
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) October 19, 2006

TEMPUR-PEDIC INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-31922
(Commission File Number)

33-1022198
(I.R.S. Employer
Identification No.)

1713 Jaggie Fox Way
Lexington, Kentucky 40511
(Address of principal executive offices) (Zip Code)

(800) 878-8889
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results from Operations and Financial Condition

On October 19, 2006, Tempur-Pedic International Inc. issued a press release to announce its financial results for the third quarter ended September 30, 2006. This press release is furnished herewith as Exhibit 99.1 and incorporated by reference herein.

The information in this report (including Exhibit 99.1) shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 7.01. Regulation FD Disclosure

The information furnished under Item 2.02 of this Form 8-K, including Exhibit 99.1 furnished herewith, is hereby incorporated by reference under this Item 7.01 as if fully set forth herein.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

| <u>Exhibit</u> | <u>Description</u> |
|----------------|---|
| 99.1 | Press Release dated October 19, 2006, titled "Tempur-Pedic International Reports Thirds Quarter EPS of \$0.34 -- Achieves Record Quarterly Net Sales of \$241 Million Up 17%" |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 19, 2006

Tempur-Pedic International Inc.

By: /s/ H. Thomas Bryant

Name: H. Thomas Bryant

Title: President and Chief Executive Officer

EXHIBIT INDEX

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 99.1 | Press Release dated October 19, 2006, titled "Tempur-Pedic International Reports Third Quarter EPS of \$0.34 -- Achieves Record Quarterly Net Sales of \$241 Million Up 17%" |



Contact: Tempur-Pedic Investor Relations, 800-805-3635

TEMPUR-PEDIC REPORTS THIRD QUARTER EPS OF \$0.34
– Achieves Record Quarterly Net Sales of \$241 Million Up 17%

LEXINGTON, KY, October 19, 2006 – Tempur-Pedic International Inc. (NYSE: TPX), the leading manufacturer, marketer and distributor of premium mattresses and pillows worldwide, today announced record earnings per share and net sales for the third quarter ended September 30, 2006.

- Earnings per share (EPS) doubled to \$0.34 per diluted share in the third quarter of 2006 from \$0.17 per diluted share in the third quarter of 2005. Net income in the third quarter of 2006 increased 66% to \$28.9 million from \$17.4 million in the third quarter of 2005.
- Net sales rose 17% to \$240.9 million in the third quarter of 2006 from \$206.1 million in the third quarter of 2005. Retail sales increased 25% worldwide. Domestic retail sales increased 31% and international retail sales increased 12%. Sales in the U.S. furniture and bedding retail channel were especially strong, with an increase of 43%.
- Worldwide, mattress unit growth increased 14%. Domestic mattress unit growth was particularly strong, increasing 26%.
- Cash flow provided by operations increased 56% to \$46.6 million in the third quarter of 2006 from \$30.0 million in the third quarter of 2005. The increase was principally driven by improved net income and working capital. For the nine months ended September 30, 2006, cash flow provided by operations increased 68% to \$133.1 million from \$79.1 million for the nine months ended September 30, 2005.
- Within the quarter, total debt declined by \$43.7 million to \$373.5 million reflecting net principal payments of \$25.4 million on its U.S. facilities, \$17.7 million on its European term loan and the impact of favorable foreign exchange rates on its international borrowings.

President and Chief Executive Officer H. Thomas Bryant commented, “Tempur-Pedic International turned in another solid quarter of net sales and earnings representing quarterly records for net sales, EPS and mattress units. We believe the initiatives put in place to accelerate growth are continuing to gain momentum, new products are being well received and efforts to control costs and further increase productivity are succeeding. In addition, our business continues to show its strong cash flow dynamics with operating cash flow up 56% to nearly \$47 million.”

Bryant continued, “Our U.S. operations delivered strong performance, resulting in significantly improved mattress unit growth, account productivity and operating leverage. Recent new product introductions and the refreshing of the Classic model helped to increase our retail floor space and improve market share. In addition, domestic pillow sales improved based primarily on sales of existing models. The new Symphony pillow line started shipping at the end of the quarter and is expected to be more widely distributed in the fourth quarter.

“Internationally, many of our key European markets experienced strong growth and achieved record sales levels. Excluding Japan and certain third party distributors, our international business continues to perform generally as expected and capture additional market share. However, we experienced modest growth in total as Japan continues to under perform and we are in the process of replacing certain third party distributors.”

Chief Financial Officer Dale Williams noted, "While our strategy to grow the retail channel and gain share in mattresses has accelerated growth, gross margins continue to be adversely affected by channel and product mix. However, initiatives to generate productivity improvements and cost reductions continue to yield significant benefits. In addition, the geographic earnings mix varied from our expectations, which resulted in a higher effective tax rate for the Company."

Bryant concluded, "The specialty bedding category led by Tempur-Pedic continues to expand and take market share from traditional innerspring mattress manufacturers. We are pleased with our performance in the quarter and believe we are taking the necessary steps to continue growth and improve productivity going forward."

2006 Guidance

The Company confirmed its prior guidance ranges for GAAP diluted earnings per share and net sales for full year 2006. The Company currently expects to be towards the high-end of its full year 2006 GAAP diluted earnings per share guidance range of \$1.26 to \$1.31, an increase of 30% to 35% over the Company's GAAP EPS for 2005. The Company currently expects to be towards the low-end of its full year 2006 net sales guidance range of \$940.0 million to \$970.0 million, an increase of 12% to 16% over 2005. The Company notes that its expectations are based on information available at the time of this release, and are subject to changing conditions, many of which are outside the Company's control.

Conference Call Information

Tempur-Pedic International will host a live conference call with President and Chief Executive Officer H. Thomas Bryant and Chief Financial Officer Dale Williams to discuss financial results today, October 19, 2006 at 5:00 p.m. Eastern Time. The dial-in number for the conference call is 866-362-4832, conference ID#77994461. The call is also being webcast, and can be accessed at <http://www.tempurpedic.com/ir>.

For those who cannot listen to the live broadcast, a replay of the call will be available from October 19, 2006 at 8:00 p.m. Eastern Time through October 26, 2006. To listen to the telephone replay, dial 888-286-8010, conference ID #69254260.

An archived webcast will also be available on the Tempur-Pedic International investor relations website at <http://www.tempurpedic.com/ir>.

Forward-looking Statements

This release contains "forward-looking statements," within the meaning of federal securities laws, which include information concerning one or more of the Company's plans, objectives, goals, strategies, and other information that is not historical information. When used in this release, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including without limitation, statements relating to the impact of initiatives to accelerate growth, maintain costs and improve productivity, the rollout and market acceptance of new products, and expectations regarding floor expansion in the retail channel, market share gains and net sales and net income for 2006, are based upon current expectations and beliefs and various assumptions. There can be no assurance that the Company will realize these expectations or that these beliefs will prove correct.

There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements contained in this release. Numerous factors, many of which are beyond the Company's control, could cause actual results to differ materially from those expressed as

forward-looking statements. These risk factors include general economic and industry conditions and consumer confidence; uncertainties arising from global events; the effects of changes in foreign exchange rates on the Company's reported earnings; consumer acceptance of the Company's products; industry competition; the efficiency and effectiveness of the Company's advertising campaigns and other marketing programs; the Company's ability to further penetrate the US retail furniture channel, including the timing of opening or expanding within large retail accounts; the Company's ability to address issues in certain underperforming international markets; the Company's ability to continuously improve its product line, maintain efficient, timely and cost-effective production and delivery of its products, and manage its growth; and rising commodity costs. Additional information concerning these and other risks and uncertainties are discussed in the Company's filings with the Securities and Exchange Commission, including without limitation the Company's annual report on Form 10-K under the headings "Special Note Regarding Forward-Looking Statements" and "Risk Factors". Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statements for any reason, including to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

About the Company

Tempur-Pedic International Inc. (NYSE: TPX) manufactures and distributes premium mattresses and pillows made from its proprietary TEMPUR® pressure-relieving material. It is the worldwide leader in specialty sleep, the fastest growing segment of the estimated \$12 billion global mattress market. The Company is focused on developing, manufacturing and marketing advanced sleep surfaces that help improve the quality of life for people around the world. The Company's products are currently sold in over 70 countries under the TEMPUR® and Tempur-Pedic® brand names. World headquarters for Tempur-Pedic International is in Lexington, KY. For more information, visit <http://www.tempurpedic.com> or call 800-805-3635.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statements of Income
(In thousands, except per share amounts)

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------------------|-------------------------------------|-----------|------|------------------------------------|-----------|------|
| | 2006 | 2005 | Chg% | 2006 | 2005 | Chg% |
| Net sales | \$240,917 | \$206,095 | 17% | \$688,465 | \$621,089 | 11% |
| Cost of sales | 124,894 | 103,577 | | 354,672 | 305,793 | |
| Gross profit | 116,023 | 102,518 | 13% | 333,793 | 315,296 | 6% |
| Selling and marketing expenses | 41,579 | 41,590 | | 126,674 | 124,708 | |
| General and administrative expenses | 19,465 | 17,483 | | 55,870 | 51,849 | |
| Research and development expenses | 1,240 | 627 | | 3,031 | 1,944 | |
| Operating income | 53,739 | 42,818 | 26% | 148,218 | 136,795 | 8% |
| Other income (expense), net: | | | | | | |
| Interest expense, net | (6,728) | (5,079) | | (17,402) | (15,306) | |
| Loss on extinguishment of debt | — | — | | — | (717) | |
| Other income (expense), net | (201) | (160) | | (349) | 167 | |
| Total other expense | (6,929) | (5,239) | | (17,751) | (15,856) | |
| Income before income taxes | 46,810 | 37,579 | | 130,467 | 120,939 | |
| Income tax provision | 17,947 | 20,211 | | 48,599 | 51,971 | |
| Net income | \$ 28,863 | \$ 17,368 | 66% | \$ 81,868 | \$ 68,968 | 19% |
| Earnings per share: | | | | | | |
| Basic | \$ 0.35 | \$ 0.18 | | \$ 0.96 | \$ 0.70 | |
| Diluted | \$ 0.34 | \$ 0.17 | | \$ 0.92 | \$ 0.67 | |
| Weighted average shares outstanding: | | | | | | |
| Basic | 82,946 | 99,090 | | 85,533 | 98,770 | |
| Diluted | 85,681 | 103,346 | | 88,666 | 103,171 | |

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except per share amounts)

| | September 30, 2006 | December 31, 2005 | Chg% |
|---|-----------------------|----------------------|--------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 15,253 | \$ 17,855 | |
| Accounts receivable, net | 136,236 | 111,726 | |
| Inventories | 63,754 | 81,064 | |
| Prepaid expenses and other current assets | 10,478 | 11,072 | |
| Income taxes receivable | — | 19 | |
| Deferred income taxes | 8,288 | 6,532 | |
| Total Current Assets | 234,009 | 228,268 | 3% |
| Property, plant and equipment, net | 206,541 | 193,224 | |
| Goodwill | 199,258 | 199,962 | |
| Other intangible assets, net | 71,598 | 73,908 | |
| Deferred financing and other non-current assets, net | 6,462 | 6,949 | |
| Total Assets | \$ 717,868 | \$ 702,311 | 2% |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 38,439 | \$ 33,639 | |
| Accrued expenses and other | 65,747 | 56,570 | |
| Income taxes payable | 23,090 | — | |
| Current portion of long-term debt | 19,051 | 30,770 | |
| Total Current Liabilities | 146,327 | 120,979 | 21% |
| Long-term debt | 354,425 | 313,711 | |
| Deferred income taxes | 39,532 | 40,386 | |
| Other non-current liabilities | 415 | 906 | |
| Total Liabilities | 540,699 | 475,982 | 14% |
| Stockholders' Equity: | | | |
| Common stock, \$.01 par value; 300,000 shares authorized; 99,215 shares issued as of September 30, 2006 and December 31, 2005 | 992 | 992 | |
| Additional paid in capital | 261,973 | 255,369 | |
| Deferred stock compensation, net of amortization of \$12,312 as of December 31, 2005 | — | (2,196) | |
| Retained earnings | 111,705 | 46,245 | |
| Accumulated other comprehensive income | 1,908 | 1,137 | |
| Treasury stock, at cost; 16,214 and 6,767 shares as of September 30, 2006 and December 31, 2005, respectively | (199,409) | (75,218) | |
| Total Stockholders' Equity | 177,169 | 226,329 | (22)% |
| Total Liabilities and Stockholders' Equity | \$ 717,868 | \$ 702,311 | 2% |

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(In thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 81,868 | \$ 68,968 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,640 | 18,815 |
| Amortization of deferred financing costs | 1,479 | 1,804 |
| Loss on extinguishment of debt | — | 717 |
| Amortization of stock-based compensation | 2,672 | 2,312 |
| Allowance for doubtful accounts | 2,813 | 2,286 |
| Deferred income taxes | (2,479) | (909) |
| Foreign currency adjustments | 243 | 606 |
| Loss on sale of equipment and other | 359 | 574 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (23,696) | (30,477) |
| Inventories | 18,545 | (23,917) |
| Prepaid expenses and other current assets | 573 | 1,569 |
| Accounts payable | 2,572 | 6,275 |
| Accrued expenses and other | 6,765 | 2,078 |
| Income taxes payable/receivable | 22,737 | 28,375 |
| Net cash provided by operating activities | <u>133,091</u> | <u>79,076</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for trademarks and other intellectual property | (699) | (1,520) |
| Purchases of property, plant and equipment | (24,159) | (68,139) |
| Proceeds from sale of equipment | 83 | 327 |
| Net cash used by investing activities | <u>(24,775)</u> | <u>(69,332)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term revolving credit facility | 152,000 | 73,500 |
| Repayments of long-term revolving credit facility | (55,000) | (22,000) |
| Repayments of long-term debt | (70,622) | (33,492) |
| Repayments of Series A Industrial Revenue Bonds | (3,840) | — |
| Common stock issued, including reissuances of treasury stock | 3,401 | 2,204 |
| Excess tax benefit from stock based compensation | 6,189 | — |
| Treasury stock repurchased | (144,000) | — |
| Payments for deferred financing costs | (698) | (250) |
| Net cash (used) / provided by financing activities | <u>(112,570)</u> | <u>19,962</u> |
| NET EFFECT OF EXCHANGE RATE CHANGES ON CASH | 1,652 | (5,673) |
| (Decrease) / Increase in cash and cash equivalents | <u>(2,602)</u> | <u>24,033</u> |
| CASH AND CASH EQUIVALENTS, beginning of period | 17,855 | 28,368 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 15,253 | \$ 52,401 |

Summary of Channel Sales

The Company generates sales through four distribution channels: retail, direct, healthcare and third party. The retail channel sells to furniture, specialty and department stores globally. The direct channel sells directly to consumers. The healthcare channel sells to hospitals, nursing homes, healthcare professionals and medical retailers. The third party channel sells to distributors in countries where Tempur-Pedic International does not operate its own distribution company.

The following table highlights net sales information, by channel and by segment, for the third quarter of 2006 compared to 2005:

(\$ in thousands)

| | <u>CONSOLIDATED</u> | | <u>DOMESTIC</u> | | <u>INTERNATIONAL</u> | |
|-------------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|-----------------|
| | <u>Three Months Ended</u> | | <u>Three Months Ended</u> | | <u>Three Months Ended</u> | |
| | <u>September 30,</u> | | <u>September 30,</u> | | <u>September 30,</u> | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| <i>By Sales Channel</i> | | | | | | |
| Retail | \$198,659 | \$159,446 | \$139,883 | \$106,937 | \$58,776 | \$52,509 |
| Direct | 20,608 | 23,694 | 18,214 | 20,085 | 2,394 | 3,609 |
| Healthcare | 10,522 | 10,748 | 3,099 | 2,725 | 7,423 | 8,023 |
| Third Party | 11,128 | 12,207 | 3,250 | 2,576 | 7,878 | 9,631 |
| Total | <u>\$240,917</u> | <u>\$206,095</u> | <u>\$164,446</u> | <u>\$132,323</u> | <u>\$76,471</u> | <u>\$73,772</u> |

Summary of Product Sales

A summary of net sales by product is reported below:

(\$ in thousands)

| | <u>CONSOLIDATED</u> | | <u>DOMESTIC</u> | | <u>INTERNATIONAL</u> | |
|----------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|-----------------|
| | <u>Three Months Ended</u> | | <u>Three Months Ended</u> | | <u>Three Months Ended</u> | |
| | <u>September 30,</u> | | <u>September 30,</u> | | <u>September 30,</u> | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| <i>Net Sales</i> | | | | | | |
| Mattresses | \$169,334 | \$139,162 | \$122,117 | \$96,398 | \$47,217 | \$42,764 |
| Pillows | 29,934 | 30,950 | 14,863 | 12,985 | 15,071 | 17,965 |
| Other | 41,649 | 35,983 | 27,466 | 22,940 | 14,183 | 13,043 |
| Total | <u>\$240,917</u> | <u>\$206,095</u> | <u>\$164,446</u> | <u>\$132,323</u> | <u>\$76,471</u> | <u>\$73,772</u> |
| <i>Units Sold(1)</i> | | | | | | |
| Mattresses | 196,213 | 171,939 | 120,669 | 95,725 | 75,544 | 76,214 |
| Pillows | 576,194 | 650,934 | 295,022 | 277,262 | 281,172 | 373,672 |

(1) Units sold represent net sales after consideration of returned mattresses and pillows and excludes units shipped to fulfill warranty claims and promotional activities.