LEGGETT & PLATT INC
Form 10-Q
May 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
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 incorporation or organization)	(I.R.S. Employer Identification No.)

No. 1 Leggett Road Carthage, Missouri	64836
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (417) 358-8131
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 ý 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 ý No ¨
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	ý	Accelerated filer	¨
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 Exchange Act). Yes ¨ No ý
Common stock outstanding as of April 29, 2014: 138,660,546

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Amounts in millions)	March 31, 2014	December 31, 2013
CURRENT ASSETS		
Cash and cash equivalents	$268.6	$272.7
Trade receivables, net	525.8	434.8
Other receivables, net	48.1	32.6
Total receivables, net	573.9	467.4
Inventories		
Finished goods	271.8	270.5
Work in process	63.4	59.3
Raw materials and supplies	257.6	239.4
LIFO reserve	(73.3)	(73.3)
Total inventories, net	519.5	495.9
Other current assets	47.8	45.7
Total current assets	1,409.8	1,281.7
PROPERTY, PLANT AND EQUIPMENT—AT COST		
Machinery and equipment	1,190.7	1,184.5
Buildings and other	597.7	612.2
Land	42.7	44.5
Total property, plant and equipment	1,831.1	1,841.2
Less accumulated depreciation	1,266.8	1,266.6
Net property, plant and equipment	564.3	574.6
OTHER ASSETS		
Goodwill	926.6	926.8
Other intangibles, less accumulated amortization of $118.7 and $114.4 as of March 31, 2014 and December 31, 2013, respectively	199.1	203.4
Sundry	121.7	121.6
Total other assets	1,247.4	1,251.8
TOTAL ASSETS	$3,221.5	$3,108.1
CURRENT LIABILITIES		
Current maturities of long-term debt	$181.4	$181.1
Accounts payable	350.2	339.3
Accrued expenses	223.9	229.7
Other current liabilities	78.5	79.4
Total current liabilities	834.0	829.5
LONG-TERM LIABILITIES		
Long-term debt	811.0	688.4
Other long-term liabilities	130.6	127.7
Deferred income taxes	75.0	63.3
Total long-term liabilities	1,016.6	879.4
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock	2.0	2.0
Additional contributed capital	474.7	479.1

Retained earnings	2,146.8	2,136.4
Accumulated other comprehensive income	80.1	94.5
Treasury stock	(1,341.0)	(1,320.7)
Total Leggett & Platt, Inc. equity	1,362.6	1,391.3
Noncontrolling interest	8.3	7.9
Total equity	1,370.9	1,399.2
TOTAL LIABILITIES AND EQUITY	$3,221.5	$3,108.1

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
(Amounts in millions, except per share data)	2014	2013
Net sales	$919.1	$932.7
Cost of goods sold	739.1	743.8
Gross profit	180.0	188.9
Selling and administrative expenses	98.5	107.2
Amortization of intangibles	4.9	5.7
Other (income) expense, net	(5.9)	(3.4)
Earnings from continuing operations before interest and income taxes	82.5	79.4
Interest expense	10.4	12.8
Interest income	1.4	2.7
Earnings from continuing operations before income taxes	73.5	69.3
Income taxes	19.8	19.9
Earnings from continuing operations	53.7	49.4
Earnings from discontinued operations. net of tax	—	.1
Net earnings	53.7	49.5
(Earnings) attributable to noncontrolling interest, net of tax	(.6)	(.4)
Net earnings attributable to Leggett & Platt, Inc. common shareholders	$53.1	$49.1
Earnings per share from continuing operations attributable to Leggett & Platt, Inc. common shareholders		
Basic	$.37	$.34
Diluted	$.37	$.33
Net earnings per share attributable to Leggett & Platt, Inc. common shareholders		
Basic	$.37	$.34
Diluted	$.37	$.33
Cash dividends declared per share	$.30	$.29
Average shares outstanding		
Basic	142.4	145.9
Diluted	144.0	148.0

See accompanying notes to consolidated condensed financial statements.

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LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,	
(Amounts in millions)	2014	2013
Net earnings	$53.7	$49.5
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(15.1)	(16.3)
Cash flow hedges	(.1)	.8
Defined benefit pension plans	.6	1.4
Other comprehensive (loss)	(14.6)	(14.1)
Comprehensive income	39.1	35.4
Less: comprehensive (income) attributable to noncontrolling interest	(.4)	(.4)
Comprehensive income attributable to Leggett & Platt, Inc.	$38.7	$35.0

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(Amounts in millions)	2014	2013
OPERATING ACTIVITIES		
Net earnings	$53.7	$49.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	22.1	22.3
Amortization of intangibles and debt issuance costs	6.8	7.0
Provision for losses on accounts and notes receivable	1.1	1.6
Writedown of inventory	2.4	2.0
Asset impairment charges	.5	.2
Net gain from sales of assets and businesses	(4.1)	(3.2)
Deferred income tax expense	10.7	7.1
Stock-based compensation	10.5	11.5
Other, net	.3	(2.1)
Other changes, excluding effects from acquisitions and divestitures:		
Increase in accounts and other receivables	(96.5)	(79.7)
Increase in inventories	(27.6)	(17.0)
(Increase) decrease in other current assets	(1.7)	2.4
Increase in accounts payable	18.0	33.5
Decrease in accrued expenses and other current liabilities	(15.9)	(11.1)
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(19.7)	24.0
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(15.1)	(19.8)
Purchases of companies, net of cash acquired	(2.0)	(.1)
Proceeds from sales of assets and businesses	8.5	1.9
Other, net	(5.7)	(3.2)
NET CASH USED FOR INVESTING ACTIVITIES	(14.3)	(21.2)
FINANCING ACTIVITIES		
Payments on long-term debt	(6.0)	(.8)
Change in commercial paper and short-term debt	126.4	99.0
Dividends paid	(42.0)	—
Issuances of common stock	4.3	28.4
Purchases of common stock	(50.0)	(41.6)
Excess tax benefits from stock-based compensation	1.3	5.0
Other, net	(.4)	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	33.6	90.0
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3.7)	(2.5)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4.1)	90.3
CASH AND CASH EQUIVALENTS—January 1,	272.7	359.1
CASH AND CASH EQUIVALENTS—March 31,	$268.6	$449.4

See accompanying notes to consolidated condensed financial statements.

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LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in millions, except per share data)

1. INTERIM PRESENTATION

The interim financial statements of Leggett & Platt, Incorporated (“we”, “us” or “our”) included herein have not been audited by an independent registered public accounting firm. The statements include all adjustments, including normal recurring accruals, which management considers necessary for a fair presentation of our financial position and operating results for the periods presented. We have prepared the statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of results to be expected for an entire year.

The December 31, 2013 financial position data included herein was derived from the audited consolidated financial statements included in Form 10-K, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). For further information, refer to the financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2013.

2. NEW ACCOUNTING GUIDANCE

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The standard is effective January 1, 2015, however early adoption is permitted for new disposals (or new classifications as held for sale). We do not believe that this standard will have a material impact on our future financial statements.

The FASB has also issued other accounting guidance effective for current and future periods. This guidance did not have a material impact on our current financial statements, and we do not believe it will have a material impact on our future financial statements.

3. INVENTORIES

About 55% of our inventories are valued using the Last-In, First-Out (LIFO) cost method and the remainder using the First-In, First-Out (FIFO) cost method.

We calculate our LIFO reserve (the excess of FIFO cost over LIFO cost) on an annual basis. During interim periods, we estimate the current year annual change in the LIFO reserve (i.e., the annual LIFO expense or benefit) and allocate that change ratably to the four quarters. Because accurately predicting inventory prices for the year is difficult, the change in the LIFO reserve for the full year could be significantly different from the amount currently estimated. In addition, a variation in expected ending inventory levels could also impact total change in the LIFO reserve for the year. Any change in the annual LIFO estimate will be reflected in future quarters.

The following table contains the LIFO benefit (expense) included in earnings for each of the periods presented.

	Three Months Ended March 31,	
	2014	2013
LIFO benefit (expense)	$—	$(2.6)

4. SEGMENT INFORMATION

We have four operating segments that supply a wide range of products:

- Residential Furnishings—components for bedding, furniture and other furnishings, as well as related consumer products
- Commercial Fixturing & Components—retail store fixtures, and components for office and institutional furnishings
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Industrial Materials—drawn steel wire, specialty wire products, titanium and nickel tubing for the aerospace industry and welded steel tubing

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LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

- Specialized Products—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 officer. The chief operating officer in turn reports directly 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. 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 from continuing operations are shown in the following tables.

	External Sales	Inter-Segment Sales	Total Sales	EBIT
Three months ended March 31, 2014				
Residential Furnishings	$489.1	$9.7	$498.8	$51.3
Commercial Fixturing & Components	88.5	1.4	89.9	(2.0)
Industrial Materials	154.1	57.5	211.6	11.1
Specialized Products	187.4	10.9	198.3	25.0
Intersegment eliminations				(2.9)
Change in LIFO reserve				—
	$919.1	$79.5	$998.6	$82.5
Three months ended March 31, 2013				
Residential Furnishings	$484.9	$1.9	$486.8	$42.3
Commercial Fixturing & Components	114.6	1.0	115.6	1.6
Industrial Materials	159.6	63.6	223.2	21.7
Specialized Products	173.6	12.7	186.3	15.7
Intersegment eliminations				(4.5)
Change in LIFO reserve				2.6
	$932.7	$79.2	$1,011.9	$79.4

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 periods presented.

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	March 31, 2014	December 31, 2013
Residential Furnishings	$571.7	$586.5
Commercial Fixturing & Components	123.6	144.9
Industrial Materials	254.5	248.0
Specialized Products	238.6	225.0
Average current liabilities included in segment numbers above	491.1	460.6
Unallocated assets (1)	1,483.0	1,492.4
Difference between average assets and period-end balance sheet	59.0	(49.3)
Total assets	$3,221.5	$3,108.1

(1) Unallocated assets consist primarily of goodwill, other intangibles, cash and deferred tax assets.

5. DISCONTINUED OPERATIONS

In the second quarter of 2013 we exited three small operations:

- We closed our final location that produced wire dishwasher racks, thereby discontinuing that line of business. This operation, which was previously in our Industrial Materials segment, was part of a restructuring plan that began in the fourth quarter of 2011. Tax benefits related to this business were recorded in the second quarters of both 2012 and 2013.
- We divested the specialty trailers portion of the Commercial Vehicle Products (CVP) Unit. This branch was previously part of the Specialized Products segment. No significant gains or losses were realized on the sale of this business.
- We closed a cotton-based erosion control products operation that was previously part of the Industrial Materials Segment. Charges of $1.9 were recorded in the second quarter of 2013 to reflect estimates of fair value less costs to sell, including $1.5 of fixed asset impairments.

The table below includes activity related to these operations:

	Three Months Ended March 31,	
	2014	2013
External sales:		
Industrial Materials:		
Wire dishwasher racks	$—	$2.9
Cotton-based erosion control products	—	—
Specialized Products - the specialty trailers portion of the CVP Unit	—	.4
Total external sales	—	3.3
Earnings (loss):		
Industrial Materials:		
Wire dishwasher racks	—	.8
Cotton-based erosion control products	—	(.3)
Specialized Products - the specialty trailers portion of the CVP Unit	—	(.3)
Earnings before interest and income taxes	—	.2

Income tax expense	—	(.1)
Earnings from discontinued operations (net of tax)	$—	$.1

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

6. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended March 31,	
	2014	2013
Earnings:		
Earnings from continuing operations	$ 53.7	$ 49.4
(Earnings) attributable to noncontrolling interest, net of tax	(.6)	(.4)
Net earnings from continuing operations attributable to Leggett & Platt, Inc. common shareholders	53.1	49.0
Earnings (loss) from discontinued operations, net of tax	—	.1
Net earnings attributable to Leggett & Platt, Inc. common shareholders	$ 53.1	$ 49.1
Weighted average number of shares (in millions):		
Weighted average number of common shares used in basic EPS	142.4	145.9
Dilutive effect of equity-based compensation	1.6	2.1
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	144.0	148.0
Basic and Diluted EPS:		
Basic EPS attributable to Leggett & Platt, Inc. common shareholders	$ .37	$ .34
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders	$ .37	$ .33
Other information:		
Anti-dilutive shares excluded from diluted EPS computation	—	—

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

7. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consisted of the following:

	March 31, 2014		December 31, 2013	
	Current	Long-term	Current	Long-term
Gross receivables:				
Trade accounts receivable	$539.0	$—	$447.4	$—
Trade notes receivable	2.8	2.0	2.6	2.3
Total trade receivables	541.8	2.0	450.0	2.3
Other notes receivable:				
Notes received as partial payment for divestitures	1.2	4.3	.5	5.4
Other	3.0	.9	3.0	1.6
Other receivables	43.9	—	29.1	—
Subtotal other receivables	48.1	5.2	32.6	7.0
Total accounts and other receivables	589.9	7.2	482.6	9.3
Allowance for doubtful accounts:				
Trade accounts receivable	(15.2)	—	(14.6)	—
Trade notes receivable	(.8)	(1.2)	(.6)	(1.3)
Total trade receivables	(16.0)	(1.2)	(15.2)	(1.3)
Other notes receivable	—	(.4)	—	(1.1)
Total allowance for doubtful accounts	(16.0)	(1.6)	(15.2)	(2.4)
Total net receivables	$573.9	$5.6	$467.4	$6.9

Notes that were past due more than 90 days or had been placed on non-accrual status were not significant for the periods presented.

Activity related to the allowance for doubtful accounts is reflected below:

	Balance at December 31, 2013	2014 Charges	2014 Charge-offs, net of recoveries	Balance at March 31, 2014
Trade accounts receivable	$14.6	$1.0	$.4	$15.2
Trade notes receivable	1.9	.1	—	2.0
Total trade receivables	16.5	1.1	.4	17.2
Other notes receivable	1.1	—	.7	.4
Total allowance for doubtful accounts	$17.6	$1.1	$1.1	$17.6

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

8. STOCK-BASED COMPENSATION

The following table recaps the components of stock-based and stock-related compensation for each period presented:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	To be settled with stock	To be settled in cash	To be settled with stock	To be settled in cash
Options (1):				
Amortization of the grant date fair value	$ .2	$ —	$ .5	$ —
Cash payments in lieu of options	—	.9	—	.8
Stock-based retirement plans contributions (2)	1.6	.5	2.3	.5
Discounts on various stock awards:				
Deferred Stock Compensation Program(1)	.7	—	.7	—
Stock-based retirement plans (2)	.7	—	.5	—
Discount Stock Plan (6)	.3	—	.3	—
Performance Stock Unit awards (3)	1.5	1.2	1.6	4.3
Restricted Stock Unit awards (4)	.8	—	1.7	—
Profitable Growth Incentive awards (5)	.4	.4	.2	.2
Other, primarily non-employee directors restricted stock	.3	—	.5	—
Total stock-related compensation expense	6.5	$ 3.0	8.3	$ 5.8
Employee contributions for above stock plans	4.0		3.2	
Total stock-based compensation	$ 10.5		$ 11.5	
Recognized tax benefits on stock-based compensation expense	$ 2.5		$ 3.1	

(1) Stock Option Grants

We have granted stock options in the following areas:

- On a discretionary basis to a broad group of employees
- In conjunction with our Deferred Compensation Program
- As compensation of outside directors

Starting in 2013, we discontinued the annual option grant, and options are now offered only in conjunction with the Deferred Compensation Program discussed below, and were replaced with either cash awards or RSUs. Certain key management employees participated in a new Profitable Growth Incentive (PGI) program beginning in 2013, as discussed below.

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 the last business day of the year 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. The option has a 10-year term. It vests as the associated compensation is earned and becomes 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 on each acquisition date 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. However, stock units

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

may be settled in cash at the discretion of the Company. Participants must begin receiving distributions no later than ten years after the effective date of the deferral and installment distributions cannot exceed ten years.

- Interest-bearing cash deferrals under this program are reported in Other long-term liabilities on the balance sheet.

(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. 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 contributions to the ESUP, including dividend equivalents, are used to acquire stock units at 85% of the common stock market price on the acquisition date.

(3) Performance Stock Unit Awards

We grant Performance Stock Unit (PSU) awards in the first quarter of each year to selected officers and other key managers. 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 500 and S&P Midcap 400 (approximately 320 companies). Participants will earn from 0% to 175% of the base award depending upon how our Total Shareholder Return ranks within the peer group at the end of the 3-year performance period.

Grant date fair values are calculated using a Monte Carlo simulation of stock and volatility data for Leggett and each of the comparator companies. Grant date fair values are amortized using the straight-line method over the three-year vesting period.

Below is a summary of the number of shares and related grant date fair value of PSU's for the periods presented

	Three Months Ended March 31,	
	2014	2013
Total shares base award	.2	.2
Grant date per share fair value	$30.45	$27.60
Risk-free interest rate	.8%	.4%
Expected life in years	3.0	3.0
Expected volatility (over expected life)	25.9%	29.1%
Expected dividend yield (over expected life)	3.9%	4.2%

Three-Year Performance Cycle

Award Year	Completion Date	TSR Performance Relative to the Peer Group (1%=Best)	Payout as a Percent of the Base Award	Number of Shares Distributed	Distribution Date
2010	December 31, 2012	46th percentile	91.0%	.3 million	January 2013
2011		55th percentile	64.2%	.2 million	January 2014

December 31,
2013

The above information represents the 65% portion of the award that we intend to pay in shares of our common stock, although we reserve the right to pay up to 100% in cash. There is also an additional amount that represents 35% of the award that we will settle in cash. It is recorded as a liability and is adjusted to fair value at each reporting period.

LEGGETT & PLATT, INCORPORATED
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

(4) Restricted Stock Unit Awards

RSU awards are generally granted as follows:

- To managers in lieu of annual option grants
- On a discretionary basis to selected managers
- To selected executive officers in connection with employment agreements
- As compensation for outside directors, who have a choice to receive RSUs or restricted stock

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.

(5) Profitable Growth Incentive Awards

Starting in 2013, certain key management employees participated in a new Profitable Growth Incentive (PGI) program in lieu of the annual option grant. The PGI awards are issued as growth performance stock units (GPSUs). The GPSUs vest (0% to 250%) at the end of a two-year performance period. Vesting is based on the Company's or applicable profit center's revenue growth (adjusted by a GDP factor when applicable) and EBITDA margin at the end of a two-year performance period. The 2014 and 2013 base target PGI awards were each .1 shares. If earned, we intend to pay half in shares of our common stock and half in cash, although we reserve the right to pay up to 100% in cash. Both components are adjusted to fair value at each reporting period.

(6) 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. Shares are purchased and issued on the last business day of each month and generally cannot be sold or transferred for one year.

9. EMPLOYEE BENEFIT PLANS

The following table provides interim information as to our domestic and foreign defined benefit pension plans. Expected 2014 employer contributions are not significantly different than the $3.4 previously reported at December 31, 2013.

	Three Months Ended March 31,	
	2014	2013
Components of net pension expense		
Service cost	$.8	$.9
Interest cost	3.2	3.0
Expected return on plan assets	(3.9)	(3.8)
Recognized net actuarial loss	.8	1.5
Net pension expense	$.9	$1.6

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10. STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

	Three Months Ended March 31, 2014					
	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2014	$1,399.2	$2,136.4	$481.1	$(1,320.7)	$ 7.9	$ 94.5
Net earnings	53.7	53.7	—	—	—	—
(Earnings) loss attributable to noncontrolling interest, net of tax	—	(.6)	—	—	.6	—
Dividends declared	(41.5)	(42.7)	1.2	—	—	—
Treasury stock purchased	(46.4)	—	—	(46.4)	—	—
Treasury stock issued	9.1	—	(17.0)	26.1	—	—
Foreign currency translation adjustments	(15.1)	—	—	—	(.2)	(14.9)
Cash flow hedges, net of tax	(.1)	—	—	—	—	(.1)
Defined benefit pension plans, net of tax	.6	—	—	—	—	.6
Stock options and benefit plan transactions, net of tax	11.4	—	11.4	—	—	—
Ending balance, March 31, 2014	$1,370.9	$2,146.8	$476.7	$(1,341.0)	$ 8.3	$ 80.1

	Three Months Ended March 31, 2013					
	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2013	$1,442.2	$2,109.6	$460.6	$(1,206.7)	$ 7.7	$ 71.0
Net earnings	49.5	49.5	—	—	—	—
(Earnings) loss attributable to noncontrolling interest, net of tax	—	(.4)	—	—	.4	—
Dividends declared	(41.5)	(41.5)	—	—	—	—
Treasury stock purchased	(50.1)	—	—	(50.1)	—	—
Treasury stock issued	38.9	—	(13.0)	51.9	—	—
Foreign currency translation adjustments	(16.3)	—	—	—	—	(16.3)
Cash flow hedges, net of tax	.8	—	—	—	—	.8
	1.4	—	—	—	—	1.4

Defined benefit pension plans, net of tax						
Stock options and benefit plan transactions, net of tax	15.0	—	15.0	—	—	—
Ending balance, March 31, 2013	$1,439.9	$2,117.2	$462.6	$(1,204.9)	$ 8.1	$ 56.9

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The following tables set forth the components of and changes in each component of accumulated other comprehensive income (loss) for each of the periods presented:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Beginning balance, January 1, 2014	$158.3	$(23.5)	$(40.3)	$94.5
Other comprehensive income (loss) before reclassifications, pretax	(15.1)	(1.0)	.1	(16.0)
Amounts reclassified from accumulated other comprehensive income, pretax:				
Net Sales	—	.1	—	.1
Cost of goods sold; selling and administrative expenses	—	—	.8	.8
Interest expense	—	1.0	—	1.0
Subtotal of reclassifications, pretax	—	1.1	.8	1.9
Other comprehensive income (loss), pretax	(15.1)	.1	.9	(14.1)
Income tax effect	—	(.2)	(.3)	(.5)
Attributable to noncontrolling interest	.2	—	—	.2
Ending balance, March 31, 2014	$143.4	$(23.6)	$(39.7)	$80.1
Beginning balance, January 1, 2013	$163.5	$(25.5)	$(67.0)	$71.0
Other comprehensive income (loss) before reclassifications, pretax	(16.3)	—	.5	(15.8)
Amounts reclassified from accumulated other comprehensive income, pretax:				
Cost of goods sold; selling and administrative expenses	—	.2	1.5	1.7
Interest expense	—	1.0	—	1.0
Subtotal of reclassifications, pretax	—	1.2	1.5	2.7
Other comprehensive income (loss), pretax	(16.3)	1.2	2.0	(13.1)
Income tax effect	—	(.4)	(.6)	(1.0)
Ending balance, March 31, 2013	$147.2	$(24.7)	$(65.6)	$56.9

11. FAIR VALUE

We utilize fair value measures for both financial and non-financial assets and liabilities.

Items measured at fair value on a recurring basis

The areas in which we utilize fair value measures of financial assets and liabilities are presented in the table below. Fair value measurements are established 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: 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.

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	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Bank time deposits with original maturities of three months or less	$—	$118.9	$—	$118.9
Derivative assets (Note 12)	—	.9	—	.9
Diversified investments associated with the Executive Stock Unit Program (ESUP)* (Note 8)	15.6	—	—	15.6
Total assets	$15.6	$119.8	$—	$135.4
Liabilities:				
Derivative liabilities (Note 12)	$—	$1.9	$—	$1.9
Liabilities associated with the ESUP* (Note 8)	15.6	—	—	15.6
Total liabilities	$15.6	$1.9	$—	$17.5

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Bank time deposits with original maturities of three months or less	$—	$114.8	$—	$114.8
Derivative assets (Note 12)	—	.6	—	.6
Diversified investments associated with the ESUP* (Note 8)	13.4	—	—	13.4
Total assets	$13.4	$115.4	$—	$128.8
Liabilities:				
Derivative liabilities (Note 12)	$—	$.9	$—	$.9
Liabilities associated with the ESUP* (Note 8)	13.3	—	—	13.3
Total liabilities	$13.3	$.9	$—	$14.2

* - Includes both current and long-term amounts combined.

There were no transfers between Level 1 and Level 2 for any of the periods presented.

The fair value for fixed rate debt (Level 2) was greater than its $830 carrying value by $11 at March 31, 2014 and $3 less than its $830 carrying value at December 31, 2013. We value this debt using discounted cash flow and secondary market rates provided by Bloomberg.

Items measured at fair value on a non-recurring basis

The primary areas in which we use fair value measurements of non-financial assets and liabilities are allocating purchase price to the assets and liabilities of acquired companies and evaluating long-term assets (including goodwill) for potential impairment. Determination of fair values of acquired assets and assumed liabilities requires significant judgment and are calculated utilizing a variety of methods and models that utilize significant Level 3 inputs.

Long lived assets, acquisitions and the second step of a goodwill impairment test utilize the following methodologies in determining fair value: (i) Buildings and machinery are valued at an estimated replacement cost for an asset of comparable age and condition. Market pricing of comparable assets is used to estimate replacement cost where available. (ii) The most common identified intangible assets are customer relationships and tradenames. Customer relationships are valued using an excess earnings method, using various inputs such as the estimated customer attrition rate, future earnings forecast, the amount of contributory asset charges, and a discount rate. Tradenames are valued using a relief from royalty method, which is based upon comparable market royalty rates for tradenames of similar value. (iii) Inventory is valued at current replacement cost for raw materials, with a step-up for work in process and finished goods items that reflects the amount of ultimate profit earned as of the valuation date. (iv) Other working capital items are generally recorded at face value, unless there are known conditions that would impact the ultimate settlement amount of the particular item.

Goodwill

We perform an annual review for potential goodwill impairment in June of each year and as triggering events occur. The goodwill impairment review performed in June 2013 indicated no goodwill impairments. A triggering event occurred for our Commercial Vehicle Products unit in the fourth quarter of 2013 which resulted in a $63.0 goodwill impairment charge during the same quarter.

The ten reporting units for goodwill purposes are one level below the operating segments, and are the same as the business groups disclosed in Item 1. Business in Form 10-K. Fair market values of the reporting units are estimated 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, sales growth, margins, capital expenditure requirements, and working capital requirements. Recent performance of the reporting unit is an important factor, but not the only factor, in the assessment. If actual results differ from estimates used in these calculations, we could incur future impairment charges.

Reporting units’ fair values in relation to their respective carrying values and significant assumptions used in 2013 are presented in the table below. The 10-25% category below includes information for one reporting unit (Store Fixtures). The fair value of this unit exceeded its book value by 18% at June 30, 2013.

Percentage of fair value in excess of carrying value	March 31, 2014 goodwill value	Sales 10-year compound annual growth rate range	Terminal values long-term growth rate	Discount rate ranges
10-25%	$107.3	3.3%	3%	10.5%
25%+	819.3	1.5 %- 5.0%	3%	8.0 %- 10.0%
	$926.6	1.5 %- 5.0%	3%	8.0 %- 10.5%

Fixed Assets

We test long-lived assets for recoverability at year-end and whenever events or changes in circumstances indicate the carrying value may not be recoverable. The table below summarizes fixed asset impairment for the periods presented.

	Three Months Ended March 31, 2014	2013
Total impairments	$.5	$.2

Fair value and the resulting impairment charges were based primarily upon offers from potential buyers or third party estimates of fair value less selling costs.

12. RISK MANAGEMENT AND 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 this treatment. It is our policy not to speculate using derivative instruments.

Cash Flow Hedges

Derivative financial instruments that we use to hedge forecasted transactions and anticipated cash flows are as follows:

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- Commodity Cash Flow Hedges—We have historically used commodity cash flow hedges primarily to manage natural gas commodity price risk. Our last natural gas commodity hedge expired during 2013.
- Interest Rate Cash Flow Hedges—In August 2012, we issued $300 of 10-year notes with a coupon rate of 3.4%. As a part of this transaction, we settled our $200 forward starting interest rate swaps we had entered into during 2010 and recognized a loss of $42.7, which will be amortized out of accumulated other comprehensive income to interest expense over the life of the notes.

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- Currency Cash Flow Hedges—The foreign currency hedges manage risk associated with exchange rate volatility of various currencies.

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. Cash flows from settled contracts are presented in the category consistent with the nature of the item being hedged. (Settlements associated with the sale or production of product are presented in operating cash flows and settlements associated with debt issuance are presented in financing cash flows.)

Fair Value Hedges

Our fair value hedges typically 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. Cash flows from settled contracts are presented in the category consistent with the nature of the item being hedged.

Hedge Effectiveness

We have deemed ineffectiveness to be immaterial, and as a result, have not recorded any amounts for ineffectiveness. If a hedge was not highly effective, the portion of the change in fair value considered to be ineffective would be recognized immediately in the consolidated statements of operations.

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.

	Expiring at various dates through:	Total USD Equivalent Notional Amount	As of March 31, 2014		
			Assets		Liabilities
			Other Current Assets	Sundry	Other Current Liabilities
Derivatives designated as hedging instruments					
Cash flow hedges:					
Currency Hedges:					
Future USD sales of Canadian and Chinese subsidiaries	Dec 2015	$124.4	$—	$—	$1.7
Future MXP cost of goods sold of US subsidiary	Dec 2016	7.9	.1	.1	—
Future EUR sales of a Chinese subsidiary	Feb 2015	3.9	—	—	.1
Future JPY sales of Chinese subsidiaries	Dec 2014	4.1	—	—	.1
Total cash flow hedges			.1	.1	1.9
Fair value hedges:					
USD inter-company note receivable on a CAD subsidiary	April 2014	7.0	.1	—	—
USD inter-company note receivable on a Swiss subsidiary	May 2014	14.5	.6	—	—
Total fair value hedges			.7	—	—
			$.8	$.1	$1.9

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	Expiring at various dates through:	Total USD Equivalent Notional Amount	As of December 31, 2013 Assets Other Current Assets	Liabilities Other Current Liabilities
Derivatives designated as hedging instruments				
Cash flow hedges:				
Currency Hedges:				
Future USD sales of Canadian and Chinese subsidiary	Dec 2015	$133.9	$.1	$.8
Future JPY sales of Chinese subsidiary	Dec 2014	5.1	.1	—
Future EUR sales of Chinese subsidiary	Feb 2015	4.7	—	.1
Total cash flow hedges			.2	.9
Fair value hedges:				
USD inter-company note receivable on a Switzerland subsidiary	Mar 2014	14.5	.4	—
			$.6	$.9

The following table sets forth the pre-tax (gains) losses from continuing operations for our hedging activities for the years presented. This schedule includes reclassifications from accumulated other comprehensive income (see Note 10) as well as derivative settlements recorded directly to income or expense.

	Income Statement Caption	Amount of (Gain) Loss Recorded in Income Three Months Ended March 31 2014	2013
Derivatives designated as hedging instruments			
Commodity cash flow hedges	Cost of goods sold	$—	$.2
Interest rate cash flow hedges	Interest expense	1.0	1.0
Foreign currency cash flow hedges	Net sales	.3	(.2)
Foreign currency cash flow hedges	Other (income) expense, net	.1	—
Total cash flow hedges		1.4	1.0
Fair value hedges	Other (income) expense, net	(.5)	(1.1)
Total derivative instruments		$.9	$(.1)

13. CONTINGENCIES

We are a defendant in various proceedings involving employment, antitrust, intellectual property, environmental, taxation and other laws. When it is probable, in management's judgment, that we may incur monetary damages or other costs resulting from these proceedings or other claims, and we can reasonably estimate the amounts, we record appropriate liabilities in the financial statements and make charges against earnings. For all periods presented, we have recorded no material charges against earnings, and the total liabilities recorded are not material to our financial position.

Shareholder Derivative Lawsuit

On August 10, 2010, a shareholder derivative suit was filed by the New England Carpenters Pension Fund in the Circuit Court of Jasper County, Missouri as Case No. 10AO-CC284. The suit was purportedly brought on our behalf, naming us as a nominal defendant, and certain current and former officers and directors as individual defendants including David S. Haffner, Karl G. Glassman, Matthew C. Flanigan, Ernest C. Jett, Harry M. Cornell, Jr., Felix E. Wright, Robert Ted Enloe, III, Richard T. Fisher, Judy C. Odom, Maurice E. Purnell, Jr., Ralph W. Clark and Michael A. Glauber. The plaintiff alleged, among other things, that the individual defendants: breached their fiduciary duties;

backdated and received backdated stock options violating our stock plans; caused or allowed us to issue false and misleading financial statements and proxy statements; sold our stock while possessing material non-public information; committed gross mismanagement; wasted corporate assets; committed fraud; violated the Missouri Securities Act; and were unjustly enriched.

The plaintiff is seeking, among other things: unspecified monetary damages against the individual defendants; certain equitable and other relief relating to the profits from the alleged improper conduct; the adoption of certain corporate governance proposals; the imposition of a constructive trust over the defendants' stock options and proceeds; punitive damages; the rescission of certain unexercised options; and the reimbursement of litigation costs. The plaintiff is not seeking monetary relief from us. We have director and officer liability insurance in force subject to customary limits and exclusions.

We and the individual defendants filed motions to dismiss the suit in late October 2010, asserting: the plaintiff failed to make demand on our Board and shareholders as required by Missouri law, and this failure to make demand should not be excused; the dismissal of the substantially similar suit in 2009 precludes the 2010 suit; the plaintiff is not a representative shareholder; the suit was based on a statistical analysis of stock option grants and our stock prices that we believe was flawed; the plaintiff failed to state a substantive claim; the common law fraud claim was not pled with sufficient particularity; and the statute of limitations has expired on the fraud claim and all the alleged challenged grants except the December 30, 2005 grant. As to this grant, the motions to dismiss advised the Court that it was made under our Deferred Compensation Program, which (i) provided that options would be dated on the last business day of December, and (ii) was filed with the SEC on December 2, 2005 setting out the pricing mechanism well before the grant date. On April 6, 2011, the suit was dismissed without prejudice.

On May 12, 2011, the plaintiff filed an appeal to the Missouri Court of Appeals. On November 28, 2012, the Missouri Court of Appeals reversed the trial court's dismissal finding that plaintiff sufficiently pleaded it would be futile to make demand on the Board and shareholders. The Court of Appeals did not address the other grounds that had been raised in the motions to dismiss. We filed a request for transfer to the Missouri Supreme Court on December 12, 2012, which was denied by the Court of Appeals. On January 3, 2013, we filed a transfer petition to the Missouri Supreme Court. On February 26, 2013, the Missouri Supreme Court denied our request. The case was sent back to Jasper County, Missouri for further proceedings. At the parties' request, on June 4, 2013, the circuit court stayed all proceedings to allow the parties to mediate the dispute. The stay of litigation remains in effect.

We do not expect that the outcome of this matter will have a material adverse effect on our financial condition, operating cash flows or results of operations.

Antitrust Lawsuits

Beginning in August 2010, a series of civil lawsuits was initiated in several U.S. federal courts and in Canada against over 20 defendants alleging that competitors of our carpet underlay business unit and other manufacturers of polyurethane foam products had engaged in price fixing in violation of U.S. and Canadian antitrust laws.

A number of these lawsuits have been voluntarily dismissed, most without prejudice. Of the U.S. cases remaining, we have been named as a defendant in (a) three direct purchaser class action cases (the first on November 15, 2010) and a consolidated amended class action complaint filed on February 28, 2011 on behalf of a class of all direct purchasers of polyurethane foam products; (b) an indirect purchaser class consolidated amended complaint filed on March 21, 2011; and an indirect purchaser class action case filed on May 23, 2011; (c) 38 individual direct purchaser cases filed between March 22, 2011 and October 16, 2013; and (d) two individual cases alleging direct and indirect purchaser claims under the Kansas Restraint of Trade Act, one filed on November 29, 2012 and the other on April 11, 2013. All of the pending U.S. federal cases in which we have been named as a defendant, have been filed in or have been transferred to the U.S. District Court for the Northern District of Ohio under the name In re: Polyurethane Foam Antitrust Litigation, Case No. 1:10-MD-2196.

In the U.S. actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. On April 15 and May 6, 2011, we filed motions to dismiss the U.S. direct purchaser and indirect purchaser class actions in the consolidated case in Ohio, for failure to state a legally valid claim. On July 19, 2011, the Ohio Court denied the motions to dismiss. Discovery is underway in the U.S. actions. Motions for class certification have been filed on behalf of both direct and indirect purchasers. A hearing on the motions was held January 15, 2014. On April 9, 2014, the Court certified the direct and indirect purchaser classes. We filed a Petition for Permission to Appeal from Class Certification Order to the United States Court of Appeals for the Sixth Circuit on April 23, 2014. The Court has held dates in October 2014 for the first trials, and will confer with the parties' counsel in June to determine which will be the first tried case.

We have been named in two Canadian class action cases (for direct and indirect purchasers of polyurethane foam products), both under the name Hi Neighbor Floor Covering Co. Limited and Hickory Springs Manufacturing Company, et.al. in the Ontario Superior Court of Justice (Windsor), Court File Nos. CV-10-15164 (amended November 2, 2011) and CV-11-17279 (issued December 30, 2011). In each of the Canadian cases, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek from over 13 defendants restitution of the amount allegedly overcharged, general and special damages in the amount of $100, punitive damages of $10, pre-judgment and post-judgment interest, and the costs of the investigation and the action. The first issued class action is on behalf of a class of purchasers of polyurethane foam. The second issued class action is on behalf of purchasers of carpet underlay. We are not yet required to file our defenses in the Canadian actions. In addition, on July 10, 2012, plaintiff in a class action case (for direct and indirect purchasers of polyurethane foam products) styled Option Consommateurs and Karine Robillard v. Produits Vitafoam Canada Limitée, et. al. in the Quebec Superior Court of Justice (Montréal), Court File No. 500-6-524-104, filed an amended motion for authorization seeking to add us and other manufacturers of polyurethane foam products as defendants in this case, which was granted.

On June 22, 2012, we were also made party to a lawsuit brought in the 16th Judicial Circuit Court, Jackson County, Missouri, Case Number 1216-CV15179 under the caption "Dennis Baker, on Behalf of Himself and all Others Similarly Situated vs. Leggett & Platt, Incorporated." The plaintiff, on behalf of himself and/or a class of indirect purchasers of polyurethane foam products in the State of Missouri, alleged that we violated the Missouri Merchandising Practices Act based upon our alleged illegal price inflation of flexible polyurethane foam products. The plaintiff seeks unspecified actual damages, punitive damages and the recovery of reasonable attorney fees. We filed a motion to dismiss this action, which was denied on November 5, 2012. Discovery has commenced and plaintiff has filed a motion for class certification. The parties' briefing is completed, and a hearing on the motion was held on February 20, 2014.

We deny all of the allegations in all of the above actions and will vigorously defend ourselves. These contingencies are subject to many uncertainties. Therefore, based on the information available to date, we cannot reasonably estimate the amount or range of potential loss, if any, because, at this juncture of the proceedings; discovery is incomplete, all expert liability reports have not been exchanged; and because the litigation involves unsettled legal theories.

Brazilian Value-Added Tax Matters

On December 22, 2011, the Brazilian Finance Ministry, Federal Revenue Office issued a notice of violation against our wholly-owned subsidiary, Leggett & Platt do Brasil Ltda. ("L&P Brazil") in the amount of $3.3, under Case No. 10855.724660/2011-43. The Brazilian Revenue Office claimed that for the period beginning November 2006 and continuing through December 2007, L&P Brazil used an incorrect tariff code for the collection and payment of value-added tax primarily on the sale of mattress innerspring units in Brazil. L&P Brazil responded to the notice of violation on January 26, 2012 denying the violation. The Federal Revenue Office, on August 9, 2013, denied L&P Brazil's defenses and upheld the assessment at the first administrative level. L&P Brazil was notified about this judgment on October 16, 2013, and has filed an appeal.

On December 17, 2012, the Brazilian Revenue Office issued an additional notice of violation in the amount of $5.8 under MPF Case No. 10855.725260/2012-36 covering the period from January 1, 2008 through December 31, 2010 on the same subject matter. L&P Brazil responded to the notice of violation on January 17, 2013 denying the violation. The Brazilian Revenue Office, on June 13, 2013, denied L&P Brazil's defenses and upheld the assessment at the first administrative level. L&P Brazil appealed this decision on July 8, 2013. The Brazilian Revenue Office, on December 18, 2013, also issued an audit notice for years 2011 and 2012, which may result in additional assessments. In addition, L&P Brazil received assessments on December 22, 2011, and June 26, July 2 and November 5, 2012, and September 13, 2013 from the Brazilian Revenue Office where the Revenue Office challenged L&P Brazil's use of certain tax credits in the years 2006 through 2010. Such credits are generated based upon the tariff classification and rate used by L&P Brazil for value-added tax on the sale of mattress innersprings. Combined with prior assessments, L&P Brazil has received assessments totaling $1.8 on the same or similar denial of tax credit matters.

L&P Brazil is also party to a proceeding involving the State of Sao Paulo, Brazil where the State of Sao Paulo, on April 16, 2009, issued a Notice of Tax Assessment and Imposition of Fine to L&P Brazil seeking $2.5 for the tax years 2006 and 2007, under Case No. 3.111.006 (DRT n°.04-256.169/2009). The State of Sao Paulo argued that L&P Brazil was using an incorrect tariff code for the collection and payment of value-added tax on sales of mattress innerspring units in the State of Sao Paulo. On September 29, 2010, the Court of Tax and Fees of the State of Sao Paulo ruled in favor of L&P Brazil nullifying the tax assessment. The State filed a special appeal and the Special Appeals court remanded the case back to the Court of Tax and Fees for further findings. On November 9, 2012, the Court of Tax and Fees again ruled in favor of L&P Brazil and nullified the tax assessment. On November 28, 2012, the State filed another special appeal. The determination to accept the special appeal was made on December 26, 2012, and L&P Brazil responded to this special appeal on January 24, 2013. On April 17, 2014, the Court of Tax and Fees ruled in the State's favor upholding the original assessment of $2.5. L&P Brazil now intends to oppose this assessment in the appropriate judicial district.

We were also informed on October 4, 2012 that the State of Sao Paulo issued a Tax Assessment dated May 29, 2012 under Procedure Number 4.003.484 against L&P Brazil in the amount of $2.1 for the tax years 2009 through 2011. Similar to the prior assessment, the State of Sao Paulo argues that L&P Brazil was using an incorrect tax rate for the collection and payment of value-added tax on sales of mattress innerspring units in the State of Sao Paulo. On June 21, 2013, the State of Sao Paulo's attorneys converted the Tax Assessment No. 4.003.484 to a tax collection action against L&P Brazil in the amount of $2.8, under Sorocaba Judicial District Court, Case No. 3005528-50.2013.8.26.0602. L&P Brazil filed its response, a Motion to Stay of Execution, on January 27, 2014 denying the allegations. L&P Brazil also received a Notice of Tax Assessment and Imposition of a Fine from the State of Sao Paulo dated April 1, 2014, under Procedure Number 4.038.746-0 against L&P Brazil in the amount of $1.3 for the tax years January 2011 through August 2012 regarding the same subject matter. L&P filed its response on April 30, 2014, denying the allegations.

On December 18, 2012, the State of Minas Gerais, Brazil issued a tax assessment to L&P Brazil relating to L&P Brazil's classifications of innersprings for the collection and payment of value-added tax on the sale of mattress innersprings in Minas Gerais from March 1, 2008 through August 31, 2012 in the amount of $.6, under PTA Case No. 01.000.182756-62. L&P Brazil filed its response denying any violation on January 17, 2013. On October 22, 2013, the first administrative level ruled against us but did reduce the tax to $.3 (plus interest and penalties). We appealed to the second administrative level on December 30, 2013, which affirmed the first administrative level ruling. The case will now proceed judicially under Case No. 0003673-61.2014.8.13.0878 in Camanducaia Judicial District Court.

On February 1, 2013, the Brazilian Finance Ministry filed a Tax Collection action against L&P Brazil in the Camanducaia Judicial District Court, Case No. 0002222-35.2013.8.13.0878, alleging the untimely payment of $.2 of social contributions (social security and social assistance payments). L&P Brazil filed its response, a Motion to Stay of Execution, on July 11, 2013. L&P Brazil argued the payments were not required to be made because of the application of certain tax credits that were generated by L&P Brazil's use of a tariff code for the classification of value-added tax on the sale of mattress innersprings (i.e., the same underlying issue at stake in the other Brazilian matters).

We deny all of the allegations in these actions. We believe that we have valid bases upon which to contest such actions and will vigorously defend ourselves. However, these contingencies are subject to many uncertainties.

Patent Infringement Claim

On January 24, 2012, in a case in the United States District Court for the Central District of California, the jury entered a verdict against us in the amount of $5 based upon an allegation by plaintiff that we infringed three patents on an automatic stapling machine and on methods used to assemble box springs. This action was originally filed on October 4, 2010, as case number CV10-7416 RGK (SSx) under the caption Imaginal Systematic, LLC v. Leggett & Platt, Incorporated; Simmons Bedding Company; and Does 1 through 10, inclusive. Leggett is contractually obligated to defend and indemnify Simmons Bedding Company against a claim for infringement.

On summary judgment motions, we unsuccessfully disputed each patent's validity and denied that we infringed any patent. At the jury trial on damages issues, the plaintiff alleged damages of $16.2. The court denied plaintiff's attempt to win an attorney fee award and triple the pre-verdict damages.

On April 9, 2012 we appealed the case to the Federal Circuit Court of Appeals. Oral argument was held on February 6, 2013 before a three judge appeal panel in the Federal Circuit in Washington D.C. On February 14, 2013, the Court of Appeals issued a judgment affirming the $5 verdict against us, which was fully accrued for in the first quarter of 2013 and then paid in the second quarter of 2013. We filed a petition for a rehearing of the Court of Appeals decision on March 18, 2013, which was denied by the Court of Appeals.

The plaintiff requested royalties for post-verdict use of the machines, and requested pre-judgment interest in the amount of $.7. On July 3, 2013, the District Court ruled that the plaintiff was not entitled to additional ongoing royalties for our continued use of the machines, but did award pre-judgment interest of $.5. On August 2, 2013, both parties filed a notice of appeal of this order to the Federal Circuit Court of Appeals, but plaintiff has since withdrawn its appeal.

In 2011, we also filed reexamination proceedings in the Patent Office (Case Nos. 95/001,543 filed February 11, 2011; 95/001,546 and 95/001,547 filed February 16, 2011), challenging the validity of each patent at issue in the lawsuit the plaintiff brought. The Patent Office examiner ruled in our favor on the key claims of one of the three patents. The Patent Office examiner initially ruled in our favor on the pertinent claims of the second of the patents, but subsequently reversed that decision. With respect to the third patent, the Patent Office examiner's decision upheld the validity of all claims. All three of these proceedings were appealed to the Board of Patent Appeals. Due to a change made to all of the machines, we do not believe that the machines currently use the feature alleged to have infringed the third patent. On April 25, 2013, the plaintiff filed petitions to terminate all re-examination proceedings based on the final ruling of the Federal Circuit Court of Appeals. We opposed those petitions. The Patent Office terminated all three re-examination proceedings, two on December 16, and one on December 18, 2013.

On July 29, 2013, the plaintiff filed a second lawsuit in the United States District Court for the Central District of California, Case No. CV13-05463 alleging that we and Simmons Bedding Company have continued to infringe the three patents on an automatic stapling machine and the methods used to assemble box springs, and that the plaintiff is entitled to additional damages from January 24,2012 forward. Leggett and Simmons Bedding Company filed their Answers on November 20, 2013, and intend to vigorously defend the allegations. Trial is scheduled to begin on September 30, 2014.

At this time, we do not expect that the outcome of this matter will have a material adverse effect on our financial condition, operating cash flows or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

What We Do

Leggett & Platt is a diversified manufacturer, and member of the S&P 500 index, that conceives, designs, and produces a wide range of engineered components and products found in most homes, offices, automobiles, and also in many airplanes and retail stores. We make components that are often hidden within, but integral to, our customers' products.

We are the leading U.S. manufacturer of: components for residential furniture and bedding, adjustable bed bases, carpet underlay, components for office furniture, drawn steel wire, thin-walled titanium and nickel tubing for the aerospace industry, automotive seat support and lumbar systems, and bedding industry machinery.

Our Segments

Our continuing operations are comprised of 20 business units in four segments, with approximately 19,000 employees, and 130 production facilities located in 18 countries around the world. Our segments are described below.

Residential Furnishings: This segment supplies a variety of components mainly used by bedding and upholstered furniture manufacturers in the assembly of their finished products. We also sell carpet cushion, adjustable bed bases, bed frames, ornamental beds and geo components. This segment generated 50% of total sales during the first quarter of 2014.

Commercial Fixturing & Components: Operations in this segment manufacture and sell store fixtures and point-of-purchase displays used in retail stores. We also produce chair controls, bases, and other components for office furniture manufacturers, as well as select lines of private-label finished furniture. This segment contributed 9% of total sales in the first quarter of 2014.

Industrial Materials: These operations primarily supply steel rod, drawn steel wire, steel billets, and welded steel tubing to our other operations and to external customers. Our customers use this wire and tubing to make bedding, furniture, automotive seats, mechanical springs, and many other end products. We also supply titanium and nickel tubing for the aerospace industry. This segment generated 21% of our total sales during the first three months of 2014.

Specialized Products: From this segment we supply lumbar support systems and seat suspension systems used by automotive seating manufacturers. We manufacture and install the racks, shelving and cabinets used to outfit fleets of service vans. We also produce quilting, sewing, and wire forming machinery, some of which is used by other Leggett operations as well as external customers, including bedding manufacturers. This segment contributed 20% of our total sales in the first three months of 2014.

Total Shareholder Return

Total Shareholder Return (TSR), relative to peer companies, is the key financial measure that we use to assess long-term performance. TSR is driven by the change in our share price and the dividends we pay [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price]. We seek to achieve TSR in the top one-third 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. So far, for the three-year measurement period that will end on December 31, 2014, we have generated TSR of 22% per year on average, which places us just above the midpoint of the S&P 500 companies.

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

Customers

We serve a broad suite of customers, with our largest customer representing approximately 6% of our sales in 2013. Many are companies whose names are widely recognized; they include most manufacturers of furniture and bedding, a variety of other manufacturers, and many major retailers.

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Major Factors That Impact Our Business
Many factors impact our business, but those that generally have the greatest impact are market demand, raw material cost trends, and competition.

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

We continue to retain more production capacity than we currently utilize. Accordingly, unit sales can increase by approximately $400 million (based on current sales mix) without the need for large capital investment. We have meaningful operating leverage that should further benefit earnings as market demand improves. Until our spare capacity is fully utilized, each additional $100 million of sales from incremental unit volume is expected to generate approximately $25 million to $35 million of additional pre-tax earnings.

Raw Material Cost Trends
In many of our businesses, we enjoy a cost advantage from being vertically integrated into steel wire and rod. This is a benefit that our competitors do not have. We also experience favorable purchasing leverage from buying large quantities of raw materials. Still, our costs can vary significantly as market prices for raw materials (many of which are commodities) fluctuate.

We typically have short-term commitments from our suppliers; accordingly, our raw material costs generally move with the market. Our ability to recover higher costs (through selling price increases) is crucial. When we experience significant increases in raw material costs, we typically implement price increases to recover the higher costs. Conversely, when costs decrease significantly, we generally pass those lower costs through to our customers. The timing of our price increases or decreases is important; we typically experience a lag in recovering higher costs, so we also expect to realize a lag as costs decline.

Steel is our principal raw material. At various times in past years we have experienced extreme cost fluctuations in this commodity. In most cases, the major changes (both increases and decreases) were passed through to customers with selling price adjustments. In late 2013, steel costs increased. We are implementing price increases, and expect to recover these higher costs.

As a producer of steel rod, we are also impacted by volatility in metal margins (the difference in the cost of steel scrap and the market price for steel rod). Metal margins within the steel industry have been volatile during certain periods in recent years. In the first quarter of 2014, metal margins continued to be under pressure, but we expect improvement in the back half of this year as overall steel market conditions improve.

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

Competition
Many of our markets are highly competitive with the number of competitors varying by product line. In general, our competitors tend to be smaller, private companies. Many of our competitors, both domestic and foreign, compete primarily on the basis of price. Our success has stemmed from the ability to remain price competitive, while delivering product quality, innovation, and customer service.

We continue to face pressure from foreign competitors as some of our customers source a portion of their components and finished products offshore. In addition to lower labor rates, foreign competitors benefit (at times) from lower raw material costs. They may also benefit from currency factors and more lenient regulatory climates. We typically remain price competitive, even versus many foreign manufacturers, as a result of our highly efficient operations, low labor content, vertical integration in steel and wire, logistics and distribution efficiencies, and large scale purchasing of raw materials and commodities. However, we have reacted to foreign competition in certain cases by selectively adjusting prices, and by developing new proprietary products that help our customers reduce total costs.

Premium non-innerspring mattresses (those that have either a foam or air core) experienced rapid growth in the U.S. bedding market through early 2012. These products represent a relatively small portion of the bedding market in units (approximately 10%-12%), but comprise a larger portion of the market in dollars (approximately 25%-30%) due to their higher average selling prices. In 2013, non-innerspring mattress sales declined and the proportion of the total bedding market that they represent also decreased. Most traditional bedding manufacturers (who are our customers) now offer mattresses that combine an innerspring core with top layers comprised of specialty foam and gel. These hybrid products, which allow our bedding customers to address a consumer preference for the feel of a specialty mattress and the characteristics of an innerspring, have been well received by consumers.

For the past five years, there have been antidumping duty orders on innerspring imports from China, South Africa and Vietnam, ranging from 116% to 234%. In March, the Department of Commerce (DOC) and the International Trade Commission (ITC) determined that the duties should be continued. On April 23, 2014, the DOC published its final order continuing the duties through February 2019 (for China) and December 2018 (for South Africa and Vietnam). In addition, because of the documented evasion of antidumping orders by shipping of goods through third countries and falsely identifying the countries of origin, Leggett, along with several U.S. manufacturers in various industries have formed a coalition and are working with members of Congress, the DOC, and U.S. Customs and Border Protection to seek stronger enforcement of existing antidumping and/or countervailing duty orders.

Restructuring

There were no significant restructuring-related costs incurred in either the first three months of 2014 or 2013.

RESULTS OF OPERATIONS

Discussion of Consolidated Results

Earnings per share (EPS) for the first quarter of 2014 were $.37 per diluted share, an increase of 12% compared to $.33 during the first quarter of 2013. This increase reflects an improved mix of sales among business units and a modest gain on the sale of a building. These factors were partially offset by the earnings impact of lower same location sales.

First quarter sales were $919 million, a 1% (or $14 million) decrease versus the prior year. Same location sales declined 3% during the quarter, due to lower volume in Store Fixtures and Commercial Vehicle Products, and weather-related demand weakness in several other businesses in the first two months of the year. These declines were partially offset by continued growth in Automotive, Residential Furniture, and International Spring. Acquisitions improved sales by 2%.

Consistent with market and public company commentary over the past few months, virtually all of our U.S.-based businesses were negatively impacted in the first quarter by extreme winter weather. These impacts included softer than expected market demand, production and transportation inefficiencies, and higher energy costs. Weather-related issues subsided in the latter part of the quarter and sales momentum improved notably. Following a very soft January and February, March same location sales were up 6%.

EBIT margin improved 50 basis points versus first quarter last year, from 8.5% to 9.0%. Excluding the building gain, EBIT margin remained at the level achieved in the first quarter 2013, despite lower sales.

LIFO/FIFO and the Effect of Changing Prices

All of our segments use the first-in, first-out (FIFO) method for valuing inventory. In our consolidated financials, an adjustment is made at the corporate level (i.e., outside the segments) to convert about 55% of our inventories to the last-in, first-out (LIFO) method.

For the full year 2014, we estimate no LIFO benefit or expense. This estimate incorporates certain assumptions about year-end steel prices and inventory levels. Therefore, the LIFO estimate for the full year could be significantly different from that currently estimated.

The following table contains the LIFO benefit (expense) included in earnings for each of the periods presented:

	Three Months Ended March 31,	
	2014	2013
LIFO benefit (expense)	$—	$(2.6)

Interest Expense and Income Taxes

First quarter 2014 interest expense was lower than in the first quarter of 2013 as a result of the payment of $200 million of notes that matured on April 1, 2013.

The reported first quarter consolidated worldwide effective tax rate on continuing operations was 27%, compared to 29% for the same quarter last year. Both the 2013 and 2014 effective tax rates benefited from a few small favorable discrete items in each quarter. We anticipate that the effective tax rate on continuing operations for the remainder of 2014 will approximate 30%, but that is contingent upon factors such as our overall profitability, the mix of earnings among taxing jurisdictions, the type of income earned, the effect of tax law changes and prudent tax planning strategies, and the impact of tax audits and other discrete items.

Discussion of Segment Results

First Quarter Discussion

A description of the products included in each segment, along with segment financial data, appear in Note 4 of the Notes to Consolidated Condensed Financial Statements. A summary of the segment results are shown in the following tables. Reported amounts for 2013 have been retrospectively adjusted to reflect the reclassification of certain operations to discontinued operations. For further information about discontinued operations, see Note 5 on page 8 of the Notes to Consolidated Condensed Financial Statements.

(Dollar amounts in millions)	Three Months ended March 31, 2014 Net Sales	Three Months ended March 31, 2013 Net Sales	Change in Net Sales $	Change in Net Sales %	% Change in Same Location Sales(1)
Residential Furnishings	$ 498.8	$ 486.8	$12.0	2.5 %	2.4 %
Commercial Fixturing & Components	89.9	115.6	(25.7)	(22.2)	(22.3)
Industrial Materials	211.6	223.2	(11.6)	(5.2)	(11.9)
Specialized Products	198.3	186.3	12.0	6.4	6.1
Total	998.6	1,011.9	(13.3)	(1.3)	
Intersegment sales	(79.5)	(79.2)	(.3)		
External sales	$ 919.1	$ 932.7	$(13.6)	(1.5)%	(3.2)%

(Dollar amounts in millions)	Three Months ended March 31, 2014 EBIT	Three Months ended March 31, 2013 EBIT	Change in EBIT $	Change in EBIT %	EBIT Margins(2) Three Months ended March 31, 2014	EBIT Margins(2) Three Months ended March 31, 2013
Residential Furnishings	$51.3	$42.3	$9.0	21.3 %	10.3 %	8.7 %
Commercial Fixturing & Components	(2.0)	1.6	(3.6)	(225.0)	(2.2)	1.4
Industrial Materials	11.1	21.7	(10.6)	(48.8)	5.2	9.7
Specialized Products	25.0	15.7	9.3	59.2	12.6	8.4
Intersegment eliminations & other	(2.9)	(4.5)	1.6			
Change in LIFO reserve	—	2.6	(2.6)			
Total	$82.5	$79.4	$3.1	3.9 %	9.0 %	8.5 %

(1) The change in same location sales excludes the effect of acquisitions or divestitures. These are sales that come from the same plants and facilities that we owned one year earlier.

(2) Segment margins are calculated on total sales. Overall company margin is calculated on external sales.

Residential Furnishings

Same location sales in the segment increased 2% in the first quarter. Volume trends were mixed across the segment.

In our U.S. Spring business, sales decreased 4%. Innerspring unit volumes were down 6%, however growth in the Comfort Core innerspring category continued, with those higher-priced and higher-margined units up 19% during the quarter. Boxspring volume decreased 1%. In International Spring, sales grew 10%, primarily from market share gains and increased Comfort Core sales in Europe. In Furniture Components, sales increased 6% in the first quarter. Volume in our seating and sofa sleeper business grew 6% and motion hardware unit volume was up 5%. Adjustable Bed units were up slightly in the quarter. New adjustable bed programs have begun to ramp up and this should drive volume growth in the back half of the year.

Extreme weather negatively impacted most of our U.S.-based Residential Furnishings businesses early in the quarter, but especially our bedding-related operations and Carpet Underlay. Volume improved across the segment late in the quarter.

Segment EBIT and EBIT margin for the quarter increased versus first quarter of 2013, primarily from higher sales and cost improvements. A $4 million gain from a building sale in the current quarter was largely offset by the non-recurrence of a $3 million hurricane-related insurance gain last year.

Commercial Fixturing & Components

Same location sales in the segment decreased 22% in the first quarter. Store Fixtures sales declined significantly due to the non-recurrence, as expected, of certain major retailer programs which occurred in early 2013. Volume in Office Furniture Components grew 4% during the quarter from a combination of new programs and improved market demand.

Segment EBIT and EBIT margin decreased versus the first quarter of 2013 primarily due to lower sales.

We are disappointed with current year demand levels in Store Fixtures. In the second quarter, the group's sales are forecasted to be approximately $25 million lower than they were in the second quarter of 2013 due to the non-recurrence of certain major retailer programs. In the past year, we have refocused our sales efforts in an attempt to decrease customer concentration and seasonality in this business. While we believe we are making progress with new customers, many expected new programs have been slow to start. In response, we are reducing costs at each operation to offset some of the earnings impact from very soft sales.

Industrial Materials

First quarter same location sales in the segment decreased 12%, primarily from lower unit volumes in wire and rod.

EBIT and EBIT margin for the segment decreased during the quarter. In many of the segment's operations, but especially in wire and rod, sales volume, production efficiency, transportation, and energy costs were negatively impacted by extreme weather. In addition, metal margins continued to be under pressure in the first quarter as market conditions did not allow us to fully recover higher scrap costs.

Our domestic aerospace business (which resides in this segment) continues to perform well, and earnings should further benefit in 2014 as we fully integrate our European acquisitions.

Specialized Products

Same location sales for the segment grew 6% in the first quarter. Automotive sales increased 17%, from a combination of expanded content, participation in new vehicle platforms, and demand strength in each of the major markets. Same location sales also increased 3% in Machinery. In Commercial Vehicle Products, sales declined significantly versus a strong first quarter of 2013.

The segment’s EBIT and EBIT margins increased during the quarter, primarily from higher sales and the non-recurrence of a litigation accrual from the first quarter of last year.

Discontinued Operations

Earnings from discontinued operations are presented net of tax on the Consolidated Condensed Statements of Operations. During the second quarter of 2013, we exited three small operations. Discontinued operations earnings were essentially flat in the first quarters of 2014 and 2013. For further information about discontinued operations, see Note 5 of the Notes to Consolidated Condensed Financial Statements.

LIQUIDITY AND CAPITALIZATION

Cash from Operations
Cash from operations is our primary source of funds. Earnings and changes in working capital levels are the two broad factors that generally have the greatest impact on our cash from operations. For 2014, we expect cash flow from operations to exceed $350 million.

Increases in working capital from very low year-end 2013 levels led to negative operating cash of $20 million for the first quarter of 2014. This compares with positive operating cash of $24 million in the first quarter of 2013. Working capital typically increases in the first quarter and operating cash is normally at the lowest quarterly level of the year due to the seasonal pattern of our businesses. This year, there was a larger than usual increase in working capital, due to a number of factors:

• Days Sales Outstanding (DSO): Accounts receivable were impacted by the timing of sales in the quarter and growth in businesses and geographies that typically have longer payment terms. Sales improved as the first quarter progressed, contributing to increased receivables toward the end of the quarter and higher DSO of 51 days, versus 48 days in the same quarter last year. In the first quarter of 2014, we incurred $1.1 million of bad debt expense as compared to $1.6 million in first quarter 2013.

•Days Inventory Outstanding (DIO): Inventory also increased in the first quarter, primarily from specific opportunistic raw material purchases, ramp up of new product lines, and weather-related transportation delays. We ended the first quarter with DIO of 63 days, up from 61 days in the first quarter 2013. Expense associated with slow moving and obsolete inventories in the first quarter of 2014 was $2.4 million, as compared to $2.0 million in the first quarter of 2013.

•Days Payable Outstanding (DPO): We continue to gradually optimize accounts payable levels, but the rate of incremental improvement has slowed. We ended first quarter with DPO of 43 days, up from 39 days in the first quarter of last year.

We continue to closely monitor our working capital levels, and ended the quarter with adjusted working capital at 13.3% of annualized sales, well below our 15% target. The table below shows this non-GAAP calculation. We eliminate cash and current debt maturities from working capital to monitor our performance related to operating efficiency and believe this provides a more useful measurement.

(Amounts in millions)	March 31, 2014	December 31, 2013
Current assets	$1,410	$1,282
Current liabilities	(834)	(829)
Working capital	576	453
Cash and cash equivalents	(269)	(273)
Current debt maturities	181	181
Adjusted working capital	$488	$361
Annualized sales (1)	$3,676	$3,588
Adjusted working capital as a percent of annualized sales	13.3%	10.1%

(1) Annualized sales equal 1st quarter sales ($919 million) multiplied by 4. We believe measuring our working capital against this sales metric is more useful, since efficient management of working capital includes adjusting those net asset levels to reflect current business volume.

Working Capital Trends

The following chart presents key working capital trends for the last five quarters:

(Dollar amounts in millions)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14