FINAL TRANSCRIPT

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LEG - Q3 2008 Leggett & Platt Earnings Conference Call

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CORPORATE PARTICIPANTS

David DeSonier
Leggett & Platt, Inc. - VP, Strategy, IR

Dave Haffner
Leggett & Platt, Inc. - President, CEO

Karl Glassman
Leggett & Platt, Inc. - COO

Matthew Flanigan
Leggett & Platt, Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Mark Rupe
Longbow Research - Analyst

Chad Bolen
Raymond James - Analyst

Keith Hughes
SunTrust - Analyst

John Baugh
Stifel Nicolaus - Analyst

Joel Havard
Hilliard Lyons - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Leggett & Platt third quarter earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. (OPERATOR INSTRUCTIONS).

I would now like to turn the conference over to David DeSonier. Please go ahead, sir.

David DeSonier - *Leggett & Platt, Inc. - VP, Strategy, IR*

Good morning. Thank you for taking part in Leggett & Platt's third quarter conference call. I'm Dave DeSonier, the Vice President of Strategy and Investor Relations, and with me today are the following: Dave Haffner, our CEO and President. Karl Glassman, our Chief Operating Officer, Matt Flanigan our CFO, and Susan McCoy, our Director of Investor Relations. The agenda for the call is as follows. Dave Haffner will start with a summary of the major statements we made in yesterday's press release. Karl Glassman will discuss trends in our various markets. Dave will then address our outlook for the remainder of 2008, and finally the group will answer any questions you have. This conference is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed or recorded or broadcast without our expressed permission, a replay is available from the IR portion of Leggett's website.

In addition I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties and the company undertakes no obligation to update or revise these statements. For a summary of these risk

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factors and additional information, please refer to yesterday's press release and the section in our 10K titled forward-looking statements. I will now turn the call over to Dave Haffner.

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

Thank you, Dave. Good morning, everyone. Excuse me, and thank you for participating in our call. I would like to start this morning with some personal remarks before I get into the details of the quarter. And as all of you well know, these are very unusual financial times, possibly the most difficult any of us have ever seen. On behalf of Leggett's senior leadership and directors, I would like to remind our employees, customers and investors of some of the things that distinguish this company. First, we have a highly experienced and well tenured management team. Our senior leaders including our segment heads are among the most seasoned in all of the industries that we participate in. These leaders know how to manage well and weather tough times.

Second, we have always been a financially conservative bunch and find ourselves by design and to be honest also by fortuitous timing in an attractive financial position. Over the first nine months of this year we have been selling less profitable businesses giving us more cash to work with. We are also not heavily leveraged and have substantial available credit. Third, we know how to quickly reduce spending, control costs, and manage inventories, meanwhile strengthening our relationships with our many valued customers. And historically, we have grown market share in tough economic times in part because our customers know we are going be there no meet needs. When we control costs and get smaller on the people side, we don't do it in an unintelligent way. We let attrition help us first and we have been doing that. Then, we pull back to reduced work weeks in some locations and we are already doing that.

In some locations we know we must move to reduce staff. We are already doing so. Those things said, however our managers know we must keep the critical best and most productive people. And finally, we believe in clear, direct, and candid communication. In tough times we believe that is even more important. So anyway, now moving on to the prepared remarks for the quarter.

Yesterday we reported third quarter earnings per share of $0.20. Earnings per share from continuing operations adjusted to exclude nonrecurring items were $0.34. In the third quarter of 2007, earnings from continuing operations were $0.36. The year-over-year decrease primarily reflects lower unit volumes due to soft demand in several markets and higher LIFO expense. Sales from continuing operations increased 4% versus third quarter of last year. Inflation related price increases and market share gains more than offset weak demand and our decision to exit some specific sales volume with unacceptable margins. During the third quarter we continued to successfully implement selling price increases to recover higher steel costs and by quarter end, the majority of the necessary increases were in place. Additionally, our vertical integration specifically into the melt furnace and rod mill at our Sterling operation has continued to give us a significant advantage in this market.

Late in the third quarter our markets weakened appreciably as consumers reigned in spending during this unprecedented period of credit concerns and stock market volatility. Despite this extremely challenging environment, we are very pleased with the progress we have made this year relative to our strategic plan and remain focused on the initiatives that we can control. Excuse me. During the third quarter, we completed four of the targeted divestitures including the sale of the aluminum products segment in July, and wood, plastics and the dealer portion of commercial vehicle products all in late September. We received after tax cash proceeds of $388 million for the four businesses, not counting the subordinated notes and preferred stock we received in conjunction with the aluminum sale. We are in discussions with potential buyers for the three remaining divestitures which are storage product, fibers and coated fabrics, and expect their successful disposition once credit markets improve. We have concluded that our store fixtures business unit in its current form is not capable of meeting our return requirements. As a result we intend to narrow the unit scope to focus primarily on the metals part of the fixtures industry.

In alignment with Leggett's core competency of producing steel and steel related products, we plan to eliminate additional store fixture production facilities, affect changes to senior management, reduce unit overhead, purge remaining customer

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accounts with unacceptable margins and trim annual revenues to a range of approximately $250 million to $275 million. We do not expect to incur significant impairment charges related to these activities. This metal focused operation will be positioned to deliver returns of at least cost of capital levels and is considered a core business within our portfolio. As such, its primary focus is to generate free cash flow and improve profits while minimizing the use of capital. In this very turbulent financial environment, our strong financial profile is especially notable.

Our balance sheet remains in excellent condition. We ended the quarter with net debt of approximately 28% of net capital which is below the low end of our long term targeted range of 30% to 40%. We have $375 million of additional availability and four years remaining on our $600 million bank facility and we have no significant maturities of long term debt until 2012. We generated $77 million of cash from operations during the third quarter and expect comfortably more than $300 million of operating cash for the full year. This is below our previous full year estimate primarily due to a temporary increase in working capital. Weak market conditions and higher costs will likely result in higher year end levels of inventories and receivables than previously expected. We are aggressively managing our operations to reduce these levels.

We repurchased a record 7.9 million shares of our stock during the quarter, largely with divestiture proceeds bringing our full-year total to nearly 14 million shares. Year-to-date, our shares outstanding have declined by 7%. We also declared a third quarter dividend of $0.25 per share representing a 39% increase over last year's third quarter dividend. The current dividend yield is approximately 5.9% which was based upon $17 stock price. This year marks the 37th consecutive annual dividend increase for Leggett at an average compound growth rate of over 14%. In the near term we should need approximately $275 million of cash annually to fund dividends and capital expenditures. We fully expect to consistently meet these priorities with operating cash flow. As we have consistently stated we plan to use the majority of the divestiture proceeds to repurchase shares. But we may complete those purchases at a slower pace than originally anticipated as we carefully monitor economic conditions. Returning cash to our shareholders remains a key priority and we expect share repurchases to consistently be one means by which that will be accomplished. With those comments I will turn the call over to Karl Glassman to discuss the segments in more detail.

Karl Glassman - *Leggett & Platt, Inc. - COO*

Thank you, Dave. Good morning. In the residential furnishing segment, same location sales increased 3% in the third quarter. Inflation-related price increases and market share gains in certain product categories more than offset the weak end markets experienced in many parts of the segment. Third quarter EBIT and EBIT margins increased versus the prior year. This increase primarily reflects higher sales and operating improvements resulting from past restructuring activities. Our residential markets have been weak for the past few quarters but softened further in late September. Several positive factors that we discussed in prior quarters continue to offset some of the market declines.

Our US bedding components operations have benefited from significant market share gains this year related to innersprings. Lower innerspring imports as a result of antidumping investigations, the deverticalization of a strong regional bedding manufacturer and relative strong of innerspring at lower to middle price points are some of the factors that have led to our share gains. Our new patented Verticoil innerspring continues to be in very high demand. This is a better value product for our bedding customers with higher earnings contribution for Leggett.

We have also gained market share in our furniture components business. Earlier this year, we entered into an agreement with Berkline, a major manufacturer of upholstered furniture to develop and produce the recliner mechanisms that they previously manufactured for themselves. These positive developments are occurring in what are arguably the weakest conditions that some of our markets have experienced in decades and should position us very well once economic conditions improve.

In commercial fixturing and components, same location sales declined 16% in the third quarter primarily from reduced capital spending by retailers and our decision in the store fixtures business to walk away from sales with unacceptable margins. EBIT margins also decreased versus the prior year, primarily reflecting the lower sales and higher restructuring-related costs. In

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industrial materials, same location sales were 47% in the quarter, primarily from the pass through of higher steel costs and increased sales of steel billets. These improvements were partially offset by continued softness in various end markets. EBIT and EBIT margins increased versus third quarter 2007 primarily due to higher sales including billet sales and operating improvements.

In specialized products, same location sales decreased slightly in the second quarter. Growth in European and Asian automotive as well as machinery was offset by lower volume in North American automotive and the fleet portion of commercial vehicle products. EBIT and EBIT margins were lower than in the third quarter of last year primarily due to sales reductions in certain markets and higher steel costs with limited recovery. As a final comment, all of our segments used the FIFO method for valuing inventory. An adjustment is made at the corporate level to convert about 60% of our inventories to the LIFO method. These are primarily are domestic steel-related inventories. Significant steel cost increases during 2008 have resulted in an estimated LIFO expense in continuing operations of approximately $47 million for the full year of which $19.7 million was recognized in the third quarter. We increased our full-year estimate during the quarter primarily due to expectations for year end inventory valuations to be higher than previously anticipated. This full-year revision caused the larger than forecasted third quarter charge. With those comments, I will turn the call back over to Dave.

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

Okay. Thank you, Karl. As we announced in yesterday's press release, 2008 earnings per share from continuing operations excluding nonrecurring items are expected to be between $1 and $1.15. This guidance anticipates weak fourth quarter market demand, $12 million of LIFO expense, and the tax rate of approximately 41%. Sequentially, fourth quarter sales are expected to decline approximately $200 million due to lower anticipated unit volume. Sales from continuing operations for the full year are projected to be approximately 3% lower than in 2007. Inflation-related price increases and market share gains are expected to be offset by weak market demand and the deliberate elimination earlier this year of approximately $100 million of unprofitable sales from the company's store fixtures business. We spent much of September reviewing every business unit's strategic plan which were the result of a new strategic planning process implemented earlier this year. This process will help guide our long-term decisions about each business unit including its opportunities and its role in our portfolio.

We are very comfortable with our strategic direction and are absolutely committed to the continued execution of our plan. We believe our actions are reestablishing Leggett as a stronger and more profitable company. Our goal is to consistently generate total shareholder returns of 12% to 15% per year on average. And with those comments I will turn the call back over to Dave DeSonier.

David DeSonier - *Leggett & Platt, Inc. - VP, Strategy, IR*

That concludes our prepared remarks. We appreciate your attention, and we will be glad to try to answer your questions. In order to allow everyone an opportunity to participate, we request that you ask your single best question and then voluntarily yield to the next participant. If you have additional questions please reenter the queue and we will answer as many questions as you have. Brandy, we are ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. We will now begin the question and answer session. (OPERATOR INSTRUCTIONS) One moment, please. And our first question comes from the line of Mark Rupe with Longbow Research. Please go ahead.

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Mark Rupe - *Longbow Research - Analyst*

Hi, guys, just a question here. On your -- the benefits that you've had in the residential furnishing segment with the innerspring dumping, Serta doing very well, the deverticalization of a customer, all of those have obviously benefited this year offsetting some of the end market weakness. Do you have any idea when some of that might lap going into next year, and curious to learn how much of an impact of the positive side they are offsetting this year, or in the current environment I would say?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Mark, this is Karl Glassman. The answer to the first question is they would lap to a significant degree in the first quarter of '09, but then we would have trailing benefit into the second and third quarter as the comp to those imported, dumped innersprings start to alleviate. So it will roll actually through the third quarter of next year. As it relates to trends, it is a challenge. We have seen a significant reduction in demand in the last few weeks of September, first couple of weeks of October, and the way that we look at it is, in the second quarter of this year, our innerspring sales were up approximately 13%. We believe at that time the market was off about 10%.

Mark Rupe - *Longbow Research - Analyst*

Right.

Karl Glassman - *Leggett & Platt, Inc. - COO*

The best intelligence we have. Third quarter we believe the market was off 10% to 12%, and our innerspring sales were up 15%. Now, admittedly our September sales were only up 2%. Our October sales through the first two weeks were off about 6%. So we believe the industry is probably off north of 20% in units.

Mark Rupe - *Longbow Research - Analyst*

Right.

Karl Glassman - *Leggett & Platt, Inc. - COO*

We don't know. This is so fluid and the fall off has been so dramatic, it is tough for us to get a handle on. We certainly are outperforming the industry significantly probably by a 20 point delta.

Mark Rupe - *Longbow Research - Analyst*

Okay. Perfect. Great color. Thank you.

Karl Glassman - *Leggett & Platt, Inc. - COO*

You're welcome.

Operator

Thank you. Our next question is from Chad Bolen with Raymond James. Please go ahead.

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Chad Bolen - *Raymond James - Analyst*

Good morning, everyone.

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

Hi, Chad.

Chad Bolen - *Raymond James - Analyst*

Karl, you have gave us a couple of statistics there, would you walk through for us in residential furniture, bedding, and office furniture, what were the year-over-year change in sales and units where you can give it to us?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Okay, Chad. As I have broken this out in the past, I will do it again, the buckets of residential in the third quarter, US spring in dollar sales was up about 18%. Remember, there was significant steel inflation. So, innerspring units up in that 15% range, box springs were negative, moving with the market trend. So, it is tough to sort out the dollars versus the units. International spring dollars up about 12%, units off 14% with some real weakness in Europe as we walked away for some -- from some business that was unacceptable margins, and admittedly, the European economies weakened as the third quarter grew long. Furniture in total, sales up about 10%, good story there.

Our hardware mechanism sales in units were up 2% in a mix between domestic and international. Some of the other furniture categories were off in units more than that. We believe the furniture side of macro industry is off in the 10% range in the third quarter, probably closer to 15%, maybe 20% as we speak. Consumer products in dollars was off about 10%. Carpet cushion was off about 8% in dollars and 8% in units. That was somewhat normalized. So that is a little bit of a flavor for the residential categories.

Chad Bolen - *Raymond James - Analyst*

And then office?

Karl Glassman - *Leggett & Platt, Inc. - COO*

I'm so sorry. Office we have a little bit of moving parts. Office was off about 2% to 3%. We have some challenges in trying to gather that data. There's some inflation, not as extreme as exists in the residential categories. Offset when we sold the aluminum business, some office aluminum-based business that we have moved with aluminum and then later on the gains from the acquisition, our Chinese acquisition that hasn't anniversaried yet, sort the whole thing out and you get 2% to 3% in units is even a good number. So office continues, the chair side of office continues to perform pretty well in this environment.

Chad Bolen - *Raymond James - Analyst*

Okay. And just as my follow up, I guess, in looking at the Q4 guidance, sales down about 10%. What are the assumptions there by business segment?

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Karl Glassman - *Leggett & Platt, Inc. - COO*

Chad, it is all over the board. We probably step back a little bit and give you a flavor of our forecasting methodology. What happens is in the early stages of last week, each branch and then business unit forecasted the fourth quarter based on the trends that they saw at that moment. There is significant volatility in that forecast because of softening demand, overlaid by raw material inflation. Some of that certainly has -- from a sequential there has been a gain in our average unit selling prices as we pass through inflation, certainly year-on-year comp, there's significantly more inflation in those numbers. But if I sort everything out and try to pin it down to units, it is about a 15% negative demand. Now that varies significantly by business, by region in the world. But 15% is about as good of number as I can give you in units.

Chad Bolen - *Raymond James - Analyst*

Well, thanks a lot, guys, and obviously good luck in this challenging economy.

Karl Glassman - *Leggett & Platt, Inc. - COO*

Thank you, Chad.

Operator

Thank you. Our next question comes from the line of Keith Hughes with SunTrust. Please go ahead.

Keith Hughes - *SunTrust - Analyst*

Thank you. Just to switch to raw materials. Given the moves down in scrap steel prices in the last couple of months, is it fair to assume the $47 million LIFO charge is not going to reoccur in 2009?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Keith, I would say that is a fair statement.

Keith Hughes - *SunTrust - Analyst*

And, how long is lower scrap and I guess potentially lower rod when it comes down with it, when would that start to show up in the income statement for you guys?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Boy, there's a lot of dynamics, Keith, as it relates to steel. You know that steel market pretty well. There are different dynamics in the flat products versus the long products being the rod and wire business. Both of them are being impacted by a reduction in scrap prices. From our perspective, the flat products are purchased products, the long products are partially manufactured, partially purchased. So as scrap decreases, it will ultimately end up as somewhat of a reduction in selling price, some point in the future certainly not in the fourth quarter. We have higher valued inventories in place at this point. And we never priced the peak of that raw material inflation either. So, it is showing up in the fourth quarter in our fourth quarter forecast, to more directly answer the question and we will continue to get benefit to the degree that we can maintain some spread. Remember, that we lagged going up and we should rightfully lag going down.

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Keith Hughes - *SunTrust - Analyst*

And final question you talked about the plan on the store fixtures, roughly $250 million in sales. Was, as you began the process of reviewing this business was it about $400 million? Is that correct?

Karl Glassman - *Leggett & Platt, Inc. - COO*

No. It was higher than that. It depends on when you consider beginning the review. That business has performed terribly over the last number of years, the review has been ongoing. If we look at store fixture sales alone, going back to 2006 it was about $540 million, 2007 it had dropped to about $500 million as we started to walk away from some business, close locations. 2008 it is about $375 million to $380 million business, but on a run rate, it is closer to about $325 million as we close facilities, pushed out some of that business, that $100 million of unacceptable margin priced business. Today on a run rate it is about $325 million.

Keith Hughes - *SunTrust - Analyst*

Okay. Thank you.

Karl Glassman - *Leggett & Platt, Inc. - COO*

You're welcome.

Operator

Thank you. Our next question comes from the line of John Baugh with Stifel Nicolaus. Please go ahead.

John Baugh - *Stifel Nicolaus - Analyst*

Good morning.

John Baugh - *Stifel Nicolaus - Analyst*

A couple of things. Have you witnessed a 15% unit decline in any quarter in your memory?

Karl Glassman - *Leggett & Platt, Inc. - COO*

No, John, I don't think it is -- no.

John Baugh - *Stifel Nicolaus - Analyst*

Okay. Curious on the range of guidance you mentioned your methodology of forecasting and how you got all of the units together. Where would that 15% assumption of down units -- would that be the midpoint of that guidance range? Help me with a range.

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Karl Glassman - *Leggett & Platt, Inc. - COO*

Boy, you are asking me how conservative our guidance is. Cut through it all real quick. I would say that it is not in the midpoint. Typically that it would be, today we are being conservative. We have no visibility, John. I am going to say -- admit something that I have been taught never to admit. We don't know. Things -- demand has fallen off so significantly in such a short period of time, that we are trying to give as accurate guidance as we possibly can. I'm an optimist, so I personally believe it might be lightly conservative, but we don't know.

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

John, this is Dave. I have consistently said we are tired of having our friends disappointed. So it could be conservative. It is not at the midpoint of what rolled up, but we truly do not know. Our people that are developing the data at the profit center points really don't know. So, we could be accused of being a bit conservative, and I hope that is the way it comes out, but we just don't know.

John Baugh - *Stifel Nicolaus - Analyst*

Fair enough. On store fixtures, as you go through this restructuring or whatever you want to call it, how easy or difficult is it to say we are not going the make wood shelving or plastic or composites or whatever it is you are doing there, we are only going to make metal? Have you breeched that topic with your current customer base? Will they continue to buy metal component shelving from you to the same degree they have? Kind of walk me through that thought process and how you have thought about that?

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

You need to clarify, John, we will be participating at a more moderate rate in wood.

Karl Glassman - *Leggett & Platt, Inc. - COO*

John, back up. When we started the analysis of our store fixtures business, if you look at store fixtures, as one of the components of fixtures and displays, so just store fixtures, the business is really broken into three parts. There's wood, there's metal, there's distribution. Metal has historically been a much more stable business for us. It is a business that is much more predictable, longer runs, better aligned with Leggett's core competency. The metal business has not disappointed us in the recent past. It may be at a couple of branches, but overall our manufacturing operations, our customer base, everything is very stable in metal and it aligns perfectly with Leggett. The store fixtures metal business gives a significant amount of purchasing leverage to the rest of Leggett. So, metal is really well aligned.

When we started to do the analysis, wood is where we really disappointed ourselves. Wood is much more challenging. It is a product that is by the nature of the raw material, is more fluid. The production runs are shorter. It is much more of -- has a much more custom element to it. And there was a time that we thought well maybe we just need to get out of the wood business because of this history of disappointment and the reality is when we look at our top 20 store fixtures accounts, 13 of them are dependent on us for a combination of metal and wood. We are not getting out of the wood business. We see that a downsized wood strategy combined with our metal strategy is a significant competitive advantage. What we really meant to announce yesterday is we are reducing our wood manufacturing footprint but we are going to continue to get contribution out of our wood operations. So, the real benefit in store fixtures is the combination of those two.

Now, I think we would be concerned about a pure wood play customer. I mean we are after those combined metal and wood and that strategy. And as we downsize we are continuing to do that profitability by customer. And we are continuing to push some unattractive business off the bench. The key for that business is we expect 2009 to be a very, very difficult year in store

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fixtures. We need to make sure that our manufacturing capacity is full. And we are comfortable with these changes that will take place in the fourth quarter, that will be properly positioned.

John Baugh - *Stifel Nicolaus - Analyst*

So in wood are you simply eliminating capacity or are you reducing SKUs, complexities, what --

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Karl Glassman - *Leggett & Platt, Inc. - COO*

We are reducing number of facilities and we are reducing complexity at the same time.

John Baugh - *Stifel Nicolaus - Analyst*

Okay. Great. Thank you for the color.

Karl Glassman - *Leggett & Platt, Inc. - COO*

You're welcome.

Operator

(OPERATOR INSTRUCTIONS) One moment please. And our next question comes from the line of Joel Havard with Hilliard Lyons. Please go ahead.

Joel Havard - *Hilliard Lyons - Analyst*

Thank you. Good morning, everybody. Dave, the divisions, the operating units that are sort of on the block now, you all said don't see too much of an impairment, what about the other side of that? Is there a best guess at this point on any possible gains on that and the timing, given what is going on that that might out as a best guess but as a wild guess?

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

Yes. Okay, Joel, it would be sort of a wild guess. Relative to the gain potential we are not anticipating that in this, and we haven't ceased these activities. So we continue to suffer from credit tightness and the proposed purchase prices and things like that. We know we will significantly exceed our in total our $400 million target that we put out there, significantly. We suspect that there isn't going to be a significant amount of gain on those other three, but just getting something close to book value will be a very handsome amount above our $400 million total.

Joel Havard - *Hilliard Lyons - Analyst*

Good. And the follow up --

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

Joel, yes, let Matt comment on it, too.

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Matthew Flanigan - *Leggett & Platt, Inc. - CFO*

Joel, I will just add that on the balance sheet, that you have got there for the press release, the assets held for sale, if you take the asset categories, deduct the little bit of liabilities associated with those, it is about $91 million that is reflected at the end of September. Now that includes some other things not just those three business units. But that is a good proxy for all of the things we still have that we are working to monetize.

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

Yes And with regard to timing, Joel, who knows. We still have a significant amount of discussion going on a couple of those. On the other hand, we wanted to take a more conservative approach and we don't want to give them away. They are generating a significant amount of EBITDA as we speak, and so while we know the valuations and multiples if you want to short cut it have come down in this market, we just don't feel terribly compelled to give them away. They are still for sale and we are continuing to negotiate, but gosh, I wish I could tell you when they would get done.

Joel Havard - *Hilliard Lyons - Analyst*

All right. Thanks. Matt, one more follow up for you. The -- is that reduction kind of done here, and where did this last chunk primarily come from?

Matthew Flanigan - *Leggett & Platt, Inc. - CFO*

Yes. It did largely come from the proceeds from asset sales. As you know we bought eight million shares during the quarter.

Joel Havard - *Hilliard Lyons - Analyst*

I meant where did you direct it, which area?

Matthew Flanigan - *Leggett & Platt, Inc. - CFO*

Commercial paper is where that got applied. And at 28% debt to cap approximately in the third quarter, as you know that's below our long-term comfort zone of 30% running up to 40%, but we wouldn't do that, but closer to 30% and at the second quarter we were about 31%. So in the spirit of being conservative with all of the economic head winds that started blowing particularly here in the quarter, we wanted to make sure we were well positioned and that took our leverage to 28% at the end of the third quarter.

Joel Havard - *Hilliard Lyons - Analyst*

Great. All right, guys. Thanks. Best of luck.

Operator

Thank you. Our next question is a follow up question from the line of Keith Hughes with SunTrust. Please go ahead.

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Keith Hughes - *SunTrust - Analyst*

Yes. Thank you. You had talked about some higher temporary inventory. Could you describe or higher temporary working capital in the cash flow equation for this year. Could you discuss that a little more detail, please?

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

Yes, Keith. I will let Karl give some comment on it too. We -- inventory is the predominant piece of that variant even though we have seen our receivables go up a bit, I think that's a direct function of the times that we are in and we have taken into consideration our reserves accordingly for that. But inventory is where that big bubble is. And I use the word manage inventories as I talk through this. It is something that I know Karl and the operating people have a very high priority on. And Karl, do you want to comment on it?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Yes. Keith, the inventories in part are inflated for -- the primary reason is pure inflation. Year in year basis but those inventories have a higher cost because of steel inflation.

Keith Hughes - *SunTrust - Analyst*

This is not units.

Karl Glassman - *Leggett & Platt, Inc. - COO*

No, it is primarily dollars. We are not overly concerned about the unit inventory that we have in place, but in this environment, with demand falling off the way that it has, to Dave's point we will be reducing our inventories as the quarter goes on.

Keith Hughes - *SunTrust - Analyst*

And second question on the store fixtures business, with this $250 million business you are going to have now, what products are you no longer going to produce? I assume it is going to be metal centric, gondolas are going to be a big specific piece of the business, but what else will you be in in a big way?

Karl Glassman - *Leggett & Platt, Inc. - COO*

It is not a significant change in products produced. It is more a change in the mix between metal and wood and then some specific wood-only business that we are walking away from. So I can't say from a delineation standpoint that we are making one widget in the past that we are not going to make in the future. It is more a rebalancing of the mix, recognizing that metal is what we are good at. Metal historically has been a very stable business for us, but there's some ancillary wood business that is pretty darn good when you roll it into total.

Keith Hughes - *SunTrust - Analyst*

So when you look at the business as it is going to be structured, what type of margins has it historically put up? What's remaining?

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Karl Glassman - *Leggett & Platt, Inc. - COO*

In the metal side of the business it has been in that 10% range, depends on customer, depends on location.

Keith Hughes - *SunTrust - Analyst*

10% EBIT?

Karl Glassman - *Leggett & Platt, Inc. - COO*

Yes. Going forward we shall have that expectation. That business -- we are very confident that in 2009, the way that we will have the business structured will cover our cost of capital.

Keith Hughes - *SunTrust - Analyst*

All right. Thank you.

Karl Glassman - *Leggett & Platt, Inc. - COO*

You're welcome.

Operator

Thank you. And at this time, Mr. DeSonier, there are no further questions. I will turn it back over to you.

David DeSonier - *Leggett & Platt, Inc. - VP, Strategy, IR*

Okay. I'll just say, we appreciate your time and your attention, and we will be talking to you next quarter. Thank you.

Operator

Ladies and gentlemen, this concludes the Leggett & Platt third quarter earnings conference call. You may now disconnect. Thank you for using ACT teleconferencing.

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