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CORPORATE PARTICIPANTS

Dave Haffner *Leggett & Platt - President, CEO*

PRESENTATION

Dave Haffner - *Leggett & Platt - President, CEO*

Good morning, everyone; thank you for being here this morning. I'm Dave Haffner, CEO and President of Leggett & Platt.

We appreciate all of your attendance and also those of you that are listening via webcast. Thank you for taking time early this morning to be with us.

I also have to remind the people that are listening on the webcast that the slides that we'll be referring to today are available on the website.

There was a forward-looking commentary there, which I won't read. But basically it says that any forward-looking -- a lot of what we'll talk about today is historic, but some of it is forward-looking. And they reflect our current beliefs of what we think the Company can expect. Actual results can differ, of course.

I'll start with an overview of the Company. Many of you, if not all of you, know that in 2008, we changed the overall metric by which we measure our success to total shareholder returns. We're very focused on that. We're a mid-cap manufacturing. We are targeting total shareholder return to be in the top one-third of the S&P 500.

Currently, we are enjoying a 5% dividend yield, and this year marks 41 years of annual dividend increases with an overall compounded annual growth rate of 13%.

We use excess cash to buy stock back. And we'll talk about that in more detail when we get to cash-generation and utilization. Leggett has always had a very strong balance sheet. We generate a lot of positive cash flow. We tend to be number one or number two in most of the markets that we participate. And we have relatively few competitors, and they're generally private companies.

We're poised to grow as the economy recovers. We're starting to feel that right now, and it feels pretty darn good, I might say. The timing of the recovery, however, as we all know, is a bit uncertain. We still have plenty of unused productive capacity.

The last bullet point in that slide -- I was talking earlier to some of our friends here relative to my personal investments and the investments of other management in the Company. And management does indeed have a significant amount of skin in the game.

Several of us forego meaningful amounts of our compensation in favor of the equity of the Company. So we'll pre-buy the stock in option programs. And one of the major things that we did in 2008 is we took a very significant amount of our overall and extended compensation -- indeed the vast majority of our incentive compensation -- and we tied it to total shareholder return.

It seems that that's the metric that we're going to measure ourselves by, and we certainly have the fiduciary responsibility to try and optimize that, then we should align our compensation accordingly.

The markets that we serve -- about a little over half -- or, say, 55% -- of the components or sub-assemblies or assemblies that we make go into consumer durables. About 30% go into what we call commercial or industrial -- and I'll get a little more granular on these as we go. And about 15% of our revenue finds its way into automotive. The automotive business is really good business for us.

The major end markets include bedding, which is really the genesis of the entire corporation. Mr. Leggett and Mr. Platt, in fact, invented the bedspring and perfected the manufacture of bedsprings in 1883 in Carthage, Missouri. And we've been doing it ever since in Carthage, Missouri, and then many other plants around the globe.

Home furniture -- these would be things like reclining chairs, sofa sleepers, sofas, upholstered furniture that you would find in your homes. Automotive seating -- primarily the suspension systems and the adjustable lumbars that are in virtually all the cars made in North America, and a very large percentage of the cars made throughout the rest of the world.

Office furniture -- and this is almost predominantly seating -- so we make the castors and things that swivel and tilt on your office chair. You'll see in the next slide some of the customers that we have in that area. Virtually anybody that makes office furniture is a good customer of ours.

Retail fixturing -- these are fixtures that go into shops. They might be mass merchandisers or they might be boutique shops, and every place in between, including the do-it-yourself stores, and many, many other industries that we play in.

Our geographic split of revenue -- these are 2011 numbers -- about 71% of our revenue was derived here in the United States; 10% in Europe; and 9% in Asia -- or China, specifically; 6% in Canada; 4% in Mexico, Brazil and other small countries.

I don't know that we'll have enough time to go into this in detail, but it's very important to understand the vertical-integration value that Leggett has, especially in its wire-and-rod products. Some of the customers -- and we changed this slide -- obviously we'd have to have lots of slides to put all of our customers on -- but I do want to point out that there's a couple of new names on this slide.

And the first one -- Airbus -- and then down just a little bit -- Boeing -- are really good customers of ours and utilize the product that is generated after our Western Pneumatic Tubing division, which was a recent acquisition. And we'll talk about that a little bit more, too.

Anyway, you can look over those names. And I think you'll recognize many, if not most, of those names -- not only here in North America, but in Europe and Asia.

Let's talk a little bit about the strategy -- going back to that point where we changed the strategy somewhat of the Company. As I said, we're really driven to have total shareholder returns in the top one-third of the S&P 500.

And the primary drivers for that shareholder return that we stay with a close focus on is growth, margin improvement, dividend yield, and share buybacks. We're very interested in the market multiple, too. But we don't control that. We can certainly influence it by good execution. But the market multiple, of course, is a critical element of that as well.

Generally speaking, we'd like to see our top line grow at 4% to 5% per year -- relatively modest growth -- a safer approach to overall total shareholder return, we think. We like to see margin improvement.

We do that through cost-saving initiatives; efficiency improvements such as consolidations of inefficient operations into more efficient operations; development of new products that generate higher margins, sometimes cannibalizing the products that we already make, which is fine as long as it has improved margins; and then growth in attractive markets that we don't currently participate in or had not previously participated in.

Our dividend-payoff target is 50% to 60%. In the recent past, we've been paying out higher than that because we've had compressed earnings with a pullback in the economy. We feel, long term, that 50% to 60% is a good range for our shareholders, and we generate a substantial amount of cash. And we'll talk about dividends a little bit later.

And then any spare cash that we have that isn't used for capital expenditure and dividend payments and acquisitions -- then we really like our stock. And that's been a good investment for our shareholders, too.

This next slide is a little busy. And I won't spend a lot of time on it. But we measure ourselves in three-year tranches, our relative TSR basis. And you'll see from the years '08 through '10 -- you'll see how we generated a 16% TSR in the elements that cause that TSR to take place; same with the three-year tranche of '09 through '11. And then you'll see the current three-year period that we're measuring ourselves, and how the variables change as you go across there.

The overall target, again, is to be somewhere in that 12% to 15% compounded annual TSR growth curve. We know, from analysis, that that's what we need to do to be in that top one-third of the S&P 500. Even with no change in market multiple, you can see that we can be there as long as we have that 4% to 5% top line and improvement in our margin; dividend yields, which we believe is very safe; and then a certain amount from stock repurchase.

The rankings -- you can read that line -- how we ranked compared to the S&P 500. Last year, the period ending 2011, we were just shy of our target. And certainly that's not acceptable to us and the management. And then the year that we're in, we've got a little more ground to make up. We feel very good with what happening here most recently, with some of the improved demand.

Priorities for the use of the cash that we generate -- first and foremost, we fund our capital expenditure requirements; as I mentioned to some of you earlier, before the session, we have a lot of productive capacity yet to use.

So we don't expect to spend a significant amount of cash on property, plants and equipment with the current product mix that we have. We still have plenty of running room. And if the economy continues to improve, we will see those cash utilizations go up and improve.

We expect capital expenditures this year to be somewhat below $100 million. And $100 million is meaningfully below our depreciation and amortization. Second priority is to pay dividends.

As I've mentioned, dividends -- very important to us -- has been for lots and lots of years; indeed, decades. It's a crucial driver in the total shareholder return. With that 41-year history of dividend increases that I mentioned, Leggett's proudly to be a member of the S&P Dividend Aristocrats -- we're very proud to be there.

The current payout is above the target, as I said. And because of some compressed earnings, that payout ratio is coming down. And we think we can see our way into that 50% to 60% range in the not-too-distant future. And we expect to continue to modestly increase our annual dividend.

After that, we look to fund selective growth through acquisitions. The criteria that we use for acquisitions are fairly strenuous. We screen it several ways, and we have the operating people that will manage those businesses weigh in. And, in fact, they have veto power. They have to feel really good about those businesses before we make those acquisitions.

And then excess cash we will use to repurchase our stock. And the levels of stock repurchase will fluctuate. Obviously, the last few years, when we weren't making acquisitions and we were generating large amounts of cash, we made significant share repurchases. Some of my friends would say that we need to make even more share repurchases.

Operating cash has exceeded dividends and capital expenditures for the last 20 years or so. And we expect that to continue to be the case for the foreseeable future.

The next slide shows the dollars used for dividend payouts, as well as the stock repurchases. And then over on the right-hand side, the smaller graph, show the outstanding shares and the dividends per share; again, just highlighting the importance that we put on returning cash to shareholders through those two vehicles.

A framework for growth -- as I said earlier, we're targeting 4% to 5% annual growth. Most of the businesses that we participate in -- or the industries that we participate in -- are really GDP-oriented industries.

And so if GDP is 2.5% or 2.2% -- whatever that happens to be in a given year -- we expect to certainly get our fair share of that and gain market share where we can in those current markets that we participate.

And then the other half of that growth we expect to get from other efforts. Those other efforts could include new product, as I mentioned before. They might be new to Leggett & Platt. They might be new to the world.

Generally speaking, those new products bring higher revenues even if they are cannibalizing something that we already produced. Many times it comes with higher revenues and higher margins. And then brand new to Leggett products are the things that we cook up in our skunkworks, our research-and-development facilities throughout the world. And those bring with them new revenue potential.

And then higher growth platforms -- our acquisitions -- we want them to have a very clear, strategic rationale, aligned well with what we have established as a corporate strategy. We like them to have a really compelling, competitive advantage. And we pursue them with a lot of discipline.

We try very hard not to overpay for something; not to chase something too far; and make sure that if a particular acquisition has synergies, that we don't monetize those synergies in the enterprise valuation or the purchase price.

The next slide shows those criteria -- some of the criteria. It's especially nice when an acquisition target is involved in products that use some of the same core competencies that Leggett uses.

Western Pneumatic Tubing is an example of that. Leggett's been making tubing for a long, long time -- welded tubing -- and so we're very comfortable with taking metal, modifying the geometry of the metal, welding the metal, and doing some other things to the tubing. That's something that Leggett has done for a long time.

Financially, we want those acquisitions to be accretive. We want them to be accretive very quickly. They need to be able to return -- the imputed rates of returns need to be higher than our weighted cost of capital. And certainly we want them to be meaningfully higher than our weighted cost of capital.

From a stand-alone basis, we'd like acquisitions that are at least $50 million in revenue. It doesn't mean that we won't make a smaller acquisition if it's a bolt-on type acquisition, where we can quickly integrate it into one of our other operations.

But ideally, they'll be a little larger in that $50 million or above range; and then being utopian, we want excellent management -- have a very strong management -- and we want them to have really good growth opportunities.

We'd like them to look a little like Leggett. We want them to be number one or number two in the markets that they serve. And the markets that they serve -- we want those markets to be meaningful, too. It's not that we wouldn't acquire a company that served a market that was less than $250 million, but ideally it would be larger markets, too.

And then if it's an add-on acquisition, ideally, it's going to be over $15 million in revenue and would provide significant synergies, which we would not monetize, as I said, in the purchase price.

Let's talk a little bit about Western Pneumatic Tubing. It really meets those criteria that we established. And in fact, aerospace was on a list that I asked the management team a few years ago -- to put together some industries that we do not participate in that we might want to participate in at some point in the future. Aerospace was on my list and I think another one of the lists that were developed.

And so we kept an eye out for tight businesses that did things similar to what we did; and that had high barriers of entry and good growth capabilities; and either intellectual-property or trade-secret types of things that happened in their facilities. And, indeed Western Pneumatic is in the higher growth of market for us.

The profitability is superior to the Company average. Once they establish their relationship with their customers and their products get [specked] into the platforms, those tend to be long, live products that are very difficult to wrench away from an incumbent that already has that. So Western has an excellent position with the ultimate users of the product, which I said are the Airbus, Boeing, and a few other manufacturers of airplanes.

They're a market leader in their industry. They have what we think is a very sustainable competitive advantage. And they have an excellent management team. It was just very, very good to see how strong their management is. They're very much like the Leggett people -- very down-to-earth; very credible people.

And they provide non-commodity products. Their annual revenues are going to be in excess of $60 million this year and growing pretty substantially.

Some of the current topics that we wanted to touch on today -- one of the things that we're proud of is that we're associated with the innerspring business.

It's important, we think, that people -- either current investors or prospective investors -- understand that innersprings, while it's the genesis of the Company, is certainly not the only thing that Leggett does. And this gives you a little better feel for the effect of the US innerspring market on Leggett & Platt.

About 17% of Leggett's total sales are components or materials used in the United-States-produced innerspring mattresses. 65% of our bedding components are sold in the United States market -- of our total bedding components. 75% to 80% of our US bedding-component sales are innersprings.

The other things that we produce, of course, are box-spring components and other materials -- wire that we sell to maker-users, as well as fabric -- non-fashion fabric -- that go into the bedding products. You don't see that in the mattress. It's in the construction -- interior construction -- of the mattress.

Our volume is weighted to mattresses sold at less than $1,000. About 5% of our total sales relate to mattresses sold over $1,000. There has been an interesting shift in the distribution of mattress sales, where it used to be a bit more normal, sort of a bell curve.

And we've seen the center portion of that distribution pushed -- some to the lower end, some to the higher end. Premium mattress is gaining some momentum. And in those premium mattresses that contain Leggett & Platt product -- that's good for us because, generally, it's higher revenue and higher margins for us in that particular case.

The largest innerspring mattress producers above $1,000 are Sealy and Simmons. They are both vertically integrated to make their own mattress innerspring components. We do make some for them, but they make the vast majority. We do also make all of their box-spring components, as we do for Serta, as well.

And then Serta and others are beginning to address the premium market with what we call hybrid products. And the hybrid products really take a premium innerspring -- generally encapsulated innerspring -- and then, on top of that innerspring, they put the comfort layers, which might be a viscoelastic foam or latex foam or a combination of those or a gel-infused foam and fiber.

And I think those of you that follow the mattress industry will agree with us that Serta has made a significant bit of headway here recently with their iSeries product, which includes our components.

Okay. We'll talk a little bit about the uncertain timing of the overall market recovery. Some of the key indicators that we monitor include consumer confidence. We think that is more crucial than home sales for us, since about two-thirds of bedding and furniture purchases are a replacement of existing product, as opposed to brand-new product that didn't exist before.

Generally speaking, large-ticket purchases are highly deferrable. It is interesting that automobiles have been so robust here, recently. And they tend to sell for a little bit more than a mattress; but many of the products that our components find their way into are highly deferrable.

We do monitor total housing turnover, which is a combination of new and existing home sales, in that there is a positive correlation with us. It's not a terribly high correlation, but it's a positive correlation.

Business confidence, in general, is something that we monitor; white-collar employment; office-vacancy rates, especially for our office-furniture, office-seating demand. And then retail sales trends -- this tends to affect our demand for retail-store fixtures. Talk a little bit about the markets.

We're experiencing modest US innerspring growth. And it's expected to be up this year. If you look at ISPA numbers or forecasts from various economists, virtually all of them are expecting that to grow. Our first quarter was up about 3% in US innerspring units.

Adjustable beds -- this is something that I find really intriguing -- and not just because it was a huge increase for us -- up 48% in the first quarter -- and that was on the heels of another 40-something-percent increase last year.

That whole phenomena of adjustable bed is, I think, a direct result of some great marketing that's been done by people like Tempurpedic and Select Comfort and others. And it's caused a lifestyle mind shift from a geriatric application to more of a lifestyle application.

So people that do other things than the traditional things in bed -- those other things are like watching TV and utilizing their laptop or their iPad, or some of the kids' gaming -- it's much more comfortable to do so on an adjustable bed. That's gaining a lot of traction.

Leggett's the largest producer of adjustable beds here in North America. And, indeed, we're enjoying the updraft in demand. We make adjustable beds in other parts of the world, but most of them are made here in our Kentucky plant.

Furniture-hardware units were down 10% in the first quarter. That's on the heels of a couple of years of very, very robust demand. As you sit, and I stand, here today we're seeing some improvement in demand for the Leggett & Platt products. So we hope that a point of inflection is behind us for the year there.

We are, indeed, expecting lower store-fixture volumes in 2012. In fact, our first quarter was down about 15%. That was due primarily to a push-out or push-off of spending by a very large retailer whose headquarters is not far from ours. And that has been offset, luckily, by some new programs with other customers -- long-term customers that were not originally built into our forecast.

2012 seasonally should align with the traditional pattern of store fixtures, which basically means that the third quarter is the high-water mark in store-fixturing businesses. And that is exactly what you will see us experience again this year, with a significant increase in revenue sales in the third quarter.

Office-furniture volume should grow slightly in 2012. Our first quarter was up modestly. (inaudible), in general, is forecasting approximately 2% lower shipments for the year. We supply virtually everybody in the office-furniture space.

And we've been favored with some business that we didn't have before because of some new products that were developed. But in the big picture, we should probably do just basically what [bithma] does.

It's important to remember though we're almost entirely involved in the chairs. We are not involved in the filing systems and we're not involved in the work surfaces or the desks that go into offices.

Global automotive growth should continue. Our first quarter was up 10%. As I alluded to earlier, automotive has been very, very good for us. Leggett has a lot of intellectual property content in its product, most of which is the seat suspensions and adjustable lumbars that we sell.

We do sell some cables into the automotive industry, too. But automotive has been very robust. And the forecast continues to be very encouraging; down somewhat in Europe, but significantly up in the United States and Asia. So we are very pleased with our participation in the automotive market.

I want to talk a little bit about margin improvement. These two waterfall charts show what we experienced in 2011 relative to our EBIT margin. You'll see that in 2010, it was 8.6%. We were on our upward move.

On the other hand, with some stalling of certain demand -- certain areas of certain industries that we participate in -- we chose to make some additional hard decisions in 2011.

We did some consolations and restructuring. And you'll see that 1% in this part of the chart caused a depression of margins. Of course, that comes back in 2012 because that was a one-time cost. And that's the offsetting 1% in the 2012 chart.

2011 sales increases -- we had a meaningful amount of what we call inflation-related sales. When revenue comes without unit volume, it tends to bring no EBIT; and, indeed, mathematically, reduces the amount of overall EBIT.

And then we had some higher SG&A expenses in 2011 than normal, having to do with some outside professional services and some legal things that should not reoccur to the same level going forward.

And so while this chart looks sort of like a mirror image, it's really not. We'll have the non-recurrence of the restructuring costs this year. The restructuring did indeed -- or is expected to bring -- in the first quarter, it did indeed bring the type of profit enhancement that we were expecting.

We expect a $0.07 to $0.10 EPS improvement from those restructuring costs, and that equates to about half of 1% of EBIT margin. And then the other 0.6% of 1% are associated with some unit-volume growth and other cost improvements that we are making in 2012.

So our 2012 guidance -- those of you that saw our press release or listened to our conference call -- we felt really good about the first quarter. We exceeded our internal plan for the quarter. Indeed, we adjusted modestly the overall guidance for the full year.

And you can work your way through this chart, taking a look at where our EPS guidance is today; and sales of approximately $3.65 billion to $3.85 billion. And that range would suggest anywhere from flat-to-up 6% versus last year. And it includes 1% growth from acquisitions, net of any divestitures we make.

Operating cash, we think, conservatively, should exceed $325 million for the year. Our capital expenditures -- I think this may be the third time I mentioned it, and I apologize for repeating -- should be between $85 million and $100 million; certainly under $100 million this year.

And then if you put the pencil to the numbers, you'll see how you get from our 2011 adjusted EPS of $1.20 up to the current midpoint of our 2012 guidance of $1.35.

I think this may be the last slide that I'll talk about. And then we'll try to address some questions that you may have.

The key takeaways that we'd like to comment on is that the industries that we serve -- the overall macro environment -- appears to be slowly improving. Certainly that's what we're experiencing. We'll keep our fingers crossed; hope that it continues, because the incremental margin associated with those additional units are very meaningful for us.

We're focused on margin improvement. We want to make sure we do everything reasonably practical to increase the margins on the products that we do produce. That might be value engineering; that might be pricing leverage; might be a combination of substituting a new product for an old product. We're very comfortably funding the dividend. And, as I said, as we speak, we're enjoying about a 5% current yield.

We're positioning Leggett for the long term. And the long-term growth we hope to enjoy is in that 4% to 5% range -- not 10% or 15%. We don't need to do that to enjoy relatively high TSRs. And this is a much safer approach.

And, as I said earlier, we'll drive TSR from all of those sources that we have control over. And then, hopefully, we'll make significant positive influences on the market multiple, which we don't have total control over.

So, with that, I'm going to stop talking for a while and see if I can answer specific questions. Thanks so much for your attention.

QUESTIONS AND ANSWERS

Unidentified Audience Member

As you know, I know the Company a very long time. And I'm thinking about the $2 EPS number that you talked about for a number of years, and the need for margin expansion. And as you showed the slide earlier -- because 13% of your total sales are related to the US innerspring market --

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Dave Haffner - *Leggett & Platt - President, CEO*

17%.

Unidentified Audience Member

Are your end customers in that market healthy enough so that you can actually start getting the margin you need on those sales in order to get you to your EBIT goals longer term, and that $2 EPS market. Can they afford the price increases as you want to get your returns back?

Dave Haffner - *Leggett & Platt - President, CEO*

Yes. Of course, to get to that $2, we need to see significant demand improvement in more than just innersprings. But the question of the health of our customers is one that I can't give a critical perspective on. We think so. We monitor, of course, our receivables very closely.

We have long, longstanding relationships with our US innerspring customers. There has been some ownership changes in some of those customers. But we have new development projects going on within the Idea Center, which is predominately geared for innerspring and box-spring components.

Some of those are specifically designed for some of the specific US innerspring customers. If we design something or co-develop something with one of those customers, then we basically make sure that that particular customer has the rights to that.

It would appear to me that the health of those customers is okay. The growth of the premium-mattress products has caused some -- mainly Tempurpedic and Select Comfort -- and incidentally, Select is a wonderful customer of ours for adjustable-bed bases.

But I think that, overall, demand for ultra-premium product is what has caused some of the shift and specification change by the likes of Serta and, indeed, Sealy and Simmons.

And so, yes, I think that the health of those customers are adequate to help us get to our long-range goal.

But, again, we need increased demand in all of our products, because our capacity utilizations right now, in general -- in the big picture -- are closer to 60% utilization. And we like to run them in the 80% or 82% utilization by the way we calculate them.

Now our sterling steel mill is at 100% utilization and always runs at 100% utilization because of the unique and internal-demand situation that we've got there. But we've got some operating units that are still running in the 40-something-percent utilization rates. We've, on average, got them running maybe a little higher than 60% today. That was at the end of the last quarter.

So we can get there mathematically, but the incremental margins which we talk about -- the 25% to 30% margin -- is real. I think that you will appreciate the second quarter and the third quarter, where we can show some results that are mathematically easily derived from that algorithm.

And I also hope that we don't have a lot of unexpected -- I don't like the word noise -- but unexpected events that would cause that to be biased differently.

But right now, we're pleased with what we're seeing on the incremental-margin perspective. But we've got to get back up into that -- with the current mix that we've got -- $4.2 billion range, with a double-digit EBIT margin. And that really doesn't suggest any significant share repurchase either. And we'll get there.

I will admit I certainly didn't expect that the economy would contract the way it did. But when I made that comment, it was because I really feel that. And we did a lot of different what-iffing on that -- the path to $2, if you will -- slower than any of us ever expected because of the pullback in demand.

Unidentified Audience Member

Does that mean that there's nothing meaningful that you can do additionally internally? You'll just have to wait for this unit-volume growth to cut back to get margins in double digits?

Dave Haffner - *Leggett & Platt - President, CEO*

For the most part, that's correct. We've taken a tremendous amount of fixed cost out of the Company. We're never satisfied. There's always something else that we might be able to do. As an example, those two plant shutdowns and consolations, which generate that $0.07 to $0.10 EPS improvement -- those sorts of things we constantly look at. But most of the fixed costs have been taken out.

The real driving power for EPS now is unit sales or capacity utilization. And we're starting to experience that. So only time will tell. We have to execute. And I know I'm very frustrated, as a significant shareholder. I'm very frustrated as CEO.

And I know management is sort of tired of seeing us in an EPS range that we're in. So it's going to take unit demand. And we'll keep our fingers crossed that that demand comes along as it appears to be.

Unidentified Audience Member

As Sealy and Simmons tangle with Tempurpedic and Select, should they turn to Leggett and consider outsourcing -- could you help improve their margins?

Dave Haffner - *Leggett & Platt - President, CEO*

Well, we think so. That's sort of the genesis of our Company -- is to do everything we can to help our customers gain market share, because if our customers are successful, then obviously we're successful.

I think if you take a look at what Serta has done recently with their iSeries bed, which basically replaces a very expensive piece of polyurethane foam -- now, they have an iComfort bed, too -- but this iSeries is a move to a hybrid, where they replace a pretty expensive piece of standard polyurethane foam, which is the foundation upon which the comfort layer is built onto. They replace that with air and wire and non-woven fabric. They're very pleased.

Let me put it this way -- it's early in the game. But that's not so much Leggett development. We stood ready to assist them. I think that's a function of Bob and his team recognizing a real opportunity and trying to do some things to further expand their product offering with some functionality differences. And for sure we stand ready.

Value engineering, in general, is something that Leggett does a pretty good job of. And so if a customer is willing to ask us to become involved in how they go about designing and assembling a product and ask for our help, we'll do everything we can. We have teams of people -- black belts and lay manufacturing people that can go in and assist them wherever possible. That's certainly something we do and always have done.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Dave Haffner - *Leggett & Platt - President, CEO*

The question, for those of you that are on webcast, but didn't hear it was -- is my sense that perhaps Simmons or Sealy would consider further de-verticalization?

That's a possibility, I guess. It's really been part of their tradition. I think it's a pretty committed position that they have. On the other hand, I know you know that we make all of the foundation -- box-spring components for all of those companies.

And Sealy is a pretty good example; great group of people. They used to make their own box springs. And then, for many years, we made 50% of their box-spring components. And then a few years ago, they favored us with 100% of that business.

And generally speaking, I think the reason they do that is good economics. Perhaps their equipment gets tired and they have to recapitalize the equipment, which makes it more expensive to do. And then also we have a whole team of people; all they do is focus on design of those types of products.

And so if we can develop a new product or commit to making new developments for them with our overhead, as opposed to theirs, and it represents a better economic proposition for them, then it makes sense that they would favor us with that business.

Relative to innersprings, I don't know. That's sort of a tough nut to crack. But obviously we stand ready to assist them in that capacity should they choose to outsource a portion or all of their innerspring requirements.

Unidentified Audience Member

Given the growth of the premium-mattress category, I'm just wondering how much share do you expect foam specialty to take from regular innerspring this year. How do you think about the different growth profiles within the mattress categories?

Dave Haffner - *Leggett & Platt - President, CEO*

I would refer you to the ISPA numbers. The ISPA numbers are fairly good numbers. We also monitor the numbers for the whole mattress industry very carefully. Because we supply everybody, our numbers vary a little bit differently. Theirs are a statistically adjusted sample from a subset of the suppliers.

Right now, innersprings -- this is 2011 date, if my memory serves me right, and I know there are several people in the room that will correct me if I'm wrong. In 2011, innersprings represented 86.2% of the units sold. Non-innerspring, which would be foam and air -- Tempurpedic, Select Comfort and those types of products sold by other companies -- would represent that 13.8%.

But that 13.8% is growing. And it's growing in unit sales and it's growing even greater in dollar sales because of the overall value of those products. And I think that will continue to be the case. I think that as the economy improves, people get more confident. They've done outstanding jobs in marketing, in my opinion.

And I think that they will continue, if they're careful not to tarnish their image from a quality perspective -- I think that there will continue to be growth in that category.

Now the growth in that category, in and by itself, for mattress components is not good for us. Remember the big difference in percentages. It's not good for us unless -- and I'll use Select as an example -- Select is a great customer of ours.

And when they sell a number of their Sleep Number beds, a certain percentage of those go on an adjustable-bed base. And I'm not exactly sure of the attachment rate. I'm told it's 30% or 35%. So every three beds they sell, they might sell one adjustable base.

And we sell that adjustable base. That adjustable base represents significantly more revenue than three of our mattress components. And the margins are not dissimilar.

Hopefully we'll see continued interest in these hybrid products, which is a combination of the comfort layer of viscoelastic or latex on top of an innerspring system. But your question was specifically to the non-innerspring, and I personally think that will continue to grow. I don't think it's ever going to make up a majority of the market, but only time will tell. It certainly continued to grow over the last few years.

Unidentified Audience Member

Within that segment, you mentioned some of the great things that Serta has done recently and you cited some (technical difficulty) as well.

If you were to think about the world of those guys and Tempurpedic, how would you view the competitive landscape this year within the specialty category, and who do you see, potentially, doing better there than some of the other buyers?

Dave Haffner - *Leggett & Platt - President, CEO*

Well, we sort of love them all.

It's a small industry, if you will. I suspect that they'll all continue to aggressively market. I suspect that Serta will continue to gain traction with their hybrid product. Those of you that haven't seen it, I would encourage you to go see it. It's not a blatant sales -- I'm an engineer and not a salesperson.

It is really an interesting product from a functionality perspective. It sleeps cooler than a totally foam bed. It's much lighter than a total foam bed. It's easier for handling and maintenance. And the functionality is superior.

I do expect that Tempurpedic will continue to market aggressively and gain some market share. And Select Comfort's done a great job, too. So which of those will outpace the others? I'm not sure. Right now, I certainly am impressed with what Bob Sherman and his team have done at Serta to make headway in that space.

Unidentified Audience Member

Dave, you mentioned that to have the incremental margins come back to 25%, we need volume.

Dave Haffner - *Leggett & Platt - President, CEO*

Yes.

Unidentified Audience Member

But you also started to address your access capacity again last year. And you mentioned that some of the operating units are still running at about low to mid 40%. Can you help us understand the mix of revenues in terms of assets? What is running in the 60%? What is running in the 70%? What is running in the 40% -- as much as you can?

Dave Haffner - *Leggett & Platt - President, CEO*

Yes, I can give you some color on that. We have a page that we -- it's a colorful page, in fact, that we print out every quarter. We monitor it more often than that. But as an example, at the low end, fixtures and displays, right now -- even though we've contracted that business, we've got a lot of very efficient equipment. And that's one of those lower-percentage utilizations.

Bedding ticked back up last quarter. It's still under 70% utilized. That's a very important one. It's a high-margin one. Office furniture was 65%-ish, I think -- I can't recall right off the top of my head -- and gaining some ground.

The sterling, I said, is 100%. Our adjustable-bed unit is [90-some percent] utilized. The nice thing about adjustable bed -- increasing capacity in adjustable beds -- it does not take a significant amount of capital expenditure. There's a lot of jigs and fixtures and assembly tools.

And then carpet underlay is another one that's got low capacity utilization. And it probably had a poor handle on it as well. Those are some of them.

Unidentified Audience Member

At the Las Vegas Furniture and Bedding Show, there were lots of introductions, even beyond Serta, of combination of visco and spring. We've seen that before -- probably not to this quantity level. Do you have any sort of [sell for read] so far -- how those are doing? Or is it just too roomy?

Dave Haffner - *Leggett & Platt - President, CEO*

It's pretty early. Some of the feedback that I've gotten from Carl and Perry and some of our more bedding-oriented people -- say that the feedback is very good. Certainly, that's what we want to hear, but we're trying not to look at things through rose-colored glasses.

But the early indications or feedback that we're getting is that -- very, very good reception. That makes sense to me economically; and from a functionality perspective, whether it be spring constant or heat retention or -- and overall cost.

But only time is going to tell; and it's a bit early to see. I hope that the feedback we're getting is correct and I hope it continues to gain traction. That would be good.

Unidentified Audience Member

And second question -- in furniture hardware -- can you talk a little bit more about the quarter down 10%? And do you think that's going to ramp back up in the next couple quarters?

Dave Haffner - *Leggett & Platt - President, CEO*

One bad thing about having a really good quarter is you got a really tough comp somewhere down the road. That's a majority of what we experience. We had some -- I'll just call it robust -- demand last year; and indeed the year before. I know you know this because you know the market so well.

And we had been favored with some business shift last year. We still have the business, but the problem is that we have to have a comp. So we saw a little bit of pullback in demand for some of the reclining-chair products; some of the motion-modular products -- sofa sleepers. We've recently had some good news that will help our comps going forward on some sofa sleepers with a very large upholstery customer.

And one thing also -- I know we'd mentioned -- or Karl surely would have mentioned this to you in Las Vegas -- this is pretty exciting to see a large company like Ashley make a decision to go away from a polyurethane foam cushion core because of cost and functionality problems, to an innerspring core. In the past, those innerspring cores, as you know, were somewhat segregated into the ultra-high-end cushions.

And I think that the stars have lined up just right -- certainly going to help us significantly in our furniture-components division -- to have that significant increase in demand in cushion cores.

And we so respect Ashley. They're a huge customer of ours. But what Ashley does -- a lot of their competitors -- watch very closely. And so I suspect there's going to be a herculean effect -- some sort of pressure created on some other of their competitors to go that way, too.

And we're feverishly building equipment in Switzerland as we speak, at our Spuhl operation, to accommodate the significant uptick in that demand. That's exactly the same technology that goes into innersprings.

Unidentified Company Representative

Throughout most of 2010 and, in fact, I think the first and second quarters of 2011, in our hardware business, we were growing at a pretty nice clip. And that was volume coming back to us from customers that had looked to other sources for a while.

We don't want to make too much about calendar changes, holiday changes and things like that. But one of the things that we talked about in the conference call was the change in the timing of the Chinese New Year. And you know that the reality of the furniture business is that a meaningful part of that sourcing happens from Asia.

So when, last year, I think, the holiday hit in February -- this year it was in January. That January timing pushed volume into December. We actually had a pretty good December this year. January was bad. There was very little volume happening this year in January, on top of the prior year's pretty-good January because it was ramping up to the then-February holiday.

So we came out of the holiday -- February was a little better. March was pretty good this year. Follow-through has been better than what we had in first quarter; so all of that feels pretty good; so some of that is holiday timing.

And then we mentioned on the conference call, too, that we have a meaningful Chinese OEM furniture manufacturer that has, for quite a while, been vertically integrated; and over the last year or so has made the decision to in-source a greater proportion of his activity. We're stable with them if anything looks like we may be headed back the other direction -- a little bit more volume coming back in.

So it was a combination of all of those factors, including decent volume a year ago still continuing on.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Dave Haffner - *Leggett & Platt - President, CEO*

Not exactly. It's certainly debatable. But we think it's somewhat less than 10%. We use 10% in that threshold slide. It's probably closer to 9%.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Dave Haffner - *Leggett & Platt - President, CEO*

Smaller percentage in the 40%. You can make money, but it's not optimized, obviously. And in some cases, where you've got plants that have multiple or duplicative type of capabilities, you can shut one of those off, move volume in. Some of our plants are down to plants that only produce that particular family of products.

So, yes, you can, especially if the assets are significantly depreciated. On the other hand, it's obviously not optimum. One of the challenges -- it's just a fact -- we supply virtually everybody in an industry. And so when there's a little bit of an uptick and everybody has a need, it's important that you be able to service those people.

We're not pleased with the something greater than 60% blended average that we have today. That's for sure. And we'll continue -- like (inaudible) asked the question -- we'll continue to look for things where there might be another consolidation. But we want to be in that 80% range. And that's that $600 million, $700 million worth of capacity that really brings the cow home to the barn.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Dave Haffner - *Leggett & Platt - President, CEO*

Yes, we've batted that thought around a little bit. It isn't clear that that's a significant driver behind the increased number of targets that are on the market. But like you're implying, it seems to us that that builds into some people's thoughts, I'm sure. If capital gains go up appreciably, maybe now is the time to do a deal.

We are seeing more activity than we've seen in a long time. We're getting more teasers and books and things; most of which -- which has always been the case -- we look and just say we're flattered but we have no interest.

But we're seeing more activity in that regard. And I will say that some of them look pretty darn attractive to us. So I'm not saying that we're going to make a major acquisition in the next few weeks or months. We'll tell you when we do, of course, but that probably plays into people's minds a bit when they get ready to monetize, I would guess. At least we think so.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Dave Haffner - *Leggett & Platt - President, CEO*

It'll really be a function of that capacity utilization. As we continue to use up our manufacturing capability, we're eventually going to have to add additional machinery plants and equipment. So for 2012-2013 I think we'll be $100 million or so. By 2014, I think we're probably going to have to increase that somewhat. And somewhat may be to $120 million.

And I'm not exactly sure if you're trying to drive a model, but if you are, I would say $112 million, $113 million, $115 million; in '14 $120 million. And I can't predict beyond that.

Well, I very much appreciate your attendance here. Many of your faces are -- we know you as friends; some of you as very long-time shareholders; and would encourage -- when you come up with other questions, you think -- well, darn it, I wish I'd asked Dave or Susan that question -- please contact us.

We're accessible and we'll do everything we can, if we can answer the question, to get the answer back to you. Thanks a lot.