

LEGGETT & PLATT INC
Form 10-K
February 28, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-07845

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

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

No. 1 Leggett Road 64836
Carthage, Missouri (Zip code)

Registrant's telephone number, including area code: (417) 358-8131

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class Name of each exchange on
which registered
Common Stock, \$.01 par value New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the
Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant (based on the closing price of our common stock on the New York Stock Exchange) on June 29, 2012 was \$2,843,057,686.

There were 142,770,077 shares of the registrant's common stock outstanding as of February 22, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Item 10, and all of Items 11, 12, 13 and 14 of Part III are incorporated by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2013.

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Forward-Looking Statements

This Annual Report on Form 10-K and our other public disclosures, whether written or oral, may contain “forward-looking” statements including, but not limited to: projections of revenue, income, earnings, capital expenditures, dividends, capital structure, cash flows or other financial items; possible plans, goals, objectives, prospects, strategies or trends concerning future operations; statements concerning future economic performance; and the underlying assumptions relating to the forward-looking statements. These statements are identified either by the context in which they appear or by use of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should” or the like. All such forward-looking statements, whether written or oral, and whether made by us or on our behalf, are expressly qualified by the cautionary statements described in this provision.

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

Readers should review Item 1A Risk Factors in this Form 10-K for a description of important factors that could cause actual events or results to differ materially from forward-looking statements. It is not possible to anticipate and list all risks, uncertainties and developments which may affect the future operations or performance of the Company, or which otherwise may cause actual events or results to differ materially from forward-looking statements. However, the known, material risks and uncertainties include the following:

- factors that could affect the industries or markets in which we participate, such as growth rates and opportunities in those industries;
- adverse changes in inflation, currency, political risk, U.S. or foreign laws or regulations (including tax law changes),
- consumer sentiment, housing turnover, employment levels, interest rates, trends in capital spending and the like;
- factors that could impact raw materials and other costs, including the availability and pricing of steel scrap and rod and other raw materials, the availability of labor, wage rates and energy costs;
- our ability to pass along raw material cost increases through increased selling prices;
- price and product competition from foreign (particularly Asian and European) and domestic competitors;
- our ability to improve operations and realize cost savings (including our ability to fix under-performing operations and to generate future earnings from restructuring-related activities);
- our ability to maintain profit margins if our customers change the quantity and mix of our components in their finished goods;
- our ability to achieve expected levels of cash flow;
- our ability to maintain and grow the profitability of acquired companies;
- our ability to maintain the proper functioning of our internal business processes and information systems and avoid modification or interruption of such systems, through cyber-security breaches or otherwise;
- a decline in the long-term outlook for any of our reporting units that could result in asset impairment;
- our ability to control expenses related to "conflict mineral" regulations and to effectively manage our supply chains to avoid loss of customers; and
- litigation including product liability and warranty, taxation, environmental, intellectual property, anti-trust, option backdating and workers' compensation expense.

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Item 1. Business.

Summary

Leggett & Platt, Incorporated was founded as a partnership in Carthage, Missouri in 1883 and was incorporated in 1901. The Company, a pioneer of the steel coil bedspring, has become an international diversified manufacturer that conceives, designs and produces a wide range of engineered components and products found in many homes, offices, retail stores, automobiles and commercial aircraft. As discussed below, our operations are organized into 20 business units, which are divided into 10 groups under our four segments: Residential Furnishings; Commercial Fixturing & Components; Industrial Materials; and Specialized Products.

Overview of Our Segments

Residential Furnishings Segment

Our Residential Furnishings segment began in 1883 with the manufacture of steel coiled bedsprings. Today, we supply a variety of components used by bedding and upholstered furniture manufacturers in the assembly of their finished products. Our range of products offers our customers a single source for many of their component needs.

Efficient manufacturing methods, internal production of key raw materials, and numerous manufacturing and assembly locations allow us to supply many customers with components at a lower cost than they can produce themselves. In addition to cost savings, sourcing components from us allows our customers to focus on designing, merchandising and marketing their products.

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Products

Products manufactured or distributed by our Residential Furnishings groups include:

Bedding Group

• Innersprings (sets of steel coils, bound together, that form the core of a mattress)

• Wire forms for mattress foundations

Furniture Group

• Steel mechanisms and hardware (enabling furniture to recline, tilt, swivel, rock and elevate) for reclining chairs and sleeper sofas

• Springs and seat suspensions for chairs, sofas and love seats

• Steel tubular seat frames

• Bed frames, ornamental beds, and “top-of-bed” accessories

• Adjustable beds

Fabric & Carpet Underlay Group

• Structural fabrics for mattresses, residential furniture and industrial uses

• Carpet underlay materials (bonded scrap foam, felt, rubber and prime foam)

• Geo components (synthetic fabrics and various other products used in ground stabilization, drainage protection, erosion and weed control, as well as silt fencing)

Customers

Most of our Residential Furnishings customers are manufacturers of finished bedding products (mattresses and foundations) or upholstered furniture for residential use. We also sell many products, including ornamental beds, bed frames, adjustable beds, carpet underlay, and top-of-bed accessories, directly to retailers and distributors. We sell Geo Components products primarily to dealers, contractors, landscapers, road construction companies and government agencies.

Commercial Fixturing & Components Segment

Our Store Fixtures group designs, produces, installs and manages our customers’ store fixtures projects. Our Office Furniture Components group designs, manufactures, and distributes a wide range of engineered components targeted for the office seating market.

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Products

Products manufactured or distributed by our Commercial Fixturing & Components groups include:

Store Fixtures Group

- Custom-designed, full store fixture packages for retailers, including shelving, counters, showcases and garment racks
- Standardized shelving used by large retailers, grocery stores and discount chains

Office Furniture Components Group

- Bases, columns, back rests, casters and frames for office chairs, and control devices that allow office chairs to tilt, swivel and elevate

Customers

Customers of the Commercial Fixturing & Components segment include:

- Retail chains and specialty shops
- Office, institutional and commercial furniture manufacturers

Industrial Materials Segment

We believe that the quality of our products and services, together with low cost, have made us the leading U.S. supplier of drawn steel wire and a major producer of welded steel tubing. Our Wire group operates a steel rod mill with an annual output of approximately 500,000 tons, of which a substantial majority is used by our own wire mills. We have four wire mills that supply virtually all the wire consumed by our other domestic businesses. Our Steel Tubing business unit also supplies nearly all of our internal needs for welded steel tubing. In addition to supporting our internal requirements, we supply many external customers with wire and steel tubing products.

On January 12, 2012, we completed the acquisition of Western Pneumatic Tube Holding, LLC (Western). Western is a leading provider of integral components for critical aircraft systems, and forms the Aerospace Products business unit within the Tubing Group. Western specializes in fabricating thin-walled, large diameter, welded tubing and specialty formed products from titanium, nickel and other specialty materials for leading aerospace suppliers and OEMs. For further information about acquisitions, see Note R on page 104 of the Notes to Consolidated Financial Statements.

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Products

Products manufactured or distributed by our Industrial Materials groups include:

Wire Group

- Steel rod
- Drawn wire
- Steel billets
- Fabricated wire products

Tubing Group

- Welded steel tubing
- Fabricated tube components
- Titanium and nickel tubing for the aerospace industry

Customers

We use about half of our wire output and about one-quarter of our steel tubing output to manufacture our own products. For example, we use our wire and steel tubing to make:

- Bedding and furniture components
- Motion furniture mechanisms
- Commercial fixtures and shelving
- Automotive seat components and frames

The Industrial Materials segment also has a diverse group of external customers, including:

- Bedding and furniture makers
- Automotive seating manufacturers
- Aerospace suppliers and OEMs
- Lawn and garden equipment manufacturers
- Mechanical spring makers
- Waste recyclers and waste removal businesses
- Medical supply businesses

Specialized Products Segment

Our Specialized Products segment designs, produces and sells components for automotive seating, specialized machinery and equipment, and service van interiors. Our established design capability and focus on product

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development have made us a leader in innovation. We also benefit from our broad geographic presence and our internal production of key raw materials and components.

Products

Products manufactured or distributed by our Specialized Products groups include:

Automotive Group

- Manual and power lumbar support and massage systems for automotive seating
- Seat suspension systems
- Automotive control cables
- Low voltage motors and motion assemblies
- Formed metal and wire components for seat frames

Machinery Group

- Full range of quilting machines for mattress covers
- Machines used to shape wire into various types of springs
- Industrial sewing/finishing machines

Commercial Vehicle Products Group

- Van interiors (the racks, shelving and cabinets installed in service vans)

Customers

Our primary customers for the Specialized Products segment include:

- Automobile seating manufacturers
- Bedding manufacturers
- Telecommunication, cable, home service and delivery companies

Strategic Direction

Key Financial Metric

Total Shareholder Return (TSR), relative to peer companies, is the key financial measure that we use to assess long-term performance. $TSR = (\text{Change in Stock Price} + \text{Dividends}) / \text{Beginning Stock Price}$. Our goal is to achieve TSR in the top 1/3 of the S&P 500 over the long term through a balanced approach that employs all four TSR sources: revenue growth, margin expansion, dividends, and share repurchases.

We monitor our TSR performance (relative to the S&P 500) on a rolling three-year basis. For the three-year measurement period that ended December 31, 2012 we generated TSR of 16% per year, on average, which places us in the top 37% of the S&P 500. In addition, our TSR has exceeded that of the S&P 500 index for five consecutive years.

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

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Returning Cash to Shareholders

During the past three years, we generated \$1.14 billion of operating cash, and we returned much of this cash to shareholders in the form of dividends and share repurchases. Dividends and share repurchases are expected to remain significant contributors to long-term TSR.

Since late 2007, we have raised quarterly dividends by 61%, from \$.18 per share to \$.29 per share currently. Our dividend payout target is 50-60% of earnings; however we have been above that target in recent years. Our dividend payout ratio (dividends declared per share/earnings per share) was 92%, 106% and 67% in 2010, 2011 and 2012, respectively. As our markets recover, we expect to move back into our target payout range. In the meantime, we expect to generate enough cash to continue to pay and modestly grow the dividend. The Company has consistently (for over 20 years) generated operating cash in excess of our annual requirement for capital expenditures and dividends.

We expect to use cash (after funding capital expenditures, dividends, and growth opportunities) for share repurchases. During the past three years, we have repurchased 18.3 million shares of our stock (and issued 11.6 million shares through employee benefit plans), which reduced the net outstanding shares by 4.5%. In 2012, we repurchased 2.0 million shares (which includes shares withheld for taxes in option exercises and stock unit conversions; and forfeited stock units) at an average per share price of \$25.35 (and issued 4.7 million shares through employee benefit plans). As discussed in more detail below under "Acquisitions," we completed the acquisition of Western Pneumatic Tube for a cash purchase price of \$188 million in January 2012. As such, the level of share repurchases was lower in 2012 than in recent years and our shares outstanding rose by 2% to roughly 142 million at year-end.

Portfolio Management

We utilize a rigorous strategic planning process to help guide future decisions regarding business unit roles, capital allocation priorities, and new areas in which to grow. We review the portfolio classification of each unit on an annual basis to determine its appropriate role (Grow, Core, Fix, or Divest). This review includes criteria such as competitive position, market attractiveness, business unit size, and fit within our overall objectives, as well as financial indicators such as growth of earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA), operating cash flows, and return on assets. Business units in the Grow category should provide avenues for profitable growth from competitively advantaged positions in attractive markets. Core business units are expected to enhance productivity, maintain market share, and generate cash flow from operations while using minimal capital. To remain in the portfolio, business units are expected to consistently generate after-tax returns in excess of our cost of capital. Business units that fail to consistently attain minimum return goals will be moved to the Fix or Divest categories.

Disciplined Growth

Long-term, we aim to eventually achieve consistent, profitable growth of 4-5% annually. To attain this goal, we will need to supplement the approximate 2-3% growth that our markets typically produce (in normal economic times) with two additional areas of opportunity. First, we must enhance our success rate at developing and commercializing innovative new products within markets in which we already enjoy strong competitive positions. Second, we need to uncover new growth platforms; opportunities in markets new to us containing margins and growth higher than the Company's average, and in which we would possess a competitive advantage.

Our long-term, 4-5% annual growth objective envisions periodic acquisitions. We seek acquisitions within our growth businesses, and look for opportunities to enter new, higher growth markets (carefully screened for sustainable

competitive advantage). We expect all acquisitions to (a) have a clear strategic rationale, a sustainable

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competitive advantage, and a strong fit with the Company; (b) create value by enhancing Total Shareholder Return and have an internal rate of return in excess of 10%; (c) for stand-alone companies: generally, revenue in excess of \$50 million, strong management and future growth opportunity with a strong market position in a market growing faster than GDP; and (d) for add-on companies: generally, revenue in excess of \$15 million, significant synergies, and a strategic fit with an existing business unit.

Acquisitions

In January 2012, we acquired for a cash purchase price of \$188 million, Western Pneumatic Tube, which produces thin-walled, large diameter, welded tubing and specialty formed products for aerospace applications. Western fabricates products from specialty materials, such as titanium, nickel, stainless steel, and other high strength metals for use in aircraft systems and aircraft engine systems, including fuel, hydraulic, pneumatic, environmental, life support, stability, and cooling systems. Western operates two facilities, one in Kirkland, Washington, and another in Poway, California, and is part of our Industrial Materials segment. For further information about acquisitions, see Note R on page 104 of the Notes to Consolidated Financial Statements.

We had no significant acquisitions in 2010 and 2011.

Divestitures