceedings is remote.

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, we were alleged to have manufactured and sold bulk polyurethane foam to a foam fabricator in Rhode Island, who in turn, was 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 self-insured retention. The remainder of the \$18.2 settlement would be paid by our insurance carrier. Management does not believe the settlement or the outcome will have a material effect on our financial condition, operating cash flows or results of operations. We recorded \$2 of expense in 2008 and currently have a \$16.2 receivable from the insurance carrier and an \$18.2 liability related to this matter, that is included in current assets and current liabilities, respectively, in the Consolidated Balance Sheets.