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As filed with the Securities and Exchange Commission on October 30, 2003

Registration No. 333-109054

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-4
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

(Exact name of each registrant as specified in its charter)	(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)
Tempur-Pedic, Inc.	**Kentucky**	**2510**	**61-1187378**
Tempur Production USA, Inc.	**Virginia**	**2510**	**61-1368322**
TWI Holdings, Inc.*	**Delaware**	**2510**	**33-1022198**
Tempur World, Inc.*	**Delaware**	**2510**	**61-1364709**
Tempur World Holdings, Inc.*	**Delaware**	**2510**	**61-1394602**
Tempur-Pedic, Direct Response, Inc.*	**Kentucky**	**2510**	**31-1491797**
Tempur-Medical, Inc.*	**Kentucky**	**2510**	**31-1491807**

* Guarantor

1713 Jaggie Fox Way
Lexington, Kentucky 40511
800-878-8889
(Address, including zip code, and telephone number, including area code, of the registrants' principal executive offices)

Robert B. Trussell, Jr., President and Chief Executive Officer
Tempur World, Inc.
1713 Jaggie Fox Way
Lexington, Kentucky 40511
800-878-8889
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
John R. Utzschneider, Esq.
Bingham McCutchen LLP
150 Federal Street
Boston, MA 02110
617-951-8000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8, MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated October 30, 2003

PRELIMINARY PROSPECTUS

TEMPUR-PEDIC, INC.
TEMPUR PRODUCTION USA, INC.

OFFER TO EXCHANGE

$150,000,000 principal amount of 10 1/4% Senior Subordinated Notes due 2010, which have been registered under the Securities Act of 1933, for any and all of the outstanding 10 1/4% Senior Subordinated Notes due 2010

This is an offering by Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the Issuers) to exchange all of their outstanding 10 1/4% Senior Subordinated Notes due 2010, which are referred to herein as the old notes, for their registered 10 1/4% Senior Subordinated Notes due 2010, which are referred to herein as the exchange notes, and together with the old notes, the notes. The terms of the exchange notes are substantially identical to the terms of the old notes except that the exchange notes have been registered under the Securities Act of 1933 and, therefore, are freely transferable. The exchange notes will represent the same debt as the old notes, and the Issuers will issue the exchange notes under the same indenture.

The principal features of the exchange offer are as follows:

- The exchange offer expires at 5:00 p.m., New York City time, on   , 2003, unless extended.
- The Issuers will exchange all old notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer.
- You may withdraw tendered old notes at any time prior to the expiration of the exchange offer.
- The exchange of old notes for exchange notes pursuant to the exchange offer will not be a taxable event for U.S. federal income tax purposes.
- We will not receive any proceeds from the exchange offer.
- There is no established trading market for the exchange notes, and we do not intend to apply for listing of the exchange notes on any securities exchange or automated quotation system.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Issuers have agreed that, for a period of 90 days after the expiration date (as defined herein), they will make this prospectus available to any broker-dealer for use in connection with any such resale. See “Plan of Distribution.”

The exchange notes will be the unsecured senior subordinated obligations of the Issuers and will be guaranteed on an unsecured senior subordinated basis by the Issuers’ ultimate parent, TWI Holdings, Inc. and all of TWI Holdings’ current and future domestic restricted subsidiaries, other than the Issuers. The exchange notes and guarantees will rank equally in right of payment with all of the Issuers’ and the guarantors’ existing and future unsecured senior subordinated indebtedness, including the old notes, and will be subordinated in right of payment to all of the Issuers’ and the guarantors’ existing and future senior indebtedness.

Participating in the exchange offer involves risks. See “Risk Factors” beginning on page 17.

Neither the Securities and Exchange Commission nor any other federal or state agency has approved or disapproved of the securities to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is   , 2003.

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We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained in this prospectus. You must not rely upon any information or representation not contained in this prospectus as if we had authorized it. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the registered securities to which it relates, nor does this prospectus constitute an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation.

INDUSTRY AND MARKET DATA

This prospectus includes market share and industry data that we obtained from industry publications and surveys and internal company surveys. International Sleep Products Association (ISPA) and *Furniture/Today* were the primary sources for third-party industry data. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most readily available market data. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading “Risk Factors” in this prospectus.

PRESENTATION OF FINANCIAL INFORMATION

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 as set forth in their reports. We’ve included our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP’s reports, given on their authority as experts in accounting and auditing.

Arthur Andersen LLP, independent auditors, have audited the consolidated financial statements of our Predecessor at December 31, 2001 and 2000, and for each of the two years in the period ended December 31, 2001, as set forth in their report. We’ve included these consolidated financial statements of our Predecessor in this prospectus and elsewhere in the registration statement in reliance on Arthur Andersen LLP’s report, given on their authority as experts in accounting and auditing.

In June 2002, Arthur Andersen LLP was convicted of federal obstruction of justice charges. As a result of its conviction, Arthur Andersen has ceased operations and is no longer in a position to reissue its audit reports or to provide consent to include financial statements reported on by it in this prospectus. Because Arthur Andersen has not reissued its reports and because we are not able to obtain a consent from Arthur Andersen, you will be unable to sue Arthur Andersen for material misstatements or omissions, if any, in this prospectus, including the financial statements covered by its previously issued reports. Even if you have a basis for asserting a remedy against, or seeking recovery from, Arthur Andersen, we believe that it is unlikely that you would be able to recover damages from Arthur Andersen.

PROSPECTUS SUMMARY

This summary highlights material information contained elsewhere in this prospectus. It does not contain all of the information that may be important to you. We encourage you to read this prospectus in its entirety. The exchange notes offered hereby are being offered by Tempur-Pedic, Inc. and Tempur Production USA, Inc., as co-issuers. These companies are referred to in this prospectus as the "Issuers." The Issuers are indirect, wholly-owned subsidiaries of TWI Holdings, Inc. TWI Holdings, Inc. and its domestic restricted subsidiaries (other than the Issuers) will guarantee the exchange notes on a senior subordinated basis. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for TWI Holdings, Inc. or its predecessors. As used in this prospectus, the terms "TWI" and "TWI Holdings" refer to TWI Holdings, Inc. only, and the terms "we," "our," "ours" and "us" refer to TWI Holdings and its consolidated subsidiaries. Unless otherwise noted in this prospectus, all references to dollars are to United States dollars.

Tempur®, Tempur-Pedic®, Tempur-Med®, Swedish Sleep System®, Airflow System™ and Dual Airflow System™ are our trademarks, trade names and service marks. All other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

TWI Holdings

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain. In April 2003, *Consumers Digest* named one of our products among the eight "best buys" of the mattress industry in the applicable price range. Consumer surveys commissioned on our behalf over the last several years have indicated that our products achieve satisfaction ratings generally ranging from 80% to 92%. In the three years ended December 31, 2002, our total net sales, net income and Adjusted EBITDA have grown at compound annual rates of approximately 36%, 17% and 28%, respectively, and for the pro forma as adjusted twelve months ended June 30, 2003, we had total net sales of $387.0 million, net income of $25.3 million and Adjusted EBITDA of $96.5 million.

We sell our products through four distribution channels: retail (furniture and specialty stores, as well as department stores internationally); direct (direct response and internet); healthcare (chiropractors, medical retailers, hospitals and other healthcare channels); and third party distributors. In the United States, we sell a majority of our mattresses and pillows through furniture and specialty retailers. International sales account for approximately 45% of our total net sales.

The International Sleep Products Association (ISPA) estimates that the United States wholesale market for mattresses and foundations in 2002 was approximately $4.8 billion. We believe the international mattress market is generally the same size as the domestic mattress market. According to ISPA, from 1991 to 2002 mattress unit sales grew in the United States at an average of approximately 500,000 units annually, with 21.5 million mattress units sold in the United States in 2002. We believe a similar number of mattress units were sold outside the United States in 2002. ISPA further estimates that approximately 20% of those mattress units were sold at retail price points greater than $1,000, which is the premium segment of the market we target. According to ISPA, the premium segment of the market grew in the United States at an annual rate of 32% in 2002, and is the fastest-growing segment of this market.

Most standard mattresses are made using innersprings and most innerspring mattresses are sold for under $1,000. Alternatives to standard and premium innerspring mattresses include visco-elastic and other foam mattresses, as well as airbeds and waterbeds. Four large manufacturers (Sealy Corporation, Serta, Inc., Simmons Company and The Spring Air Company) dominate the standard innerspring mattress market in the United States. The balance of the United States wholesale mattress market is fragmented, with a large number of other manufacturers, many of which operate primarily on a regional basis. Standard innerspring mattresses represent approximately 80% of the overall mattress market in the United States.

Based on our market research, we estimate that the United States retail market for pillows is approximately $1.1 billion. The United States pillow market has a traditional and specialty segment. Specialty pillows include all alternatives to traditional pillows, including visco-elastic and other foam, sponge rubber and down. We estimate that specialty pillows accounted for approximately 27%, or $300.0 million, of retail sales in the United States in 1999. We believe the international pillow market is generally the same size as the domestic pillow market.

We believe we are the leading global manufacturer, marketer and distributor of visco-elastic foam mattresses and pillows, and we estimate we had an approximate 70% market share in 2002 in both the United States and internationally. We believe consumer demand for our premium products in the United States is being driven primarily by increased housing and home furnishing purchases by the baby boom generation, significant growth in our core demographic market as the baby boom generation ages, increased awareness of the health benefits of a better quality mattress, and the shifting consumer preference from firmness to comfort. As consumers continue to prefer alternatives to standard innerspring mattresses, our products become more widely available and our brand gains broader consumer recognition, we expect that our premium products will continue to attract sales away from the standard mattress market.

Our principal executive office is located at 1713 Jaggie Fox Way, Lexington, Kentucky 40511 and our telephone number is (800) 878-8889.

Competitive Strengths

We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

- ***Superior Product Offering.*** Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and provide better spinal alignment, reduced pressure points, greater relief of lower back and neck pain and better quality sleep than traditional bedding products. In addition, we continue to leverage our unique and proprietary manufacturing process to develop new products and refine existing products to meet the changing demands and preferences of consumers. Our innovative products distinguish us from the major manufacturers of standard innerspring mattresses and traditional pillows in the United States, which we believe offer generally similar products and must compete primarily on price.
- ***Increasing Global Brand Awareness.*** We believe consumers in the United States and internationally increasingly associate our brand name with premium quality products that enable better overall sleep. Our significant presence in both the United States and Europe, combined with our sales elsewhere, have also created significant global brand awareness. Furthermore, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand. We believe that our major competitors in the United States have limited brand awareness outside of the United States and our major international competitors have limited brand awareness outside of their respective regions.

- ***Diversified Product Offerings Sold Globally Through Multiple Distribution Channels.*** We believe we have a highly-diversified, well-balanced business model, which provides us with a competitive advantage over our major competitors, which primarily sell standard innerspring mattresses or traditional pillows in the United States almost exclusively through retail furniture and bedding stores. In contrast, for the combined twelve months ended December 31, 2002, mattress, pillow and other product sales, primarily adjustable beds, represented 52%, 31% and 17%, respectively, of our net sales. For the combined twelve months ended December 31, 2002, our retail channel represented 60% of our net sales, with our direct, healthcare and third party distributor channels representing 19%, 14% and 7%, respectively.
- ***Strong Free Cash Flow Characteristics.*** Our business generates significant free cash flow due to the combination of our rapidly growing revenues, strong gross and operating margins, low maintenance capital expenditure and working capital requirements, and limited corporate overhead. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which is more than 1.5 times the average for three of the major bedding manufacturers in the United States.
- ***Significant Growth Opportunities.*** We believe our competitors in the United States standard innerspring mattress market have penetrated the majority of their addressable channels and, therefore, have limited growth opportunities in their core markets. In contrast, we have penetrated only a small percentage of our addressable market. Furthermore, we have recently begun to expand our direct response business in our European markets, based on our similar, successful initiatives in the United States and in the United Kingdom, to reach a greater number of consumers and increase our brand awareness.
- ***Management Team with Proven Track Record.*** Since launching our United States operations in 1992, Robert Trussell, Jr., has helped grow our company from its early stages into a global business with approximately $387.0 million in total net sales for the twelve months ended June 30, 2003. Furthermore, Mr. Trussell has assembled a highly experienced management team with significant sales, marketing, consumer products, manufacturing, accounting and treasury expertise.

The management team and certain key employees currently own approximately 12.4% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options.

Business Strategy

Our goal is to become the leading global manufacturer, marketer and distributor of premium mattresses and pillows by pursuing the following key initiatives:

- ***Maintain Focus on Core Products.*** We utilize a vertically-integrated, proprietary process to manufacture a comfortable, durable and high quality visco-elastic foam. Although this foam could be used in a number of different products, we are currently committed to maintaining our focus primarily on premium mattresses and pillows. We believe our focused sales, marketing and product strategies will enable us to increase market share in the premium market, while maintaining our margins and our ability to generate free cash flow.
- ***Continue to Build Global Brand Awareness.*** We plan to continue to invest in increasing our global brand awareness through targeted marketing and advertising campaigns that further associate our brand name with better overall sleep and premium quality products. We estimate that our current advertising campaign yields 2.7 billion consumer “impressions” per month via television, radio, magazines and newspapers.

- ***Further Penetrate U.S. Retail Channel.*** In the United States, the retail sales division is our largest sales division. We plan to build and maintain our base of furniture retailers and specialty retailers. In order to continue to penetrate this channel, we have increased our salesforce and have increased the number of personnel who train retail salespersons to sell our products more effectively. We believe we are able to more effectively attract and retain retailers because our premium products provide retailers with higher per unit profits than standard innerspring products.
- ***Continue to Expand Internationally.*** We plan to increase sales growth internationally by further penetrating each of our existing distribution channels.
- ***Increase Growth Capacity.*** We intend to continue to invest in our operating infrastructure to meet the requirements of our rapidly growing business. Currently, we manufacture our products in two highly automated, vertically-integrated facilities located in Aarup, Denmark and Duffield, Virginia. Over the past three years, we have invested more than $50.0 million to upgrade and expand these facilities. To accommodate our anticipated growth, we plan to invest an additional $75.0 to $100.0 million to increase productivity and expand manufacturing capacity during the next several years, including the development and construction of an additional manufacturing facility in North America. We also plan to continue to enhance our internal information technology systems and our product distribution network, as well as augment our personnel in management, sales, marketing and customer service.

TA Associates, Inc. and Friedman Fleischer & Lowe

Founded in 1968, TA Associates, Inc. (TA) is one of the largest and most experienced private equity firms in the world. Equipped with a $5.0 billion capital base and over 40 investment professionals in Massachusetts, California and London, TA has invested in more than 330 companies throughout its 35 year history. TA focuses its investments in growth companies in the consumer, technology, financial services, business services and healthcare industries.

Friedman Fleischer & Lowe, LLC (FFL) is a San Francisco-based private equity firm specializing in value-added investing. FFL's principals have invested approximately $2.0 billion in more than 50 companies over the past 20 years across many industry sectors. The principals have over 90 years of combined experience as investors, senior operating executives and advisors.

The Acquisition of Our Business

In November 2002, TA and FFL formed TWI Holdings to purchase Tempur World, Inc. for approximately $350 million plus a deferred earn-out payment of approximately $40.0 million. TWI Holdings funded that purchase and related transaction fees and expenses using $150.0 million of senior bank financing, $50.0 million in mezzanine debt financing and a cash and non-cash equity contribution from our owners of approximately $161.0 million. TA and FFL, together, currently own 79.8% of our fully diluted common stock, after giving effect to the vesting of all outstanding options, and our management and employees and certain third party investors own the balance. We refer to this acquisition of Tempur World as the "Tempur acquisition."

The Recapitalization

We used the proceeds of the offering of 10 1/4% Senior Subordinated Notes due 2010 on August 15, 2003, together with borrowings under our amended senior credit facilities and available cash on hand, to finance our recapitalization and pay related fees and expenses. The recapitalization consisted of the following transactions:

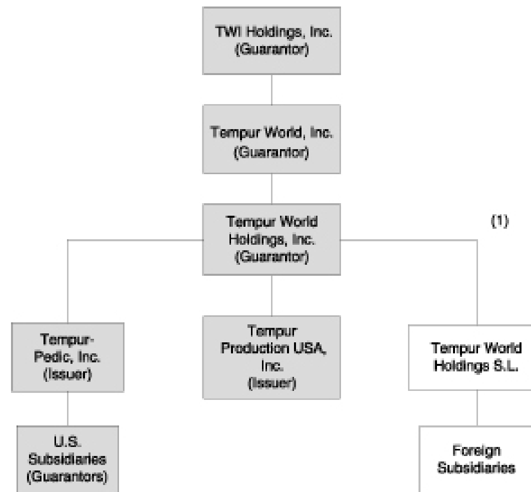
- TWI, the Issuers and certain of our foreign subsidiaries entered into amended and restated senior credit facilities providing for borrowings in an aggregate principal amount of up to $270.0 million, including

term loan A facilities of $95.0 million, a term loan B facility of $135.0 million and revolving credit facilities providing for borrowings of up to $40.0 million. We refer to these facilities in this prospectus as the amended senior credit facilities.

- The Issuers issued $150.0 million in aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2010.
- We repaid all of the outstanding borrowings under our then existing mezzanine debt facility and terminated that facility.
- We paid approximately $40.0 million in satisfaction in full of the earn-out payment payable in connection with the Tempur acquisition.
- TWI Holdings distributed approximately $160.0 million to its equityholders.

The Issuers and Guarantors

Tempur-Pedic, Inc. and Tempur Production USA, Inc., the Issuers, are indirect wholly-owned subsidiaries of TWI Holdings that, directly or through subsidiaries, operate all of our business in the United States and certain portions of our business in Canada and Mexico. All of our business operations in the rest of the world are conducted by foreign subsidiaries owned by Tempur World Holdings S.L., an indirect wholly-owned subsidiary of TWI Holdings. TWI Holdings, two intermediate United States holding companies and United States subsidiaries of Tempur-Pedic, Inc. will guarantee the notes. Tempur World Holdings S.L. and our other foreign subsidiaries will not guarantee the notes. Set forth below is a chart showing our structure:



(1) TWI Holdings owns a 1% interest in one foreign subsidiary and a 10% interest in another foreign subsidiary. Tempur World Holdings, Inc. owns directly or indirectly all other capital stock in the foreign subsidiaries.

Recent Developments

TWI Holdings filed a registration statement with the Securities and Exchange Commission on October 17, 2003 for the initial public offering of shares of its common stock. Shares of common stock will be offered by both TWI Holdings and certain selling stockholders. The number of shares to be offered on behalf of TWI Holdings and certain selling stockholders and the price range for this offering have not yet been determined. TWI Holdings expects gross proceeds of approximately $100 million, and expects the net proceeds to it will be used to pay outstanding debt. Please note that the completion of this offering is subject to the SEC review process and market conditions, and we cannot assure you that this offering will be completed.

The Exchange Offer

The following is a brief summary of the terms of the exchange offer. For a more complete description, see "The Exchange Offer."

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. completed an offering of $150,000,000 in aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2010, which was exempt from registration under the Securities Act.

Lehman Brothers Inc., UBS Securities LLC and Credit Suisse First Boston LLC, the initial purchasers, subsequently resold the old notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act, to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act and to institutional accredited investors in reliance on Rule 501(a)(1), (2), (3) or (7) under the Securities Act.

In connection with the sale of the old notes, we entered into a registration rights agreement with the initial purchasers. We are obligated to file a registration statement with respect to an offer to exchange the old notes for a new issue of equivalent notes registered under the Securities Act within 90 days after the date on which the old notes were purchased by the initial purchasers. We are also obligated to use our reasonable best efforts to cause the registration statement to be declared effective on or prior to 180 days after the date on which the old notes were purchased by the initial purchasers. We may be required to provide a shelf registration statement to cover resales of the notes under certain circumstances.

If we and the guarantors fail to meet any of these requirements, we and the guarantors must pay additional interest on the notes in an amount equal to $0.05 per week per $1,000 principal amount of notes for the first 90-day period after any such default. This interest rate will increase by an additional $0.05 per week per $1,000 principal amount of notes with respect to each subsequent 90-day period until all such defaults have been cured, up to a maximum additional interest amount of $0.50 per week per $1,000 principal amount of notes. The exchange offer is being made pursuant to the registration rights agreement and is intended to satisfy the rights granted under the registration rights agreement, which rights terminate upon completion of the exchange offer.

Securities Offered

$150,000,000 in aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2010.

Exchange Offer

The exchange notes are being offered in exchange for a like amount of old notes. $1,000 principal amount of exchange notes will be issued in exchange for each $1,000 principal amount of old notes validly tendered.

The form and terms of the exchange notes are the same as the form and terms of the outstanding notes except that:

- the exchange notes have been registered under the federal securities laws and will not bear any legend restricting their transfer;
- the exchange notes bear a different CUSIP number than the old notes; and
- the holders of the exchange notes will not be entitled to certain rights under the registration rights agreement, including the provisions for an increase in the interest rate on the old notes in some circumstances relating to the timing of the exchange offer.

Resale	Based upon interpretations by the staff of the SEC set forth in no-action letters issued to unrelated third parties, we believe that the exchange notes may be offered for resale, resold or otherwise transferred to you without compliance with the registration and prospectus delivery requirements of the Securities Act of 1933, unless you: • are an "affiliate" of ours within the meaning of Rule 405 under the Securities Act; • are a broker-dealer who purchased the old notes directly from us for resale under Rule 144A or any other available exemption under the Securities Act of 1933; • acquired the exchange notes other than in the ordinary course of your business; or • have an arrangement or understanding with any person to participate in the distribution of exchange notes. However, we have not submitted a no-action letter and there can be no assurance that the SEC will make a similar determination with respect to the exchange offer. Furthermore, in order to participate in the exchange offer, you must make the representations set forth in the letter of transmittal that we are sending you with this prospectus.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2003, which we refer to as the expiration date, unless we, in our sole discretion, extend it. Any old notes not accepted for exchange for any reason will be returned without expense to the tendering holders promptly after the expiration or termination of the exchange offer.
Conditions to Exchange Offer	The exchange offer is subject to certain customary conditions, some of which may be waived by us. See "The Exchange Offer—Conditions to the Exchange Offer."
Procedure for Tendering Old Notes	The exchange offer will expire at 5:00 p.m., New York City time, on , 2003. If you wish to accept the exchange offer, you must complete, sign and date the letter of transmittal, or a copy of the letter of transmittal, in accordance with the instructions contained in this prospectus and in the letter of transmittal, and mail or otherwise deliver the letter of transmittal, or the copy, together with the old notes and any other required documentation, to the exchange agent at the address set forth in this prospectus and in the letter of transmittal. We will accept for exchange any and all old notes that are properly tendered in the exchange offer prior to the expiration date. The exchange notes issued in the exchange offer will be delivered promptly following the expiration date. See "The Exchange Offer—Terms of the Exchange Offer."

Special Procedures for Beneficial Owners	If you are the beneficial owner of old notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender in the exchange offer, you should contact the person in whose name your notes are registered and promptly instruct the person to tender on your behalf.
Guaranteed Delivery Procedures	If you wish to tender your old notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedure for book-entry transfer cannot be completed on time, you may tender your notes according to the guaranteed delivery procedures. For additional information, you should read the discussion under "The Exchange Offer—Guaranteed Delivery Procedures."
Withdrawal Rights	The tender of the old notes pursuant to the exchange offer may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.
Acceptance of Old Notes and Delivery of Exchange Notes	Subject to customary conditions described in the section "The Exchange Offer—Conditions to the Exchange Offer", we will accept old notes which are properly tendered in the exchange offer and not withdrawn prior to the expiration date. The exchange notes will be delivered promptly following the expiration date.
Effect of Not Tendering	Any old notes that are not tendered or that are tendered but not accepted will remain subject to the restrictions on transfer. Since the old notes have not been registered under the federal securities laws, they bear a legend restricting their transfer absent registration or the availability of a specific exemption from registration. Upon the completion of the exchange offer, we will have no further obligations, except under limited circumstances, to provide for registration of the old notes under the federal securities laws.
Interest on the Exchange Notes and the Old Notes	The exchange notes will bear interest from the most recent interest payment date to which interest has been paid on the old notes. Interest on the old notes accepted for exchange will cease to accrue upon the issuance of the exchange notes.
Certain U.S. Federal Income Tax Considerations	The exchange of old notes for exchange notes by tendering holders will not be a taxable exchange for federal income tax purposes, and such holders will not recognize any taxable gain or loss or any interest income for federal income tax purposes as a result of such exchange. See "Certain U.S. Federal Income Tax Considerations."
Exchange Agent	Wells Fargo Bank Minnesota, National Association, the trustee under the indenture, is serving as exchange agent in connection with the

	exchange offer. Contact details for the exchange agent are set forth under "The Exchange Offer—Exchange Agent."
Use of Proceeds	We will not receive any proceeds from the issuance of exchange notes pursuant to the exchange offer.

Terms of the Exchange Notes

The following is a summary of the terms of the exchange notes. For a more complete description, see "Description of the Notes."

Issuers	Tempur-Pedic, Inc. and Tempur Production USA, Inc.
Notes Offered	$150,000,000 aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2010.
Maturity Date	August 15, 2010.
Interest	10 1/4% per annum, payable semiannually in arrears on February 15 and August 15, commencing February 15, 2004.
Ranking	The exchange notes and the guarantees will be unsecured and: • subordinate in right of payment to all existing and future senior indebtedness of the Issuers and the guarantors, including TWI; • equal in right of payment to existing and future senior subordinated indebtedness of the Issuers and the guarantors, including TWI, including the old notes; • senior in right of payment to future subordinated indebtedness of the Issuers and guarantors, including TWI; and • effectively junior to the liabilities of our non-guarantor subsidiaries. As of June 30, 2003, after giving pro forma effect to the recapitalization: • the Issuers and their subsidiary guarantors would have had outstanding senior indebtedness of approximately $171.6 million, and the Issuers' parent guarantors would have had outstanding guarantees with respect to an aggregate of approximately $244.6 million of senior indebtedness; • our non-guarantor subsidiaries (all of which are foreign), would have had outstanding indebtedness of approximately $73.0 million, substantially all of which would have been guaranteed on a senior basis by TWI Holdings, the Issuers and our domestic restricted subsidiaries; and • the Issuers' outstanding senior subordinated indebtedness, including the old notes, would have been $150.0 million.

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	We are permitted to incur additional senior indebtedness under the indenture governing the notes, including $215.0 million of indebtedness incurred under credit facilities, $20.0 million of capital lease obligations, mortgage financings or purchase money obligations, $30.0 million of general indebtedness and an unlimited amount of indebtedness if we satisfy certain debt incurrence requirements. In addition, under the indenture, our foreign restricted subsidiaries, which are not guarantors of the notes, may incur additional indebtedness in an amount equal to the greater of $100 million or an amount based on a borrowing base.
Optional Redemption	Before August 15, 2006, the Issuers may redeem up to 35% of the aggregate principal amount of the exchange notes with the net proceeds of certain equity offerings. The Issuers may make that redemption only if, after the redemption, at least 65% of the aggregate principal amount of the exchange notes remains outstanding. On or after August 15, 2007, the Issuers may redeem some or all of the exchange notes at any time at the redemption prices described in the section "Description of the Notes—Optional Redemption." The Issuers may redeem some or all of the exchange notes at any time prior to August 15, 2007, at a redemption price equal to the make-whole amount set forth in this prospectus.
Mandatory Offer to Repurchase	If the Issuers, TWI or any of TWI's other restricted subsidiaries sell certain assets or experience specific kinds of changes of control, the Issuers must offer to repurchase the exchange notes at the prices, plus accrued and unpaid interest, and additional interest, if any, to the date of redemption listed in the section "Description of the Notes—Repurchase at the Option of Holders." However, we may not have sufficient funds to pay the repurchase price in the event of an asset sale or change of control.
Covenants	The indenture governing the exchange notes contains covenants that, among other things, limit the ability of the Issuers, TWI and the restricted subsidiaries to: • incur additional indebtedness and issue preferred stock; • pay dividends or make other distributions; • make other restricted payments and investments; • create liens; • incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments; • sell assets, including capital stock of our restricted subsidiaries; • merge or consolidate with other entities; and • enter into transactions with affiliates. Each of these covenants is subject to a number of important exceptions and qualifications. See "Description of the Notes—Material Covenants."

Absence of Public Market	The exchange notes generally will be freely transferable but will also be new securities for which there will not initially be a market. Accordingly, we cannot assure you that a market for the exchange notes will develop or as to the liquidity of any market that does develop. We do not intend to apply for the listing of the exchange notes on any securities exchange or automated dealer quotation system. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market in the exchange notes. However, they are not obligated to do so, and any market making with respect to the exchange notes may be discontinued at any time without notice. See “Plan of Distribution.”

Before deciding to tender your old notes in exchange for exchange notes pursuant to the exchange offer, you should carefully consider the information included in the “Risk Factors” section, as well as all other information included in this prospectus.

Unaudited Summary and Historical and Pro Forma Condensed Consolidated Financial and Operating Data

Our predecessor company for the period from January 1, 2000 to October 31, 2002 is Tempur World, Inc. We completed the Tempur acquisition (which was accounted for using the purchase method of accounting) as of November 1, 2002. As a result of adjustments to the carrying value of assets and liabilities pursuant to the Tempur acquisition, the financial position and results of operations for periods subsequent to the Tempur acquisition are not comparable to those of our predecessor company.

The following table sets forth our summary historical and unaudited pro forma condensed consolidated financial and operating data for the periods indicated. We have derived the statement of operations and balance sheet data as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002 from the audited financial statements of our predecessor company. We have derived our statements of operations and balance sheet data as of and for the two months ended December 31, 2002 from our audited financial statements. We have derived the statement of operations data for the six months ended June 30, 2002 from our predecessor company's unaudited condensed consolidated interim financial statements. We have derived the statement of operations and balance sheet data as of and for the six month period ended June 30, 2003 from our unaudited condensed consolidated interim financial statements. In the opinion of management, such unaudited condensed consolidated interim financial statements have been prepared on a basis consistent with our audited financial statements for the two months ended December 31, 2002 and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim period. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Our predecessor company's financial statements as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002, its unaudited condensed consolidated interim statements of operations and cash flows for the six months ended June 30, 2002 and our financial statements for the two months ended December 31, 2002 and our unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2003 are included elsewhere in this prospectus.

The summary unaudited pro forma financial data for the twelve months ended June 30, 2003 has been prepared to give pro forma effect to the Tempur acquisition and to the recapitalization as if they had occurred on July 1, 2002. The unaudited pro forma balance sheet data as of June 30, 2003 has been adjusted to give effect to the recapitalization as if it occurred on June 30, 2003. The summary unaudited pro forma financial data is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Tempur acquisition or the recapitalization actually been consummated on the date indicated and do not purport to indicate balance sheet data or results of operations for any future period. The following data should be read in conjunction with "Unaudited Pro Forma Financial Data," "Selected Historical Consolidated Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our predecessor company's financial statements and related notes thereto included elsewhere in this prospectus.

	Predecessor			TWI Holdings	Combined	Predecessor	TWI Holdings	
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months ended December 31, 2002	Six Months ended June 30, 2002	Six Months ended June 30, 2003	Pro forma As Adjusted Twelve Months ended June 30, 2003
	2000	2001						
($ in thousands)					(unaudited)	(unaudited)	(unaudited)	(unaudited)
Statement of Operations Data:								
Net sales	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 297,958	$ 129,809	$ 218,804	$ 386,954
Cost of sales	89,450	107,569	110,228	37,811	148,039	61,894	98,635	185,776
Gross profit	72,519	113,945	127,086	22,833	149,919	67,915	120,169	201,178
Operating expenses	50,081	83,574	86,693	23,174	109,867	48,828	69,017	130,771
Operating income/(loss)	22,438	30,371	40,393	(341)	40,052	19,087	51,152	70,407
Net interest expense	2,225	6,555	6,292	2,955	9,247	3,680	8,161	29,361
Other (income)/expense	947	316	1,724	(1,331)	393	183	505	714
Income/(loss) before income taxes	19,266	23,500	32,377	(1,965)	30,412	15,224	42,486	40,332
Income taxes	6,688	11,643	12,436	889	13,325	7,274	15,739	15,027
Net income/(loss)	$ 12,578	$ 11,857	$ 19,941	$ (2,854)	$ 17,087	$ 7,950	$ 26,747	$ 25,305
Balance Sheet Data (at end of period):								
Cash and cash equivalents	$ 10,572	$ 7,538	$ 6,380	$ 12,654		$ 3,155	$ 7,984	$ 7,984
Total assets	144,305	176,841	199,641	448,494		189,195	510,598	511,859
Total senior debt	64,866	104,352	88,817	148,121		90,186	127,418	238,676
Total debt	71,164	106,023	89,050	198,352		90,826	178,102	389,360
Redeemable preferred stock	—	11,715	15,331	—		14,809	—	—
Total stockholders' equity	$ 38,237	$ 16,694	$ 39,895	$ 151,999		$ 30,673	$ 180,576	$ 10,859
Other Financial and Operating Data (GAAP):								
Depreciation and amortization	$ 6,002	$ 10,051	$ 10,383	$ 2,664	$ 13,047	$ 5,976	$ 8,233	$ 16,020
Net cash provided by operating activities	$ 1,125	$ 19,716	$ 22,706	$ 12,385	$ 35,091	$ 10,024	$ 22,959	$ 38,163
Net cash used by investing activities	$ (27,014)	$ (34,862)	$ (4,646)	$ (1,859)	$ (6,505)	$ (339)	$ (6,088)	$ (12,254)
Net cash provided (used) by financing activities	$ 34,314	$ 12,593	$ (19,702)	$ (4,221)	$ (23,923)	$ (13,724)	$ (21,949)	$ (32,148)
Basic earnings (loss) per share				$ (323.31)			$ 1,406.56	
Capital expenditures	$ 27,418	$ 35,241	$ 9,175	$ 1,961	$ 11,136	$ 4,835	$ 6,744	$ 13,045
Other Financial and Operating Data (non-GAAP):								
EBITDA(1)	$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880	$ 85,713
EBITDA margin(2)	17.0%	18.1%	20.7%	6.0%	17.7%	19.2%	26.9%	22.2%
Net income margin(3)	7.8%	5.4%	8.4%	(4.7)%	5.7%	6.1%	12.2%	6.5%
Adjusted EBITDA(4)	$ 38,001	$ 40,106	$ 49,052	$ 13,434	$ 62,486	$ 24,880	$ 58,880	$ 96,488
Adjusted EBITDA margin(5)	23.5%	18.1%	20.7%	22.2%	21.0%	19.2%	26.9%	24.9%
Number of pillows sold	1,717,476	1,819,993	1,528,608	407,476	1,936,084	860,918	1,455,435	2,530,601
Number of mattresses sold	173,338	212,695	218,656	50,564	269,220	124,104	180,125	325,241
Total senior debt/adjusted EBITDA								2.5x
Total debt/adjusted EBITDA								4.0x
Adjusted EBITDA/interest expense								3.3x

(1) EBITDA is defined as net income (loss) plus interest expense, income taxes and depreciation and amortization. We consider EBITDA a measure of our liquidity. Management uses this measure as an indicator of cash generated from operating activities. Further, it provides management with a consistent measurement tool for evaluating the operating financial performance under GAAP and may not be comparable to similarly captioned information reported by other companies. In addition, it does not replace net income, operating income or cash flow provided by operating activities as indicators of operating performance. Management believes the most directly comparable GAAP financial measure is "net cash provided by operating activities" presented in the Consolidated Statement of Cash Flows. EBITDA is reconciled directly to net cash provided by operating activities as follows:

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	Predecessor			TWI Holdings	Combined	Predecessor	TWI Holdings	
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months ended December 31, 2002	Six Months ended June 30, 2002	Six Months ended June 30, 2003	Pro forma As Adjusted Twelve Months ended June 30, 2003
	2000	2001						
($ in thousands)					(unaudited)	(unaudited)	(unaudited)	(unaudited)
EBITDA	$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880	$ 85,713
Depreciation and amortization	(6,002)	(10,051)	(10,383)	(2,664)	(13,047)	(5,976)	(8,233)	(16,020)
Net interest expense	(2,225)	(6,555)	(6,292)	(2,955)	(9,247)	(3,680)	(8,161)	(29,361)
Provision for income taxes	(6,688)	(11,643)	(12,436)	(889)	(13,325)	(7,274)	(15,739)	(15,027)
Net income/(loss)	12,578	11,857	19,941	(2,854)	17,087	7,950	26,747	25,305
Depreciation and amortization	6,002	10,051	10,383	2,664	13,047	5,976	8,233	16,020
(Gain)/loss on sale or disposal of property, plant and equipment	203	(53)	268	233	501	533	(206)	(238)
Change in working capital and other, net	(17,658)	(2,139)	(7,886)	12,342	4,456	(4,435)	(11,815)	(2,924)
Net cash provided by operating activities	$ 1,125	$ 19,716	$ 22,706	$ 12,385	$ 35,091	$ 10,024	$ 22,959	$ 38,163

(2) EBITDA margin is the ratio of EBITDA to total net sales.

(3) Net income margin is the ratio of net income to total net sales.

(4) Adjusted EBITDA is defined as EBITDA plus certain items that we believe are not indicative of our future operating performance. Adjusted EBITDA is not a measurement of financial performance under GAAP or a measure of our liquidity and may not be comparable to similarly captioned information reported by other companies. In addition, it does not replace net income, operating income or cash flow provided by operating activities as indicators of operating performance. We believe Adjusted EBITDA provides a useful indicator of levels of our financial performance and is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also believe this information will be useful to investors. Adjusted EBITDA for the twelve months ended December 31, 2000 excludes $10.5 million in charges related to the termination of our license agreement on December 31, 2000. Adjusted EBITDA for the combined twelve months ended December 31, 2002 excludes $9.8 million in charges related to a purchase accounting adjustment to our inventory. Pro forma Adjusted EBITDA for the twelve months ended June 30, 2003 excludes $10.8 million in charges related to a purchase accounting adjustment to our inventory, calculated as if the Tempur acquisition had occurred as of July 1, 2002. Adjusted EBITDA is reconciled directly to EBITDA as follows:

	Predecessor			TWI Holdings	Combined	Predecessor	TWI Holdings	
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months ended December 31, 2002	Six Months ended June 30, 2002	Six Months ended June 30, 2003	Pro forma As Adjusted Twelve Months ended June 30, 2003
	2000	2001						
($ in thousands)					(unaudited)	(unaudited)	(unaudited)	(unaudited)
EBITDA	$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880	$ 85,713
License agreement terminated on December 31, 2000	10,508	—	—	—	—	—	—	—
Purchase accounting adjustment to inventory	—	—	—	9,780	9,780	—	—	10,775
Adjusted EBITDA	$ 38,001	$ 40,106	$ 49,052	$ 13,434	$ 62,486	$ 24,880	$ 58,880	$ 96,488

(5) Adjusted EBITDA margin is the ratio of Adjusted EBITDA to total net sales.

RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this prospectus, before deciding whether to participate in the exchange offer. Any of the following risks could materially adversely affect our business, financial condition or results of operations, which may result in your loss of all or part of your original investment.

Risks Related to Our Business

We operate in the highly competitive mattress and pillow industries, and if we are unable to compete successfully, we may lose customers and our sales may decline.

Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance. Our premium mattresses compete with a number of different types of mattress alternatives, including standard innerspring mattresses, other foam mattresses, waterbeds, futons, air beds and other air-supported mattresses. These alternative products are sold through a variety of channels, including furniture stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs.

Many of our competitors have greater financial, marketing and manufacturing resources and better brand name recognition than our brand, and sell their products through broader and more established distribution channels. In addition, we believe that a number of companies now offer foam mattress products similar to our visco-elastic foam mattresses and pillows. These competitors or other mattress manufacturers may aggressively pursue the visco-elastic foam mattress market. Any such competition by established manufacturers or new entrants into the market could have a material adverse effect on our business, financial condition and operating results by causing our products to lose market share. In addition, should any of our competitors reduce prices on premium mattress products, we may be required to implement price reductions in order to remain competitive, which could significantly impair our liquidity and profitability. The pillow industry is characterized by a large number of competitors, none of which is dominant, but many of which have greater resources than us and greater brand name recognition for their products than us.

We may be unable to effectively manage our growth, which could adversely affect our liquidity and profitability.

We have grown rapidly, with our net sales increasing from approximately $162.0 million in 2000 to approximately $298.0 million for the combined twelve months ended December 31, 2002. Our growth has placed, and will continue to place, a strain on our management, production, product distribution network, information systems and other resources. Our growth may strain these resources to the point where they are no longer adequate to support our operations, which would require us to make significant expenditures in these areas. To manage growth effectively, we must:

- significantly increase the volume of products manufactured at our manufacturing facilities;
- continue to enhance our operational, financial and management systems, including our database management, tracking of inquiries, inventory control and product distribution network; and
- expand, train and manage our employee base.

We may not be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could significantly harm our business, financial condition and operating results.

Our senior management team has not worked together as a group for a significant period of time, and may not be able to effectively manage our business.

Several members of our senior management team have been hired since 2001. As a result, our senior management team has not worked together as a group for a significant period of time. Our senior management team's lack of shared experience could have an adverse effect on its ability to quickly and efficiently respond to problems and effectively manage our business.

We may be unable to sustain growth or profitability, which could impair our ability to service our indebtedness and harm our business.

Our ability to service our increased level of indebtedness depends to a significant extent, on our ability to grow our business while maintaining profitability. We may not be able to sustain growth or profitability on a quarterly or annual basis in future periods. There is a limit to the extent to which we can effectively grow in our current business model and we do not know whether we are at or near that limit. Further, our future growth and profitability will depend upon a number of factors, including without limitation:

- the level of competition in the mattress and pillow industry;
- our ability to continue to successfully execute our strategic initiatives and growth strategy;
- our ability to effectively sell our products through our distribution channels in volumes sufficient to drive growth and leverage our cost structure and advertising spending;
- our ability to continuously improve our products to offer new and enhanced consumer benefits, better quality and reduced costs;
- our ability to maintain efficient, timely and cost-effective production and delivery of our products;
- the efficiency and effectiveness of our advertising campaign and other marketing programs in building product and brand awareness, driving traffic to our distribution channels and increasing sales;
- our ability to successfully identify and respond to emerging trends in the mattress and pillow industry;
- the level of consumer acceptance of our products; and
- general economic conditions and consumer confidence.

We may not be successful in executing our growth strategy and even if we achieve our strategic plan, we may not be able to sustain profitability. Failure to successfully execute any material part of our strategic plan or growth strategy could significantly harm our business, financial condition and operating results.

An increase in our return rates or an inadequacy in our warranty reserves could adversely affect our liquidity and profitability.

Part of our domestic marketing and advertising strategy in certain domestic channels focuses on providing a 90-day money back guarantee under which customers may return their mattress and obtain a refund of the purchase price. For the six months ended June 30, 2003, in the United States, we had approximately $13.7 million in returns for a return rate of approximately 11.0%. As we expand our sales, our return rates may not remain within our historical levels. An increase in return rates could significantly impair our liquidity and profitability. We also currently provide our customers with a limited 20-year warranty on mattresses sold in the United States and a limited 15-year warranty on mattresses sold outside of the United States. However, as we have only been selling mattresses in significant quantities since 1992, and have released new products in recent years, many are fairly early in their product life cycles. We have performed testing to enable us to project our warranty claims over the respective 20- or 15-year period. However, we cannot predict with certainty what our warranty experience will be with respect to these products. In addition, our warranty reserves may not be adequate to cover future warranty claims, and such failure could have a material adverse effect on our business, financial condition and operating results if we must incur warranty costs in excess of our reserves.

We may face exposure to product liability, which could impair our liquidity and profitability and reduce consumer confidence in our products.

We face an inherent business risk of exposure to product liability claims if the use of any of our products results in personal injury or property damage. In the event that any of our products prove to be defective, we may be required to recall or redesign those products. We maintain insurance against product liability claims, but such coverage may not continue to be available on terms acceptable to us or be adequate for liabilities actually incurred. A successful claim brought against us in excess of available insurance coverage, or any claim or product recall that results in significant adverse publicity against us, may have a material adverse effect on our business.

Regulatory requirements may require costly expenditures and expose us to liability.

Our products and our marketing and advertising programs are and will continue to be subject to regulation in the United States by various federal, state and local regulatory authorities, including the Federal Trade Commission and the U.S. Food and Drug Administration. In addition, other governments and agencies in other jurisdictions regulate the sale and distribution of our products. Compliance with these regulations may have an adverse effect on our business. For example, compliance with anticipated changes in fire resistance laws may be costly and could have an adverse impact on the performance of our products. The U.S. Consumer Product Safety Commission and various state regulatory agencies are considering new rules relating to fire retardancy standards for the mattress and pillow industry. The State of California plans to adopt, proposed to be effective in 2005, new fire retardancy standards that have yet to be fully defined. If adopted, such new rules may adversely affect our costs, manufacturing processes and materials. We are developing product solutions that are intended to enable us to meet the new standards. Because the new standards have not been finally determined, however, our solutions may prove inadequate in enabling us to meet the new standards. We expect that any required product modifications will add cost to our product. Many foreign jurisdictions also regulate fire retardancy standards, and changes to these standards and changes in our products that require compliance with additional standards would raise similar risks.

Our marketing and advertising practices could also become the subject of proceedings before regulatory authorities or the subject of claims by other parties. In addition, we are subject to federal, state and local laws and regulations relating to pollution, environmental protection and occupational health and safety. We may not be in complete compliance with all such requirements at all times. We have made and will continue to make capital and other expenditures to comply with environmental and health and safety requirements. If a release of hazardous substances occurs on or from our properties or any associated offsite disposal location, or if contamination from prior activities is discovered at any of our properties, we may be held liable and the amount of such liability could be material.

Our involvement in a government investigation and associated litigation or proceedings relating to any allegations of the possibility of price fixing in the mattress industry could increase our costs or otherwise adversely affect our operations.

On July 29, 2003, we were served with a Civil Investigative Demand from the office of the Attorney General of the State of Texas in connection with that office’s investigation into “the possibility of price fixing in the mattress industry.” In connection with the investigation, we have been asked to produce certain documents that may be relevant to the investigation and to respond to written interrogatories. The demand seeks, among other things, documents relating to the retail pricing of our products, including retail pricing policies and correspondence with retail accounts. We are unable to predict the scope or possible outcome of the investigation or to quantify its potential impact on our business or operations. If the investigation were to become protracted or wide-ranging with respect to us, our efforts to respond could force us to divert management resources and incur significant unanticipated costs. If the investigation resulted in a charge that our pricing practices or policies were in violation of applicable antitrust regulations, we could be subject to significant additional costs of defending such charges in a variety of venues and, ultimately, if there were an adjudication that we were in violation of Texas or other antitrust laws, there could be an imposition of damages for persons injured, as well as injunctive relief. Any of the foregoing could disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

Our product development and enhancements may not be successful, which could adversely affect our ability to compete and our revenues and profitability.

Our growth and future success will depend, in part, upon our ability to enhance our existing products and to develop and market new products on a timely basis that respond to customer needs and achieve market acceptance. We may not be successful in developing or marketing enhanced or new products, and such products may not be accepted by the market.

We are subject to risks from our international operations, such as increased costs and the potential absence of intellectual property protection, which could impair our ability to compete and our profitability.

We currently conduct international operations in 15 countries directly and in 39 additional countries through distributors, and we may pursue additional international opportunities. We generated approximately 43.2% of our net sales from non-U.S. operations during the first six months of 2003, and international suppliers provided a significant portion of our manufacturing material during this period. Our international operations are subject to the customary risks of operating in an international environment, including the potential imposition of trade or foreign exchange restrictions, tariff and other tax increases, fluctuations in exchange rates, inflation and unstable political situations, the potential unavailability of intellectual property protection and labor issues.

Because we depend on our significant customers, a decrease or interruption in their business with us would adversely affect our sales and profitability.

Our top five customers, collectively, accounted for 24.4% of our net sales for the combined twelve months ended December 31, 2002. During this period, our largest customer, Brookstone Company, Inc., accounted for 10.1% of our net sales. Many of our customer arrangements, including the one with Brookstone, are by purchase order or are terminable at will at the option of either party. A substantial decrease or interruption in business from our significant customers could result in write-offs or in the loss of future business and could have a material adverse effect on our business, financial condition or results of operations.

In the future, retailers may consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could decrease the number of stores that carry our products or increase the ownership concentration in the retail industry. Some of these retailers may decide to carry only a limited number of brands of mattress products, which could affect our ability to sell our products to them on favorable terms, if at all. Our loss of significant customers would impair our sales and profitability and have a material adverse effect on our business, financial condition and results of operations.

We are subject to the possible loss of our third party distributor arrangements and disruption in product distribution in markets outside the range of our wholly-owned subsidiaries, which would adversely affect our sales and profitability.

We have third party distributor arrangements in the Asia/Pacific, Middle East, Eastern Europe, Central and South America, Canada and Mexico markets that are currently outside the range of our wholly-owned subsidiaries. Most of these arrangements provide for exclusive rights for such distributors in a designated territory. If our third party distributors cease distributing our products, sales of our products may be adversely affected because we may not be able to find replacement third party distributors or negotiate arrangements with such replacement third party distributors that are as favorable to us. In addition, under the laws of the applicable countries, we may have difficulty terminating these third party distributor arrangements if we choose to do so.

Our advertising expenditures may not result in increased sales or generate the levels of product and brand name awareness we desire and we may not be able to manage our advertising expenditures on a cost-effective basis.

A significant component of our marketing strategy involves the use of direct marketing to generate sales. Future growth and profitability will depend in part on the effectiveness and efficiency of our advertising expenditures, including our ability to:

- create greater awareness of our products and brand name;
- determine the appropriate creative message and media mix for future advertising expenditures;
- effectively manage advertising costs, including creative and media, to maintain acceptable costs per inquiry, costs per order and operating margins; and
- convert inquiries into actual orders.

Our advertising expenditures may not result in increased sales or generate sufficient levels of product and brand name awareness and we may not be able to manage such advertising expenditures on a cost effective basis.

Our ability to compete effectively depends on our ability to protect our trade secrets and maintain our trademarks, patents and other intellectual property.

We rely on trade secrets to protect the design, technology and function of our visco-elastic foam and our products. To date, we have not sought United States or international patent protection for our principal product formula and manufacturing processes. Accordingly, we may not be able to prevent others from developing visco-elastic foam and products that are similar to or competitive with our products. Our ability to compete effectively with other companies also depends, to a significant extent, on our ability to maintain the proprietary nature of our owned and licensed intellectual property. We own several patents on aspects of our products and have patent applications pending on aspects of our manufacturing processes. However, the principal product formula and manufacturing processes for our visco-elastic foam and our products are not patented. We own eight United States patents, and we have nine United States patent applications pending. Further, we own approximately thirty-two foreign patents, and we have approximately fifteen foreign patent applications pending. In addition, we hold approximately 85 trademark registrations worldwide. We own United States and foreign registered trade names and service marks and have applications for the registration of trade names and service marks pending domestically and abroad. We also license certain intellectual property rights from third parties.

Although our trademarks are currently registered in the United States and registered or pending in thirty foreign countries, they could be circumvented, or violate the proprietary rights of others, or we could be prevented from using them if challenged. A challenge to our use of our trademarks could result in a negative ruling regarding our use of our trademarks, their validity or their enforceability, or could prove expensive and time consuming in terms of legal costs and time spent defending against it. Either situation could have a material adverse effect on our financial condition or results of operations. In addition, we may not have the financial resources necessary to enforce or defend our trademarks. Furthermore, there can be no assurance as to the degree of protection offered by our patents or the likelihood that patents will be issued for pending patent applications. It is also possible that others could bring claims of infringement against us, as our principal product formula and manufacturing processes are not patented, and that any licenses protecting our intellectual property could be terminated. If we were unable to maintain the proprietary nature of our intellectual property and our significant current or proposed products, our financial condition or results of operations could be materially adversely affected.

In addition, the laws of certain foreign countries may not protect our intellectual property rights and confidential information to the same extent as the laws of the United States or the European Union. Third parties, including competitors, may assert intellectual property infringement or invalidity claims against us that could be upheld. Intellectual property litigation, which could result in substantial cost to and diversion of effort by us, may be necessary to protect our trade secrets or proprietary technology or for us to defend against claimed infringement of the rights of others and to determine the scope and validity of others' proprietary rights. We may not prevail in any such litigation, and if we are unsuccessful, we may not be able to obtain any necessary licenses on reasonable terms or at all.

We are subject to fluctuations in the cost of raw materials, and increases in these costs would adversely affect our liquidity and profitability.

The major raw materials that we purchase for production are polyol, an industrial commodity based on petroleum, and proprietary additives. The price and availability of these raw materials are subject to market conditions affecting supply and demand. Our financial condition or results of operations may be materially and adversely affected by increases in raw material costs to the extent we are unable to pass those higher costs to our customers.

Loss of suppliers and disruptions in the supply of our raw materials could increase our costs of production and reduce our ability to compete effectively.

We currently obtain all of the materials used to produce our visco-elastic foam from outside sources. If we were unable to obtain polyol from our suppliers, we would have to find replacement suppliers. Any substitute arrangements for polyol might not be on terms as favorable to us. In addition, we purchase proprietary additives from a number of vendors, including one from whom we are obligated to purchase minimum quantities. We may

not be able to prevent an interruption of production if any supplier were to discontinue supplying us for any reason. We maintain relatively small supplies of our raw materials on-site, and any disruption in the on-going shipment of supplies to us could interrupt production of our products and have a material adverse effect on our business, financial condition or results of operations. In addition, we outsource much of the sewing and cutting of our mattress and pillow covers to Poland and the Ukraine. If we were no longer able to outsource this labor, we could source it elsewhere at a higher cost. To the extent we are unable to pass those higher costs to our customers, those costs could impair our profitability and have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by fluctuations in exchange rates, which can affect the costs of our products and our ability to sell our products in foreign markets.

Approximately 43.2% of our net sales were received or denominated in foreign currency for the six months ended June 30, 2003. As a result, we are exposed to foreign currency exchange rate risk, primarily with respect to changes in value of certain foreign currency denominated assets and liabilities of our Denmark manufacturing operations. Although we have in the past entered into hedging transactions to manage this risk and expect that we will continue to do so in the future, the hedging transactions may not succeed in managing our foreign currency exchange rate risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Foreign Currency Exposures.”

For the purposes of financial reporting, any change in the value of foreign currency against the United States Dollar during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any United States Dollar-denominated debt into such foreign currency. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position debt could fluctuate materially as a result of foreign exchange gains or losses. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Foreign Currency Exposures.”

We produce all of our products in two manufacturing facilities, and unexpected equipment failures, delays in deliveries or catastrophic loss may lead to production curtailments or shutdowns.

We manufacture all of our products at our two facilities in Aarup, Denmark and Duffield, Virginia. An interruption in production capabilities at these plants as a result of equipment failure could result in our inability to produce our products, which would reduce our sales and earnings for the affected period. In addition, we generally deliver our products only after receiving the order from the customer or the retailer and thus do not hold large inventories. In the event of a stoppage in production at either of our manufacturing facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times could be severely affected. For example, our third party carrier could potentially be unable to deliver our products within acceptable time periods due to a labor strike or other disturbance in its business. Any significant delay in deliveries to our customers could lead to increased returns or cancellations and cause us to lose future sales. Any increase in freight charges could increase our costs of doing business and harm our profitability. Although we have introduced new distribution programs to increase our ability to deliver products on a timely basis, there can be no assurance that our efforts will be successful. Our manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. We may in the future experience material plant shutdowns or periods of reduced production as a result of equipment failure, delays in deliveries or catastrophic loss.

If we are unable to expand our manufacturing capacity on a timely basis, we may not be able to meet the anticipated demand for our products, and if the cost of building these expansions exceeds our estimates, it may have a material adverse affect on our liquidity. In March 2003, we began construction on a $20.0 million addition to our United States manufacturing facility. Total expected capital expenditures related to this expansion will be $18.0 million for 2003, of which we spent $4.1 million through June 30, 2003. Additionally, we plan to begin expanding mattress production capacity in our Denmark manufacturing facility in the fourth quarter of 2004. We

expect our total capital expenditures related to that expansion to be $20.0 million in 2004. In May 2003, we engaged a site selection firm to assist us in selecting a location for our third manufacturing facility, which we expect to be located in North America. This facility is currently expected to require capital expenditures of approximately $27.0 million and to be completed by the fourth quarter of 2005. If our expansion is delayed, we may not have the manufacturing capacity necessary to meet anticipated future demand for our products. In addition, if our capital expenditures exceed our estimates, our liquidity and profitability could be impaired.

Our controlling shareholders may have interests that conflict with yours.

TWI is privately owned by TA and FFL, which together own 79.8% of TWI's voting securities on a fully diluted as-converted basis, after giving effect to the vesting of all unvested options, and by certain other third party investors and members of management. TA and FFL together control TWI's affairs and policies. Circumstances may occur in which the interests of these shareholders could be in conflict with your interests. In addition, these shareholders may have an interest in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you. TA, FFL and TWI's other equityholders received a dividend of approximately $160.0 million as part of our recapitalization.

A deterioration in labor relations could increase our costs and have a material adverse effect on our business.

As of April 30, 2003, we had approximately 1,000 full-time employees, with approximately 400 in the United States, 300 in Denmark and 300 in the rest of the world. The employees in Denmark are under a government labor union contract but those in the United States are not. Any significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our business, financial condition and results of operation.

The loss of the services of any members of our senior management team could adversely affect our ability to execute our business strategy and as a result, adversely affect our sales and profitability.

We depend on the continued services of our senior management team. The loss of such key personnel could have a material adverse effect on our ability to execute our business strategy and on our financial condition and results of operations. We do not maintain key-person insurance for members of our senior management team other than Robert B. Trussell, Jr. We may have difficulty replacing members of our senior management team who leave and, therefore, the loss of the services of any of these individuals could harm our business.

Risks Related to the Notes and the Exchange Offer

Our level of indebtedness could adversely affect our financial position and prevent us from fulfilling our obligations under the notes.

We have a substantial amount of indebtedness. On a pro forma basis as if the recapitalization had occurred at June 30, 2003, the Issuers would have on a consolidated basis outstanding indebtedness of approximately $321.6 million, including approximately $100,000 in outstanding letters of credit, all of which would be guaranteed by TWI and our domestic restricted subsidiaries, other than the Issuers. As of June 30, 2003, after giving pro forma effect to the recapitalization, the Issuers and their subsidiary guarantors would have had outstanding senior indebtedness of approximately $171.6 million; the Issuers' parent company guarantors would have had outstanding guarantees with respect to an aggregate of approximately $244.6 million of senior indebtedness; and our non-guarantor subsidiaries (all of which are foreign) would have had $73.0 million in outstanding indebtedness, including approximately $5.1 million in outstanding letters of credit, substantially all of which would also have been guaranteed by TWI, the Issuers and our domestic restricted subsidiaries. In addition, on a pro forma basis as if the recapitalization had occurred on June 30, 2003, the Issuers' outstanding senior subordinated indebtedness, including the old notes, would have been $150.0 million.

This substantial indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to meet all our obligations to creditors, who could then require us to do such things as restructure our indebtedness, sell assets or raise additional debt or equity capital;
- require us to dedicate a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available for working capital, capital expenditures and other general corporate purposes;
- limit our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of our growth strategy, research and development costs or other purposes;
- limit our flexibility in planning for and reacting to changes in our business and in the industry in which we operate, which could make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and
- place us at a disadvantage compared to our competitors that have less debt.

Any of the above listed factors could materially adversely affect our business and results of operations.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We and our subsidiaries, including the Issuers, may be able to incur substantial additional indebtedness in the future. We are permitted under the indenture governing the notes to incur additional senior indebtedness, including $215.0 million of indebtedness incurred under credit facilities, $20.0 million of capital lease obligations, mortgage financings or purchase money obligations, $30.0 million of general indebtedness and an unlimited amount of indebtedness if we satisfy certain debt incurrence covenants. Our foreign restricted subsidiaries, which are not guarantors of the notes, are permitted under the indenture governing the notes to incur additional indebtedness of up to the greater of $100 million or an amount based on a borrowing base. On a pro forma basis as if the recapitalization had occurred on June 30, 2003, our amended senior credit facilities would permit additional borrowings of up to $28.3 million. All of those borrowings would rank senior to the notes and the guarantees. In addition, we may need to refinance all or a portion of our indebtedness, including the notes and guarantees, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our amended senior credit facilities and the notes, on commercially reasonable terms or at all. If new debt is added to the current debt levels of the Issuers, TWI or its other subsidiaries or if we are unable to refinance our indebtedness on commercially reasonable terms or at all, the related risks that we now face could intensify.

Your right to receive payment on the notes and the guarantees is junior to all our existing and future senior debt.

The notes are unsecured and junior in right of payment to all existing and future senior debt, including obligations of the Issuers and guarantors under our amended senior credit facilities. The notes are not secured by any of our assets and, therefore they will be subordinated to any secured debt or unsecured senior debt that we or our subsidiaries may have now or may incur in the future. Subject to certain limitations, our amended senior credit facilities also permit us to incur additional senior debt in the future. The indebtedness under our amended senior credit facilities will become due prior to the time the principal obligations under the notes become due. In addition, the notes are effectively subordinated to all indebtedness and other obligations of our foreign subsidiaries.

In the event that the Issuers are declared bankrupt, become insolvent or are liquidated or reorganized, the Issuers' assets and the assets of the guarantors will be available to pay obligations on the notes only after all senior debt of TWI, the Issuers and our other subsidiaries has been paid in full and there may not be sufficient assets remaining to pay amounts due on any or all of the notes. The holders of any indebtedness of the guarantors that is senior to the guarantees will be entitled to payment of their indebtedness from the guarantors' assets prior to the holders of any of our general unsecured obligations, including the notes. In addition, substantially all of TWI's assets and the assets of our other guarantors will be pledged to secure the indebtedness under our amended senior credit facilities.

In addition, all payments on the notes will be blocked in the event of a payment default on certain of our senior debt and may be blocked for up to 179 consecutive days in the event of certain non-payment defaults on certain of our senior debt.

In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to the Issuers or the guarantors, holders of the notes will participate with trade creditors and all other holders of subordinated indebtedness of the Issuers or the guarantors in the assets remaining after the Issuers and guarantors have paid all of the senior debt of the Issuers and guarantors. We may not have sufficient funds to pay all of our creditors and holders of notes may receive less, ratably, than the holders of our senior debt. Further, because the indenture requires that amounts otherwise payable to holders of the notes in a bankruptcy or similar proceeding be paid to holders of senior debt instead, holders of the notes may receive less, ratably, than holders of trade payables in any such proceeding, if anything at all.

On a pro forma basis as if the recapitalization had occurred on June 30, 2003:

- the Issuers' outstanding senior debt would have been approximately $171.6 million, which would have consisted exclusively of borrowings and approximately $100,000 in outstanding letters of credit under the amended senior credit facilities, and approximately $13.4 million would have been available for borrowing by the Issuers under the amended senior credit facilities, all of which would have been guaranteed on a senior basis by the guarantors, including TWI, and all of which would have been secured;
- our non-guarantor subsidiaries (all of which are foreign) would have had outstanding indebtedness of approximately $73.0 million, which would have consisted primarily of borrowings and approximately $5.1 million in outstanding letters of credit under the amended senior credit facilities, and approximately $14.9 million would have been available for borrowing by those subsidiaries under the amended senior credit facilities, substantially all of which would be guaranteed on a senior basis by TWI, the Issuers and our domestic restricted subsidiaries, and all of which would have been secured;
- we would have had approximately $68.1 million in current liabilities, excluding debt; and
- the Issuers' outstanding senior subordinated indebtedness, including the old notes, would have been $150.0 million.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash flow from operations, our sales growth may not be realized on schedule or at all, and future borrowings may not be available to us under our amended senior credit facilities in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs.

If our cash flow and capital resources are insufficient to allow us to make scheduled payments on your notes or our other debt, we may have to sell assets, seek additional capital or restructure or refinance our debt. The terms of our debt may not allow for these alternative measures, and such measures may not satisfy our scheduled debt service obligations.

We are vulnerable to interest rate risk with respect to our debt, which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with our issuance of variable rate debt under our amended senior credit facilities. Interest rate changes could increase the amount of our interest payments and thus, negatively impact our future earnings and cash flows. We estimate that our annual interest expense on the unhedged portion of our floating rate indebtedness would increase by $1.7 million for each 1% increase in

interest rates. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation —Interest Rate Risk.”

Our failure to comply with the restrictive covenants contained in the instruments governing our indebtedness could cause events of default under, and acceleration of, that indebtedness.

Our agreements with senior creditors require TWI, the Issuers and our other subsidiaries to maintain specified financial ratios, meet or exceed certain financial tests and comply with certain covenants, among other obligations. We were out of compliance with certain of such covenants restricting indebtedness, operating leases, capital expenditures, investments and changes to our corporate structure and requiring the delivery of financial statements and other information, as of the year ended December 31, 2002, but we obtained waivers from our lenders and were in compliance with these restrictions as of June 30, 2003. In addition, our amended senior credit facilities restrict, among other things:

- our ability to incur additional indebtedness;
- our ability to make capital expenditures in excess of specified levels;
- our ability to make acquisitions; and
- our ability to make capital expenditures.

A failure to comply with the restrictions contained in our amended senior credit facilities could lead to an event of default, which could result in an acceleration of such indebtedness. Such an acceleration would also constitute an event of default under the indenture governing the notes. The indenture for the notes also restricts, among other things, our ability to incur additional indebtedness, sell assets, make certain payments and dividends or to merge or consolidate our company. A failure to comply with the restrictions in the indenture could result in an event of default under the indenture, which could result in an acceleration of the notes and, in turn, would result in an event of default under our senior debt.

Federal and state statutes allow courts, under specific circumstances, to void the notes, certain transactions and subsidiary guarantees, subordinate claims in respect of the notes and require our noteholders to return payments received from subsidiary guarantors.

Our consummation of the transactions comprising the recapitalization (including the issuance of the notes by the Issuers and the related guarantees and any future guarantee of the notes by TWI and its other domestic subsidiaries and the use of all or part of the proceeds thereof to pay dividends to TWI’s shareholders) may be subject to review under federal or state fraudulent transfer laws. While the relevant laws may vary, under such laws, the incurrence of indebtedness, the issuance of a guarantee or the payment of the dividend to TWI’s shareholders will be a fraudulent conveyance if (1) the Issuers incur the indebtedness represented by the notes or TWI or any of our subsidiaries issue guarantees, with the intent of hindering, delaying or defrauding creditors, or (2) the Issuers, TWI or any of the guarantors received less than reasonably equivalent value or fair consideration in return for incurring the indebtedness represented by the notes or issuing their respective guarantees, and, in the case of (2) only, one of the following is also true:

- the Issuers or any of the guarantors, including TWI, were insolvent, or became insolvent, when the Issuers or they incur the indebtedness represented by the notes or issued the guarantees, respectively;
- incurring the indebtedness or issuing the guarantees left the Issuers or the applicable guarantor, respectively, with an unreasonably small amount of capital; or
- the Issuers or the applicable guarantor, including TWI, as the case may be, intended to, or believed that the Issuers, or it would, be unable to pay debts as they matured.

If incurring the indebtedness represented by the notes or issuing of any guarantee were a fraudulent conveyance, a court could, among other things, void the Issuers’ obligations regarding the notes or void any of the guarantors’ obligations under their respective guarantees, as the case may be, and require the repayment of any amounts paid thereunder.

Generally, an entity will be considered insolvent if:

- the sum of its debts is greater than the fair value of its property;
- the present fair value of its assets is less than the amount that it will be required to pay on its existing debts as they become due; or
- it cannot pay its debts as they become due.

We believe that immediately after the issuance of the exchange notes, we and our subsidiaries, including the Issuers, will be solvent, will have sufficient capital to carry on our respective businesses and will be able to pay our respective debts as they mature. We cannot be sure, however, what standard a court would apply in making this determination or that a court would reach the same conclusions with regard to these issues.

Additionally, under federal bankruptcy or applicable state solvency law, if a bankruptcy or insolvency were initiated by or against the Issuers within 90 days after any payment by the Issuers with respect to the notes or by any guarantor with respect to a guarantee, or within one year after any payment to any insider of ours (which will include the dividend paid by TWI to certain of our equityholders), or if the Issuers or such guarantor, including TWI, anticipated becoming insolvent at the time of any such payment, all or a portion of the payment could be voided as a preferential transfer and the recipient of such payment could be required to return such payment. In rendering its opinion on the validity of the notes, no counsel will express any opinion as to federal or state laws relating to fraudulent transfers, which means that the holders of the notes have no independent legal verification that the notes or the guarantees or payments on the notes or guarantees will not be treated as a fraudulent conveyance or preferential transfer, respectively, by a court if we were to become insolvent. The obligations of each guarantor under its guarantee, however, will be limited in a manner intended to avoid it being deemed a fraudulent conveyance under applicable law. See "Description of the Notes."

Your right to receive payments on the notes could be adversely affected if any of our non-guarantor subsidiaries declare bankruptcy, liquidate, or reorganize.

TWI and some, but not all, of its subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us.

As of June 30, 2003, after giving pro forma effect to the recapitalization, the Issuers and their subsidiary guarantors would have had outstanding senior indebtedness of approximately $171.6 million; the Issuers' parent guarantors would have had outstanding guarantees with respect to an aggregate of approximately $244.6 million of senior indebtedness; the Issuers' outstanding senior subordinated indebtedness, including the old notes, would have been $150.0 million; and our non-guarantor subsidiaries (all of which are foreign) would have had $73.0 million of indebtedness and approximately $14.9 million would have been available to those subsidiaries for future borrowing under our amended senior credit facilities. Our non-guarantor subsidiaries, other than the Issuers, generated 43.2% of our consolidated net sales in the six months ended June 30, 2003 and held 45.8% of our consolidated assets as of June 30, 2003.

We are permitted under the indenture governing the notes to incur additional senior indebtedness, including $215.0 million of indebtedness incurred under credit facilities, $20.0 million of capital lease obligations, mortgage financings or purchase money obligations, $30.0 million of general indebtedness and an unlimited amount of indebtedness if we satisfy certain debt incurrence ratios. In addition, under the indenture, our foreign restricted subsidiaries, which are not guarantors of the notes, may incur additional indebtedness in an amount equal to the greater of $100 million and an amount based on a borrowing base.

We may not be able to repurchase the notes upon a change of control.

The Issuers are required to make an offer to purchase all or a portion of your notes in the event of a change of control, as defined in the indenture for the notes, at a price equal to 101% of the principal amount thereof, together with any interest the Issuers owe you. As a result of such offer, you may require the Issuers to

repurchase any of your notes. There may not be sufficient funds to pay the repurchase price in the event of a change of control. In addition, our amended senior credit facilities restrict the Issuers from repurchasing the notes upon a change of control. Any future debt agreements may also restrict or prohibit the Issuers from repurchasing the notes upon a change of control. If the Issuers are prohibited from repurchasing the notes, the Issuers could seek the consents of the lenders to permit the repurchase or the Issuers could seek to refinance the debt. The Issuers may not be able to obtain any necessary consents or refinance the debt. In addition, even if we were able to refinance the debt, the financing may be on terms unfavorable to the Issuers and us. The Issuers' failure to repurchase the notes would be a default under the indenture for the notes. An event of default under the indenture for the notes would in turn be a default under the amended senior credit facilities as well as certain of other debt of us and our subsidiaries. In addition, the change of control covenant does not cover all corporate reorganizations, mergers or similar transactions and may not provide you with protection in a highly leveraged transaction.

Your ability to sell the notes may be limited by the absence of an active trading market.

The old notes and the exchange notes are each a new issue of securities for which there currently is no established trading market. Consequently, the notes will be relatively illiquid and you may be unable to sell your notes. The Issuers do not intend to apply for the notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. The initial purchasers of the old notes advised the Issuers that they intended to make a market in the old notes and, if issued, the exchange notes, but they are not obligated to do so. Each initial purchaser may discontinue any market making in the notes at any time, in its sole discretion. As a result, we cannot assure you as to the liquidity of any trading market for the notes. You may not be able to sell your notes at a particular time, and the prices that you receive when you sell may not be favorable.

Future trading prices of the notes will depend on many factors, including:

- our operating performance and financial condition;
- the Issuers' ability to complete the offer to exchange the old notes for the exchange notes;
- the interest of securities dealers in making a market; and
- the market for similar securities.

You may be unable to pursue claims against Arthur Andersen, the independent auditors who audited financial statements of our predecessor company.

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 as set forth in their reports. We've included our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's reports, given on their authority as experts in accounting and auditing.

Arthur Andersen LLP, independent auditors, have audited the consolidated financial statements of our Predecessor at December 31, 2001 and 2000, and for each of the two years in the period ended December 31, 2001, as set forth in their report. We've included these consolidated financial statements of our Predecessor in this prospectus and elsewhere in the registration statement in reliance on Arthur Andersen LLP's report, given on their authority as experts in accounting and auditing.

In June 2002, Arthur Andersen LLP was convicted of federal obstruction of justice charge. As a result of its conviction, Arthur Andersen has ceased operations and is no longer in a position to reissue its audit reports or to provide consent to include financial statements reported on by it in this prospectus. Because Arthur Andersen has not reissued its reports and because we are not able to obtain a consent from Arthur Andersen, you will be unable to sue Arthur Andersen for material misstatements or omissions, if any, in this prospectus, including the financial statements covered by its previously issued reports. Even if you have a basis for asserting a remedy against, or seeking recovery from, Arthur Andersen, we believe that it is unlikely that you would be able to recover damages from Arthur Andersen.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, and other information that is not historical information. Many of these statements appear, in particular, under the headings "Prospectus Summary," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." When used in this prospectus, 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, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this prospectus. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this prospectus, including under the heading "Risk Factors." As described herein, such risks, uncertainties and other important factors include, among others:

- the level of competition in the mattress and pillow industries;
- our ability to effectively manage and sustain our growth;
- our ability to maintain our return rates and warranty reserves;
- liability relating to our products;
- changes in, or failure to comply with, federal, state and/or local governmental regulations;
- our involvement in a government investigation and associated litigation or proceedings relating to any allegations of the possibility of price fixing in the mattress industry;
- our ability to enhance our existing products and to develop and market new products on a timely basis;
- risks arising from our international operations;
- our dependence on our significant customers;
- our ability to maintain our third party distributor arrangements;
- the efficiency and effectiveness of our advertising campaign and other marketing programs in building product and brand awareness and increasing sales;
- our ability to protect our patents and other intellectual property, as well as successfully defend against claims brought by our competitors under their patents and intellectual property;
- our ability to comply with environmental, health and safety requirements;
- fluctuations in the cost of raw materials, the possible loss of suppliers and disruptions in the supply of our raw materials;
- fluctuations in exchange rates;
- unexpected equipment failures, delays in deliveries or catastrophic loss at our manufacturing facilities;
- potential conflicts of interest between you and our controlling shareholders;
- our ability to maintain our labor relations; and
- our ability to rely on the services of our senior management team.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements included in this prospectus. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

This exchange offer is intended to satisfy our obligations under the registration rights agreement, dated August 15, 2003 by and among Tempur-Pedic, Inc. and Tempur Production USA, Inc., the guarantors party thereto, and the initial purchasers of the old notes. We will not receive any proceeds from the issuance of the exchange notes in the exchange offer. We will receive in exchange old notes in like principal amount. We will retire or cancel all of the old notes tendered in the exchange offer. Accordingly, the issuance of the exchange notes will not result in any change in our capitalization.

On August 15, 2003, we issued and sold the old notes. We used the proceeds from the offering of the old notes, together with borrowings under our amended senior credit facilities and available cash on hand, to finance our recapitalization and pay related fees and expenses. As part of the recapitalization, we repaid all of the outstanding borrowings under our then existing mezzanine debt facility and amended and restated the terms of our senior credit facilities. Our mezzanine debt facility had an interest rate of 12.5% and would have matured in 2009 had it not been terminated. Immediately prior to the recapitalization, our senior credit facilities had a weighted average interest rate of 5.1% and would have matured in 2008. Borrowings under the mezzanine debt facility and the senior credit facilities were originally used to fund the Tempur acquisition and for working capital. See “Prospectus Summary—The Recapitalization.”

CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2003, on an actual basis and on a pro forma basis to give effect to the recapitalization.

	As of June 30, 2003	
	Actual	Pro Forma as Adjusted
	(in millions)	
Cash and cash equivalents(1)	$ 8.0	$ 8.0
Long-term debt (including current portion):		
Existing senior credit facilities	$ 125.2	$ —
Amended senior credit facilities(1)	—	236.5
Senior Subordinated Notes due 2010	—	150.0
Existing mezzanine debt facility	50.0	—
Mortgage payable	2.2	2.2
Capital leases and other	0.7	0.7
Total long-term debt	178.1	389.4
Total stockholders’ equity(1)	180.6	10.9
Total capitalization	$ 358.7	$ 400.3

(1) In connection with the recapitalization, we made a distribution of approximately $160.0 million to TWI’s equityholders subsequent to June 30, 2003.
(2) Does not include available borrowings of up to approximately $28.3 million under our amended senior credit facilities.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial data as of and for the six months ended June 30, 2003, the twelve months ended June 30, 2003 and the twelve months ended December 31, 2002 are based on the historical financial statements included elsewhere in this prospectus.

The unaudited pro forma condensed consolidated balance sheet as of June 30, 2003 is adjusted to give effect to the recapitalization as if it occurred on June 30, 2003. The pro forma condensed consolidated statements of operations for the six months ended June 30, 2003, the twelve months ended June 30, 2003 and the twelve months ended December 31, 2002 are adjusted to give effect to the Tempur acquisition and the recapitalization as if they had occurred at the beginning of the periods presented. The pro forma adjustments are described in the accompanying notes and are based upon available information and certain assumptions that management believes are reasonable.

The unaudited condensed consolidated pro forma financial data do not purport to represent what our results of operations or financial condition would actually have been had these transactions occurred on the dates indicated or to project our results of operations or financial condition for any future period or date. The unaudited pro forma condensed consolidated financial data should be read in conjunction with our and our predecessor company's historical financial statements and related notes thereto included elsewhere in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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Unaudited Pro Forma Condensed Consolidated Statement of Income for the Twelve Months ended December 31, 2002

($ in thousands)	Historical Period from January 1, 2002 to October 31, 2002	Historical Period from November 1, 2002 to December 31, 2002	Pro Forma Tempur Acquisition Adjustments	Pro Forma Recapitalization Adjustments	Pro Forma as Adjusted
Net sales	$ 237,314	$ 60,644	$ —	$ —	$ 297,958
Cost of sales	110,228	37,811	(2,011)(a)	—	146,028
Operating expenses	86,693	23,174	1,578(b)	—	111,445
Operating income/(loss)	40,393	(341)	433	—	40,485
Net interest expense	6,292	2,955	5,888(c)	14,383(d)	29,518
Other (income)/expense	1,724	(1,331)	—	—	393
Income/(loss) before income taxes	32,377	(1,965)	(5,455)	(14,383)	10,574
Income taxes	12,436	889	(2,128)(e)	(5,609)(e)	5,588
Net income/(loss)	$ 19,941	$ (2,854)	$ (3,327)	$ (8,774)	$ 4,986

See accompanying Notes to Unaudited Pro Forma Financial Data

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Unaudited Pro Forma Condensed Consolidated Statement of Income for the Twelve Months ended June 30, 2003

($ in thousands)	Historical Period from July 1, 2002 to October 31, 2002	Historical Period from November 1, 2002 to June 30, 2003	Pro Forma Tempur Acquisition Adjustments	Pro Forma Recapitalization Adjustments	Pro Forma as Adjusted
Net sales	$ 107,506	$ 279,448	$ —	$ —	$ 386,954
Cost of goods sold	48,334	136,447	995(a)	—	185,776
Operating expenses	37,866	92,190	715(b)	—	130,771
Operating income/(loss)	21,306	50,811	(1,710)	—	70,407
Net interest expense, net	2,612	11,116	1,250(c)	14,383(d)	29,361
Other (income)/expense	1,540	(826)	—	—	714
Income/loss before income taxes	17,154	40,521	(2,960)	(14,383)	40,332
Income taxes	5,162	16,628	(1,154)(e)	(5,609)(e)	15,027
Net income/loss	$ 11,992	$ 23,893	$ (1,806)	$ (8,774)	$ 25,305

See accompanying Notes to Unaudited Pro Forma Financial Data

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Unaudited Pro Forma Condensed Consolidated Statement of Income
for the Six Months Ended June 30, 2003

($ in thousands)	Historical Period from January 1, 2003 to June 30, 2003	Pro Forma Recapitalization Adjustments	Pro Forma as Adjusted
Net sales	$ 218,804	$ —	$ 218,804
Cost of sales	98,635	—	98,635
Operating expenses	69,017	—	69,017
Operating income (loss)	51,152	—	51,152
Net interest (income) expense	8,161	7,213(d)	15,374
Other (income) expense	505	—	505
Income (loss) before income taxes	42,486	(7,213)	35,273
Income taxes	15,739	(2,813)(e)	12,926
Net income (loss)	$ 26,747	$ (4,400)	$ 22,347

See accompanying Notes to Unaudited Pro Forma Financial Data

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Unaudited Pro Forma Condensed Consolidated Balance Sheet
as of June 30, 2003

($ in thousands)	Historical As of June 30, 2003	Pro Forma Recapitalization Adjustments	Pro Forma as Adjusted
Assets:			
Cash and cash equivalents	$ 7,984	$ — (f)	$ 7,984
Accounts receivable, net of allowance for doubtful accounts of ($3,076)	49,039		49,039
Inventories	54,449		54,449
Prepaid and other current assets	5,062		5,062
Deferred tax assets	5,182		5,182
Total current assets	121,716	—	121,716
Property, plant and equipment, net	92,047		92,047
Goodwill	205,076		205,076
Other intangible assets, net of amortization of $1,595	82,790		82,790
Other assets non current	8,969	1,261(g)	10,230
Total assets	$ 510,598	$ 1,261	$ 511,859
Liabilities and stockholders' equity:			
Accounts payable	23,458		23,458
Accrued expenses	32,753		32,753
Income taxes payable	12,927	(2,302)(e)	10,625
Value added taxes taxable	1,250		1,250
Current portion of long-term debt	13,710	5,654(h)	19,364
Current portion of capital lease obligation and other	671		671
Accrued earn-out payable	40,000	(40,000)(i)	—
Current liabilities	124,769	(36,648)	88,121
Deferred taxes	41,668		41,668
Senior long-term debt	113,708	105,604(j)	219,312
Subordinated-long term debt	47,978	102,022(k)	150,000
Other long-term debt	13		13
Other long-term liabilities	1,886		1,886
Total liabilities	330,022	170,978	501,000
Stockholders' equity:			
Series A convertible preferred stock, $.01 par value, 180,000 shares authorized, 146,463.65 shares issued and outstanding	154,232		154,232
Class A common stock, $.01 par value, 25,000 shares authorized, 14,006 shares issued and outstanding	—		—
Class B-1 common stock, $.01 par value, 300,000 shares authorized, 878.64 shares issued and outstanding	—		—
Additional paid in capital	4,865		4,865
Class B-1 common stock warrants	2,348		2,348
Notes receivable	(100)		(100)
Deferred stock compensation, net of amortization of $14,339	(129)		(129)
Retained earnings	16,124	(169,717)(l)	(153,593)
Accumulated other comprehensive income	3,236		3,236
Total stockholders' equity	180,576	(169,717)	10,859
Total liabilities and stockholders' equity	$ 510,598	$ 1,261	$ 511,859

See accompanying Notes to Unaudited Pro Forma Financial Data

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Notes to Unaudited Pro Forma Financial Data
(dollars in thousands)

(a) Represents the step-up in the value of inventories acquired in the Tempur acquisition to fair market value.

	Twelve months Ended December 31, 2002	Twelve months Ended June 30, 2003
Estimated inventory step-up adjustment as if the Tempur acquisition occurred at the beginning of the respective period	$ 7,769	$ 10,775
Actual Tempur acquisition step-up adjustment recorded as of November 1, 2002	9,780	9,780
	$ (2,011)	$ 995

(b) Represents additional depreciation expense on step-up in the value of property, plant and equipment acquired in the Tempur acquisition to fair market value and additional amortization of the intangibles resulting from the Tempur acquisition.

	Twelve months Ended December 31, 2002	Twelve months Ended June 30, 2003
Additional depreciation expense on the step-up in the value of property, plant and equipment as if the Tempur acquisition occurred as of the beginning of the respective period	$ 304	$ 121
Additional amortization expense of intangible assets resulting from the Tempur acquisition as if the Tempur acquisition occurred at the beginning of the respective period	1,274	594
	$ 1,578	$ 715

(c) Represents additional interest expense and amortization of debt issuance costs associated with Tempur acquisition borrowings for the Tempur pre-acquisition period.

	Twelve months Ended December 31, 2002	Twelve months Ended June 30, 2003
Additional interest expense as if the Tempur acquisition occurred at the beginning of the respective period, net of the elimination of Tempur pre-acquisition interest expense	$ 4,855	$ 882
Additional debt issuance costs amortization as if the Tempur acquisition occurred at the beginning of the respective period	1,033	368
	$ 5,888	$ 1,250

Interest expense was calculated using an assumed variable interest rate of 4.6% (three-month LIBOR plus applicable margin of 375 points) on the amended senior credit facilities and 12.5% on the mezzanine debt facility entered into in conjunction with Tempur acquisition. The actual interest rates on the variable rate indebtedness incurred to consummate the Tempur acquisition could vary from those used to compute the above adjustment of interest expense. A one-half percent increase in these rates would increase interest expense for the the twelve months ended June 30, 2003 and December 31, 2002 by approximately $0.7 million and $0.7 million, respectively.

(d) Represents additional interest expense and amortization of debt issuance costs associated with the recapitalization.

	Twelve months Ended December 31, 2002	Six months Ended June 30, 2003	Twelve months Ended June 30, 2003
Additional interest expense as if the recapitalization occurred at the beginning of the respective period	$ 12,942	$ 6,471	$ 12,942
Additional debt issuance costs amortization as if the recapitalization occurred at the beginning of the perspective period, net of the elimination of amortization with respect to the mezzanine debt facility	1,441	742	1,441
	$ 14,383	$ 7,213	$ 14,383

Interest expense on the notes was calculated using the actual interest rate on the notes. The assumed weighted average variable interest rate of 4.5% (three-month LIBOR plus applicable margin of 325 to 350 points) on the variable rate indebtedness incurred to consummate the recapitalization could vary from those used to compute the above adjustment of interest expense. A one-half percent increase in these variable rates would increase interest expense for the six months ended June 30, 2003, twelve months ended June 30, 2003 and December 31, 2002 by approximately $0.6 million, $1.2 million and $1.2 million, respectively.

(e) Reflects the tax effects of the recapitalization and Tempur acquisition pro forma adjustments based upon an effective tax rate of 39%.

(f) Represents net change in cash, as follows:

	As of June 30, 2003
Proceeds from amended senior credit facilities	$ 236,500
Proceeds from Senior Subordinated Notes due 2010	150,000
Payment of existing senior credit facility outstanding as of June 30, 2003	(125,242)
Payment of existing mezzanine debt facility	(50,000)
Payment of prepayment penalty on existing mezzanine debt facility	(3,000)
Payment of interest on existing mezzanine debt facility	(758)
Earn-out payment related to Tempur acquisition	(40,000)
Payment of equityholder dividend	(158,000)
Payment of estimated fees and expenses	(9,500)
	$ —

(g) Represents the capitalization of deferred financing costs related to the recapitalization, net of the write-off of deferred financing costs.

	As of June 30, 2003
Deferral of estimated fees and expenses related to the recapitalization	$ 9,500
Write-off of historical deferred financing costs associated with the senior debt and revolver	(6,980)
Write-off of historical deferred financing costs associated with the mezzanine debt facility	(1,259)
	$ 1,261

(h) Represents the recapitalization adjustments to current portion of long term debt.

	As of June 30, 2003
Current portion of new debt incurred as part of the recapitalization	$ 19,364
Elimination of a current portion of Term Loan A	(13,710)
	$ 5,654

(i) Represents the earn-out payment related to the Tempur acquisition.

(j) Represents indebtedness incurred as part of the recapitalization net of the repayment of existing indebtedness, as follows:

	As of June 30, 2003
Term Loan B	135,000
Reclassification of current portion of Term Loan B	(1,364)
Term Loan A	95,000
Reclassification of current portion of Term Loan A	(18,000)
Revolver	6,500
Reduction in Term Loan A and Revolver	(111,532)
	$ 105,604

(k) Represents net change in senior subordinated debt.

	As of June 30, 2003
Senior Subordinated Notes due 2010	$150,000
Elimination of existing subordinated notes	(50,000)
Elimination of original issue discount related to extinguishment of mezzanine debt facility	2,022
	$102,022

(l) Represents the reduction in retained earnings to reflect the dividend to equityholders as part of the recapitalization, write-off of debt issuance costs, original issue discount, prepayment penalty on mezzanine debt facility, interest payment on mezzanine debt facility, and income tax effect on recapitalization, as follows:

	As of June 30, 2003
Elimination of historical debt issuance costs related to extinguishment of mezzanine debt facility	$ (1,259)
Prepayment penalty on mezzanine debt facility	(3,000)
Elimination of original issue discount related to extinguishment of mezzanine debt facility	(2,022)
Write-off of historical deferred financing costs associated with existing senior credit facility	(6,980)
Dividend payment to equityholders	(158,000)
Payment of interest on mezzanine debt facility	(758)
Income tax effect on recapitalization pro forma adjustments	2,302
	$(169,717)

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth our selected historical consolidated financial and operating data for the periods indicated. Our predecessor company for periods prior to January 1, 2000 is a combination of our Danish manufacturing operations and the U.S. distribution entity and is sometimes referred to as the pre-predecessor company. Tempur World, Inc. was formed on January 1, 2000 to combine the manufacturing facilities and the worldwide distribution capabilities of all Tempur products, and our predecessor company for the period from January 1, 2000 to October 31, 2002 is Tempur World, Inc. We completed the Tempur acquisition (which we accounted for using the purchase method of accounting) as of November 1, 2002. As a result of preliminary adjustments to the carrying value of assets and liabilities pursuant to the acquisition, the financial position and results of operations for periods subsequent to the Tempur acquisition are not comparable to those of our predecessor or pre-predecessor companies.

We have derived the statement of operations and balance sheet data for our pre-predecessor company as of and for the years ended April 30, 1998 and 1999 and the eight months ended December 31, 1999 from the combined audited financial statements of our pre-predecessor company. We have derived the statement of operations and balance sheet data as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002 from the audited financial statements of our predecessor company. We have derived our statements of operations and balance sheet data as of and for the two months ended December 31, 2002 from our audited financial statements. We have derived the statement of operations data and balance sheet data as of and for the six month period ended June 30, 2002 from our predecessor company's unaudited condensed consolidated interim financial statements. We have derived the statement of operations and balance sheet data as of and for the six month period ended June 30, 2003 from our unaudited condensed consolidated interim financial statements. In the opinion of management, our unaudited condensed consolidated interim financial statements have been prepared on a basis consistent with our audited financial statements for the two months ended December 31, 2002 and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim period. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Our predecessor company's financial statements as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002, its unaudited condensed consolidated interim financial statements for the six months ended June 30, 2002 and our financial statements for the two months ended December 31, 2002 and our unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2003 are included elsewhere in this prospectus.

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($ in thousands)	Pre-Predecessor Year ended April 30, 1998	Pre-Predecessor Year ended April 30, 1999	Pre-Predecessor 8 Months ended December 31, 1999	Predecessor Year ended December 31, 2000	Predecessor Year ended December 31, 2001	Predecessor Period from January 1, 2002 to October 31, 2002	TWI Holdings Period from November 1, 2002 to December 31, 2002	Combined Twelve Months ended December 31, 2002 (unaudited)	Predecessor Six Months ended June 30, 2002 (unaudited)	TWI Holdings Six Months ended June 30, 2003 (unaudited)
Statement of Operations Data:										
Net sales	$58,800	$85,245	$ 73,635	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 297,958	$ 129,809	$ 218,804
Cost of sales	37,932	55,500	45,755	89,450	107,569	110,228	37,811	148,039	61,894	98,635
Gross profit	20,868	29,745	27,880	72,519	113,945	127,086	22,833	149,919	67,915	120,169
Operating expenses	10,795	21,678	16,410	50,081	83,574	86,693	23,174	109,867	48,828	69,017
Operating income/(loss)	10,073	8,067	11,470	22,438	30,371	40,393	(341)	40,052	19,087	51,152
Net interest expense	482	976	997	2,225	6,555	6,292	2,955	9,247	3,680	8,161
Other (income)/expense	(1,337)	(10)	793	947	316	1,724	(1,331)	393	183	505
Income/(loss) before income taxes	10,928	7,101	9,680	19,266	23,500	32,377	(1,965)	30,412	15,224	42,486
Income taxes	4,821	2,821	3,851	6,688	11,643	12,436	889	13,325	7,274	15,739
Net income /(loss)	$ 6,107	$ 4,280	$ 5,829	$ 12,578	$ 11,857	$ 19,941	$ (2,854)	$ 17,087	$ 7,950	$ 26,747
Balance Sheet Data (at end of period):										
Cash and cash equivalents	$ 2,412	$ 2,877	$ 1,984	$ 10,572	$ 7,538	$ 6,380	$ 12,654		$ 3,155	$ 7,984
Total assets	34,520	49,276	66,404	144,305	176,841	199,641	448,494		189,195	510,598
Total senior debt	6,496	8,637	19,508	64,866	104,352	88,817	148,121		90,186	127,418
Total debt	6,496	8,637	19,508	71,164	106,023	89,050	198,352		90,826	178,102
Redeemable preferred stock	—	—	—	—	11,715	15,331	—		14,809	—
Total stockholders' equity	$ 9,495	$12,862	$ 14,424	$ 38,237	$ 16,694	$ 39,895	$ 151,999		$ 30,693	$ 180,576
Other Financial and Operating Data (GAAP):										
Depreciation and amortization				$ 6,002	$ 10,051	$ 10,383	$ 2,664	$ 13,047	$ 5,976	$ 8,233
Net cash provided by operating activities				$ 1,125	$ 19,716	$ 22,706	$ 12,385	$ 35,091	$ 10,024	$ 22,959
Net cash used by investing activities				$ (27,014)	$ (34,862)	$ (4,646)	$ (1,859)	$ (6,505)	$ (339)	$ (6,088)
Net cash provided (used) by financing activities				$ 34,314	$ 12,593	$ (19,702)	$ (4,221)	$ (23,923)	$ (13,724)	$ (21,949)
Basic earning (loss) per share							$ (323.31)			$ 1,406.56
Capital expenditures				$ 27,418	$ 35,241	$ 9,175	$ 1,961	$ 11,136	$ 4,835	$ 6,744
Other Financial and Operating Data (non-GAAP):										
EBITDA(1)				$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880
EBITDA margin(2)				17.0%	18.1%	20.7%	6.0%	17.7%	19.2%	26.9%
Net income margin(3)				7.8%	5.4%	8.4%	(4.7)%	5.7%	6.1%	12.2%
Adjusted EBITDA(4)				$ 38,001	$ 40,106	$ 49,052	$ 13,434	$ 62,486	$ 24,880	$ 58,880
Adjusted EBITDA margin(5)				23.5%	18.1%	20.7%	22.2%	21.0%	19.2%	26.9%
Ratio of earnings to fixed charges (unaudited)(6)				5.1x	4.3x	5.1x	—	3.7x	4.3x	5.3x
Number of pillows sold				1,717,476	1,819,993	1,528,608	407,476	1,936,084	860,918	1,455,435
Number of mattresses sold				173,338	212,695	218,656	50,564	269,220	124,104	180,125

(1) EBITDA is defined as net income/(loss) plus interest expense, income taxes and depreciation and amortization. We consider EBITDA a measure of our liquidity. Management uses this measure as an indicator of cash generated from operating activities. Further, it provides management with a consistent measurement tool for evaluating the operating activities of a business unit before investing activities, interest and taxes. EBITDA is not an indicator of financial performance under generally accepted accounting principles and may not be comparable to similarly captioned information reported by other companies. In addition, it does not replace net income, operating income, or cash flow provided by operating activities as indicators of operating performance. Management believes the most directly comparable GAAP financial measure is "net cash provided by operating activities" presented in our Consolidated Statement of Cash Flows. EBITDA is reconciled directly to net cash provided by operating activities as follows:

	Predecessor			TWI Holdings	Combined	Predecessor	TWI Holdings
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months ended December 31, 2002	Six Months ended June 30, 2002	Six Months ended June 30, 2003
	2000	2001					
($ in thousands)					(unaudited)	(unaudited)	(unaudited)
EBITDA	$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880
Depreciation and amortization	(6,002)	(10,051)	(10,383)	(2,664)	(13,047)	(5,976)	(8,233)
Net interest expense	(2,225)	(6,555)	(6,292)	(2,955)	(9,247)	(3,680)	(8,161)
Provision for income taxes	(6,688)	(11,643)	(12,436)	(889)	(13,325)	(7,274)	(15,739)
Net income/(loss)	12,578	11,857	19,941	(2,854)	17,087	7,950	26,747
Depreciation and amortization	6,002	10,051	10,383	2,664	13,047	5,976	8,233
(Gain)/loss on sale or disposal of property, plant and equipment	203	(53)	268	233	501	533	(206)
Change in working capital and other, net	(17,658)	(2,139)	(7,886)	12,342	4,456	(4,435)	(11,815)
Net cash provided by operating activities	$ 1,125	$ 19,716	$ 22,706	$ 12,385	$ 35,091	$ 10,024	$ 22,959

(2) EBITDA margin is the ratio of EBITDA to total net sales.
(3) Net income margin is the ratio of net income to total net sales.
(4) Adjusted EBITDA is defined as EBITDA plus certain items that we believe are not indicative of our future operating performance. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles or a measure of our liquidity and may not be comparable to similarly captioned information reported by other companies. In addition, it does not replace net income, operating income or cash flow provided by operating activities as indicators of operating performance. We believe Adjusted EBITDA provides a useful indicator of levels of our financial performance and is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also believe this information will be useful to investors. Adjusted EBITDA for the twelve months ended December 31, 2000 excludes $10.5 million in charges related to the termination of our license agreement on December 31, 2000. Adjusted EBITDA for the combined twelve months ended December 31, 2002 excludes $9.8 million in charges related to a purchase accounting adjustment to our inventory. Adjusted EBITDA is reconciled directly to EBITDA as follows:

	Predecessor			TWI Holdings	Combined	Predecessor	TWI Holdings
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months ended December 31, 2002	Six Months ended June 30, 2002	Six Months ended June 30, 2003
	2000	2001					
($ in thousands)					(unaudited)	(unaudited)	(unaudited)
EBITDA	$ 27,493	$ 40,106	$ 49,052	$ 3,654	$ 52,706	$ 24,880	$ 58,880
License agreement terminated on December 31, 2000	10,508	—	—	—	—	—	—
Purchase accounting adjustment to inventory	—	—	—	9,780	9,780	—	—
Adjusted EBITDA	$ 38,001	$ 40,106	$ 49,052	$ 13,434	$ 62,486	$ 24,880	$ 58,880

(5) Adjusted EBITDA margin is the ratio of Adjusted EBITDA to total net sales.
(6) The ratio of earnings to fixed charges for the period from November 1, 2002 to December 31, 2002 is less than one to one. Earnings deficiency for this period is $5,386,787.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the section "Selected Historical Consolidated Financial and Operating Data," the audited consolidated financial statements and accompanying notes thereto and the unaudited consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus. The exchange notes offered hereby are being offered by Tempur-Pedic, Inc. and Tempur Production USA, Inc., as co-issuers. These companies are referred to in this prospectus as the "Issuers." The Issuers are indirect, wholly-owned subsidiaries of TWI Holdings, Inc. TWI Holdings, Inc. and its domestic restricted subsidiaries (other than the Issuers) have guaranteed the old notes, and will guarantee the exchange notes, on a senior subordinated basis. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for TWI Holdings, Inc. or its predecessors. The forward-looking statements in this discussion regarding the mattress and pillow industries, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described under "Risk Factors" and elsewhere in this prospectus. Our actual results may differ materially from those contained in any forward-looking statements.

General

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In the three year period ended December 31, 2002, our total net sales, net income and EBITDA have grown at compound annual rates of approximately 36%, 17% and 28%, respectively, and for the combined pro forma as adjusted twelve months ended June 30, 2003, we had total net sales of $387.0 million, net income of $25.3 million and Adjusted EBITDA of $96.5 million.

TWI Holdings, Inc. was formed in 2002 by TA and FFL to acquire Tempur World, Inc., or Tempur World. This acquisition occurred effective November 1, 2002. The financial information for the periods prior to November 1, 2002 are based on the financial information for Tempur World and its consolidated subsidiaries, which we sometimes collectively refer to as the "Predecessor." For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "our," "ours" and "us" refer to TWI Holdings, Inc. and its consolidated subsidiaries for the period from and after November 1, 2002 and refer to the Predecessor for periods prior to November 1, 2002.

Business Segment Information

We operate in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately.

Beginning in 2002, following the opening of our United States manufacturing facility, we changed our reporting structure from a single segment to Domestic and International reporting segments. This change was consistent with our ability to monitor and report operating results in each of these segments. The Domestic segment consists of our United States manufacturing facility, which commenced operations in July 2001 and whose customers include our United States distribution subsidiary and certain North American third party distributors. The International segment consists of our manufacturing facility in Denmark, whose customers include all of our distribution subsidiaries and third party distributors outside the Domestic segment. Our International segment includes our sales and distribution companies operating in Europe, Japan, South Africa and Singapore. In addition, we have third party distributor arrangements in the Asia/Pacific, Middle East, Eastern Europe, Central and South America, Canada and Mexico markets. We evaluate segment performance based on sales and operating income.

As we operated in one segment prior to the commencement of our United States manufacturing operations, we have not restated prior year segment information to reflect our new reporting structure.

Critical Accounting Policies

Our management is responsible for our financial statements and has evaluated the accounting policies to be used in their preparation. Our management believes these policies are reasonable and appropriate. The following discussion identifies those accounting policies that we believe will be critical in the preparation of our financial statements, the judgments and uncertainties affecting the application of those policies and the possibility that materially different amounts will be reported under different conditions or using different assumptions.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that the management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Our estimates of sales returns are a critical component of our revenue recognition. We recognize sales, net of estimated returns, when we ship our products to customers and the risks and rewards of ownership are transferred to them. Estimated sales returns are provided at the time of sale, based on our level of historical sales returns. We allow returns for up to 120 days following a sale, depending on the channel and promotion. Our level of sales returns differs by channel, with our direct channel typically experiencing the highest rate of returns. Our level of returns has been generally stable over the last five years and consistent with our estimates.

Warranties

Cost of sales includes estimated costs to service warranty claims of our customers. Our estimate is based on our historical claims experience and extensive product testing that we perform from time to time. We provide a 20-year warranty for United States sales and a 15-year warranty for non-United States sales on mattresses, each prorated for the last 10 years. Because our products have not been in use by our customers for the full warranty period, we rely on the combination of historical experience and product testing for the development of our estimate for warranty claims. Our estimate of warranty claims could be adversely affected if our historical experience ultimately proves to be greater than the performance of the product in our product testing. We also provide 2-year to 3-year warranties on pillows. Estimated future obligations related to these products are provided by charges to operations in the period in which the related revenue is recognized. Our estimated obligation for warranty claims as of June 30, 2003 was $3.3 million.

Impairment of Goodwill, Intangibles and Long-Lived Assets

Goodwill reflected in our consolidated balance sheet consists of the purchase price from the Tempur acquisition in excess of the estimated fair values of identifiable net assets as of the date of the Tempur acquisition. Intangibles consist of tradenames for various brands under which our products are sold. Other intangibles include our customer database for our direct channel, process technology and the formulation of our visco-elastic foam.

As of January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), “Goodwill and Other Intangible Assets.” Pursuant to the provisions of SFAS 142, we stopped amortizing goodwill and indefinite-lived intangible assets and perform an impairment test on goodwill and indefinite-lived intangibles at least annually. The impairment test requires the identification of potential impairment by comparing the fair value of our reporting units to their carrying values, including the applicable goodwill and indefinite-lived intangibles. These fair values are determined by calculating the discounted cash flow expected to be generated by each reporting unit taking into account what we consider to be the appropriate industry and market rate assumptions. If the carrying value exceeds the fair value, then a second step is performed which

compares the implied fair value of the applicable reporting unit's goodwill and indefinite-lived intangibles with the carrying amount of that goodwill and indefinite-lived intangible to measure the amount of impairment, if any. In addition to performing the required impairment test, SFAS 142 requires us to reassess the expected useful lives of existing intangible assets including those for which the useful life is determinable.

Estimates of fair value for our reporting units involve highly subjective judgments on the part of management, including the amounts of cash flows to be received, their estimated duration, and perceived risk as reflected in selected discount rates. In some cases, cash flows may be required to be estimated without the benefit of historical data, although historical data will be used where available. Although we believe our estimates and judgments are reasonable, different assumptions and judgments could result in different impairment, if any, of some or all of our recorded goodwill and indefinite-lived intangibles of $287.9 million as of June 30, 2003.

Long-lived assets reflected in our consolidated balance sheet consists of property, plant and equipment. Accounting for the impairment of long-lived assets is governed by Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 144 requires that whenever events or circumstances indicate that we may not be able to recover the net book value of our productive assets through future cash flows, an assessment must be performed of expected future cash flows, and undiscounted estimated future cash flows must be compared to the net book value of these productive assets to determine if impairment is indicated. Impaired assets are written down to their estimated fair value by recording an impairment charge to earnings. SFAS 144 provides that fair values may be estimated using discounted cash flow analysis or quoted market prices, together with other available information, to estimate fair values. We primarily use discounted cash flow analysis to estimate the fair value of productive assets when events or circumstances indicate that we may not be able to recover our net book values.

The application of SFAS 144 requires the exercise of significant judgment and the preparation of numerous significant estimates. Although we believe that our estimates of cash flows in our application of SFAS 144 are reasonable, and based upon all available information, including historical cash flow data about the prior use of our assets, such estimates nevertheless require substantial judgments and are based upon material assumptions about future events.

Income Tax Accounting

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. These deferred taxes are measured by applying the provisions of tax laws in effect at the balance sheet date.

We recognize deferred tax assets in our balance sheet, and these deferred tax assets typically represent items deducted currently in the financial statements that will be deducted in future periods in tax returns. In accordance with SFAS 109, a valuation allowance is recorded against these deferred tax assets to reduce the total deferred tax assets to an amount that will, more likely than not, be realized in future periods. The valuation allowance is based, in part, on our estimate of future taxable income, the expected utilization of tax loss carryforwards, both domestic and foreign, and the expiration dates of tax loss carryforwards. Significant assumptions are used in developing the analysis of future taxable income for purposes of determining the valuation allowance for deferred tax assets which, in our opinion, are reasonable under the circumstances.

In conjunction with the acquisition of Tempur World on November 1, 2002, TWI Holdings repatriated approximately $44.2 million from one of its foreign subsidiaries in the form of a loan that under applicable United States tax principles is treated as a taxable dividend. In addition, TWI Holdings has provided for the

remaining undistributed earnings as of November 1, 2002 of $10.1 million. Provisions have not been made for United States income taxes or foreign withholding taxes on undistributed earnings of foreign subsidiaries since the Tempur acquisition, as these earnings are considered indefinitely reinvested.

Undistributed foreign earnings as of ended June 30, 2003 was approximately $49.1 million. These earnings could become subject to United States income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to TWI Holdings or a United States subsidiary, or if TWI Holdings should sell its stock in the subsidiaries.

Results of Operations

The financial statements for TWI Holdings, Inc. for the period ended December 31, 2002 represent only two months of activity because TWI Holdings, Inc. commenced operations in 2002 concurrently with the completion of the Tempur acquisition. Accordingly, while generally not considered appropriate to combine pre- and post-acquisition periods when analyzing results of operations and it is not in accordance with accounting principles generally accepted in the United States, for purposes of comparison only and to facilitate discussion and analysis of results of operations, the following information combines the consolidated results of operations of the Predecessor from January 1, 2002 through October 31, 2002 with the consolidated operations of TWI Holdings, Inc. from November 1, 2002 through December 31, 2002 and the combined period is referred to as combined 2002.

The results of operations include the effect of the preliminary allocation of the purchase price based on the fair value of assets acquired and liabilities assumed for the period from November 1, 2002 through December 31, 2002. These adjustments include, among other items, a write up to fair value of the inventory acquired of $9.8 million and is reflected in cost of sales for the two months ended December 31, 2002. We expect to finalize the allocation of the purchase price during the fourth quarter of 2003, and changes from the preliminary purchase price allocation may result in changes to the applicable items in our balance sheet.

The following table sets forth the various components of our consolidated statements of operations, expressed as a percentage of net revenue, for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2000	2001	2002 (combined)	2002	2003
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.2	48.6	49.7	47.7	45.1
Gross profit	44.8	51.4	50.3	52.3	54.9
Selling expenses	18.3	23.5	25.1	25.6	22.5
General and administrative and other	12.6	14.2	11.8	12.0	9.0
Operating income	13.9	13.7	13.4	14.7	23.4
Interest expense, net	1.4	3.0	3.1	2.8	3.7
Other expense (income), net	0.6	0.1	0.1	0.2	0.3
Income before income taxes	11.9	10.6	10.2	11.7	19.4
Income tax provision	4.1	5.2	4.5	5.6	7.2
Net income	7.8%	5.4%	5.7%	6.1%	12.2%

We generate sales, net of returns, by selling our products through four distribution channels: direct, retail, healthcare and third party. The direct channel sells directly to consumers. Our retail channel sells primarily to furniture and specialty stores, as well as department stores internationally. Our healthcare channel sells our

products primarily to hospitals, nursing homes, healthcare professionals and medical retailers. The following table sets forth net sales information, by channel and by segment, for the periods indicated:

	Year ended December 31,			Six Months ended June 30,	
	2000	2001	2002	2002	2003
($ in millions)			(combined)		
Retail	$ 77.8	$ 116.9	$ 177.7	$73.5	$ 135.4
Direct	31.1	47.6	58.8	27.0	43.0
Healthcare	33.1	33.5	41.2	19.0	21.1
Third Party	20.0	23.5	20.3	10.3	19.3
Domestic	$ 74.1	$ 113.2	$ 165.3	$71.8	$ 124.2
International	87.9	108.3	132.7	58.0	94.6

Six Months Ended June 30, 2003 Compared With Six Months Ended June 30, 2002

Net Sales. Net sales for the six months ended June 30, 2003 were $218.8 million as compared to $129.8 million for the six months ended June 30, 2002, an increase of $89.0 million, or 68.6%. The increase in net sales was attributable to growth in our Domestic net sales to $124.2 million for the six months ended June 30, 2003 as compared to $71.8 million for the six months ended June 30, 2002, an increase of $52.4 million, or 73.0%, and an increase in our International net sales to $94.6 million for the six months ended June 30, 2003 as compared to $58.0 million for the six months ended June 30, 2002, an increase of $36.5 million, or 62.9%. The growth in our Domestic net sales was attributable primarily to an increase in net sales in our retail channel of $37.8 million and in the direct channel of $14.7 million, and the growth in our International net sales was attributable primarily to growth in the retail channel of $24.1 million. During the second quarter 2002, we introduced a new mattress called the Deluxe Mattress, which represented $14.4 million, or 6.6%, of net sales for the six months ended June 30, 2003 and a new pillow product, the Comfort Pillow, which represented $4.8 million, or 2.2%, of total net sales for the six months ended June 30, 2003.

Cost of Sales. Cost of sales includes the cost of raw material purchases, manufacturing costs and distribution costs associated with the production and sale of products to our customers. The cost of delivering our products to customers is also included in cost of sales. Cost of sales increased to $98.6 million for the six months ended June 30, 2003 as compared to $61.9 million for the six months ended June 30, 2002, an increase of $36.7 million, or 59.3%, although cost of sales decreased as a percentage of net sales from 47.7% in the six months ended June 30, 2002 to 45.1% in the six months ended June 30, 2003. This decrease in cost of sales as a percentage of net sales was due to improved manufacturing utilization and an increase in pillow net sales as a percentage of our total net sales. We generally experience higher margins on our pillows than on our mattresses and, accordingly, our cost of sales as a percentage of our net sales is affected by changes in our product sales mix. Our Domestic cost of sales increased to $64.7 million for the six months ended June 30, 2003 as compared to $35.1 million for the six months ended June 30, 2002, an increase of $29.6 million, or 84.3%. Domestic cost of sales increased as a percentage of Domestic net sales from 48.8% in the six months ended June 30, 2002 to 52.1% in the six months ended June 30, 2003. This increase in cost of sales as a percentage of net sales was due to increased sales to the retail channel. We generally receive lower margins in retail channel net sales. Our International cost of sales increased to $33.9 million for the six months ended June 30, 2003 as compared to $26.8 million for the six months ended June 30, 2002, an increase of $7.1 million, or 26.5%, excluding eliminations for sales from the International segment to the Domestic segment. International cost of sales decreased as a percentage of International net sales from 46.2% in the six months ended June 30, 2002 to 35.8% in the six months ended June 30, 2003. This decrease in cost of sales as a percentage of net sales was due to increased sales to our third party sales channel. We generally receive higher margins in the third party channel.

Selling Expenses. Selling expenses include advertising and media production associated with our direct channel, other marketing materials such as catalogs, brochures, videos, product samples, direct customer mailings and point of purchase materials, and sales force compensation and customer service. We also include in selling expenses our new product development costs associated with market research and testing for new

products. Selling expenses increased to $49.4 million for the six months ended June 30, 2003 as compared to $33.3 million for the six months ended June 30, 2002, an increase of $16.1 million, or 48.3%, but decreased as a percentage of net sales to 22.6% during the six months ended June 30, 2003 from 25.7% for the six months ended June 30, 2002. The increase in the dollar amount of selling expenses was due to additional spending on advertising, sales compensation and point of purchase materials. The decrease as a percentage of net sales was primarily due to an increase in the net sales of our retail channel to $135.4 million for the six months ended June 30, 2003 as compared to $73.5 million for the six months ended June 30, 2002, an increase of $61.9 million or 84.2%. This increase was due primarily to an increase in net sales in our retail channel, as a percentage of total net sales, to 61.9% of total net sales for the six months ended June 30, 2003 as compared to 56.6% of total net sales for the six months ended June 30, 2002. Our retail channel has lower selling expenses than our other channels on a combined basis and, accordingly, our selling expenses as a percentage of our net sales will be affected by the level of our retail sales as a percentage of our total sales.

General and Administrative and Other. General and administrative and other expenses include management salaries; information technology; professional fees; depreciation of furniture and fixtures, leasehold improvements and computer equipment; expenses for finance, accounting, human resources and other administrative functions; and research and development costs associated with our new product developments. General and administrative and other expenses increased to $19.7 million for the six months ended June 30, 2003 as compared to $15.5 million for the six months ended June 30, 2002, an increase of $4.2 million, or 27.1%, but decreased as a percentage of net sales to 9.0% during the six months ended June 30, 2003 from 12.0% for the six months ended June 30, 2002. The increase was due to additional spending on corporate overhead expenses, including information technology and professional services. The decrease as a percentage of sales was due to increased operating leverage from fixed administrative and research and development costs.

Interest Expense, Net. Interest expense, net includes the interest costs associated with our senior and mezzanine debt facilities and the amortization of deferred financing costs related to those facilities. Interest expense, net increased to $8.2 million for the six months ended June 30, 2003 as compared to $3.7 million for the six months ended June 30, 2002, an increase of $4.5 million. This increase was due to higher average debt levels. In 2003, we entered into an interest rate cap agreement that effectively capped $60.0 million of our floating-rate debt at an interest rate of 5% plus applicable margin through March 2006. We are required under our existing credit agreements to hedge at least $60.0 million of our floating rate senior term debt.

Income Tax Provision. Our income tax provision includes income taxes associated with taxes currently payable and deferred taxes and includes the impact of the utilization of foreign tax credits associated with our foreign earnings and profits and net operating losses for certain of our foreign operations. Our effective income tax rates in 2003 and 2002 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes, valuation allowances on foreign net operating losses and foreign tax credits. Our effective tax rate for the six months ended June 30, 2003 and June 30, 2002 was approximately 37.0% and 47.8%, respectively. Our effective tax rate between the six month periods has decreased principally as a result of decreasing foreign net operating losses, which are fully reserved and a decrease in Subpart F income.

Combined 2002 Compared With Year Ended December 31, 2001

Net Sales. Net sales were $298.0 million for combined 2002 as compared to $221.5 million for the year ended December 31, 2001, an increase of $76.5 million, or 34.5%. The increase in net sales was attributable to growth in Domestic net sales to $165.3 million for combined 2002, as compared to $113.2 million for the year ended December 31, 2001, an increase of $52.1 million, or 46.0%, and an increase in International net sales to $132.7 million for combined 2002, as compared to $108.3 million for the year ended December 31, 2001, an increase of $24.4 million, or 22.5%. Growth in Domestic net sales was due primarily to an increase in net sales in our retail channel of $40.6 million and an increase in net sales in our direct channel of $8.2 million. Growth in

International net sales was affected by the general economic slowdown in Europe. However, net sales in Japan, consisting primarily of pillows, continued to be strong with an increase in net sales of 51.2% for combined 2002 over the year ended December 31, 2001.

Cost of Sales. Cost of sales increased to $148.0 million for combined 2002 as compared to $107.6 million for the year ended December 31, 2001, an increase of $40.4 million, or 37.6%. The increase is primarily due to increased plant capacity with the addition of our United States manufacturing facility in July 2001. Our cost of sales as a percentage of total net sales increased to 49.7% for combined 2002 as compared to 48.6% for the year ended December 31, 2001, due primarily to fixed capacity costs in our United States manufacturing facility, partially offset by a reduction in importation duties to the United States as a result of the commencement of operations at our United States manufacturing facility.

Selling Expenses. Selling expenses increased to $74.9 million for combined 2002 as compared to $52.1 million for the year ended December 31, 2001, an increase of $22.8 million or 43.8%, and increased as a percentage of net sales to 25.1% for combined 2002 as compared to 23.5% for the year ended December 31, 2001. The increase was due to additional spending on direct sales advertising, sales compensation, point of purchase materials provided to the indirect channel and market research related to new product development. The increase as a percentage of net sales was primarily due to an increase in use of television advertising.

General and Administrative and Other. General and administrative and other expenses increased to $35.0 million for combined 2002 as compared to $31.5 million for the year ended December 31, 2001, an increase of $3.5 million, or 11.1%, but decreased as a percentage of net sales to 11.8% for combined 2002 as compared to 14.2% for the year ended December 31, 2001. The increase was due to additional spending on corporate overhead expenses of $0.2 million, including information technology and professional services, and was partially offset by a decrease of $0.7 million due to the adoption of FAS 142 during the first quarter 2002, as we no longer record amortization expense for goodwill and indefinite-lived intangibles.

Interest Expense, Net. Interest expense, net increased to $9.2 million for combined 2002 as compared to $6.6 million for the year ended December 31, 2001, an increase of $2.6 million, or 39.4%. This increase was due to higher average debt levels. During the fourth quarter of 2002, we completed the Tempur acquisition, which included $220.0 million of new senior and mezzanine debt facilities to fund the Tempur acquisition and to fund the continued growth of Tempur World's operations.

Income Tax Provision. Our effective income tax rates in 2003 and combined 2002 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes and foreign tax credits. Our effective tax rate for combined 2002 was approximately 43.8% compared to approximately 49.5% in 2001. This lower effective tax rate for combined 2002 compared to 2001 was primarily due to the utilization of foreign tax credits and to the fact that we no longer amortize goodwill which was previously a non-deductible item for tax purposes.

Year Ended December 31, 2001 Compared With Year Ended December 31, 2000

Net Sales. Net sales for the year ended December 31, 2001 were $221.5 million, as compared to $162.0 million for the year ended December 31, 2000, an increase of $59.5 million, or 36.7%. The increase in net sales was attributable to growth in Domestic net sales to $113.2 million for the year ended December 31, 2001 as compared to $74.1 million for the year ended December 31, 2000, an increase of $39.1 million, or 53.0%, and an increase in International net sales to $108.3 million for the year ended December 31, 2001 as compared to $87.9 million for the year ended December 31, 2000, an increase of $20.4 million, or 23.2%. The increase in Domestic net sales was attributable primarily to an increase in net sales in our retail channel of $17.7 million and an increase in net sales in our direct channel of $18.3 million, and the increase in International net sales was attributable to an increase in net sales in our retail channel of $21.4 million.

Cost of Sales. Cost of sales increased to $107.6 million for the year ended December 31, 2001 as compared to $89.4 million for the year ended December 31, 2000, an increase of $18.2 million, or 20.4%, but decreased as a percentage of net sales to 48.6% for the year ended December 31, 2001 from 55.2% for the year ended December 31, 2000. This decrease as a percentage of net sales was primarily due to payments made during 2000 under a license agreement with Tempur World's former parent company, Fagerdala Industri, AB, of $10.5 million, which was terminated at the end of 2000. Additionally, cost of sales was affected by increased plant capacity with the addition of our United States manufacturing facility in July 2001, because our new United States facility did not become operational until fourth quarter 2001.

Selling Expenses. Selling expenses increased to $52.1 million for the year ended December 31, 2001 as compared to $29.6 million for the year ended December 31, 2000, an increase of $22.5 million or 76.0%, and increased as a percentage of net sales to 23.5% for the year ended December 31, 2001 from 18.3% for the year ended December 31, 2000. The increase was due to additional spending on direct sales advertising, increased direct customer mailings, sales compensation and market research related to new product development. The increase as a percentage of net sales was primarily due to an increase in the number of direct customer mailings.

General and Administrative and Other. General and administrative and other expenses increased to $31.5 million for the year ended December 31, 2001 as compared to $20.5 million for the year ended December 31, 2000, an increase of $11.0 million, or 53.7%, and increased as a percentage of net sales to 14.2% for the year ended December 31, 2001 from 12.6% for the year ended December 31, 2000. The increase was due to spending on the formation and operation of our corporate headquarters in the United States and overhead expenses including information technology investments and professional services, and was partially offset by a decrease of $0.5 million due to certain identifiable intangibles being fully amortized during 2001.

Interest Expense, Net. Interest expense, net increased to $6.6 million for the year ended December 31, 2001 as compared to $2.2 million for the year ended December 31, 2000, an increase of $4.4 million, primarily due to increased average debt levels. During the third quarter of 2001, Tempur World completed a financing transaction of $115.0 million of a new senior credit facility to provide long-term financing for the new United States manufacturing operations and the repurchase of stock from certain shareholders. Included in interest expense, net was $0.2 million of amortization related to deferred financing costs for the year ended December 31, 2001 that was being amortized over the life of our outstanding senior credit facility.

Income Tax Provision. Our effective income tax rates in 2001 and 2000 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes and foreign tax credits. Our effective tax rate for 2001 was approximately 49.5% compared to approximately 34.7% in 2000. This higher effective tax rate for 2001 compared to 2000 was primarily due to an increase in deferred tax asset valuation allowances for certain foreign net operating losses, limitations on the deductibility of charitable contributions and Subpart F income from foreign operations.

Liquidity and Capital Resources

Liquidity

At June 30, 2003, we had working capital of $(3.1) million including cash and cash equivalents of $8.0 million as compared to working capital of $31.3 million including $12.7 million in cash and cash equivalents as of December 31, 2002. The $4.7 million decrease in cash and cash equivalents was primarily related to continuing investments in working capital. The $34.4 million decrease in working capital was driven primarily by the accrual of the payment of the deferred purchase price in accordance with the terms of the Tempur acquisition.

Our principal sources of funds are cash flows from operations and borrowings under our United States and European revolving credit facilities. Our principal use of funds consists of capital expenditures and payments of

principal, and interest on our outstanding senior debt facilities. Capital expenditures totaled $11.1 million for combined 2002 and $6.7 million for the six months ended June 30, 2003. We expect 2003 capital expenditures to be approximately $25.0 million, including the $18.0 million associated with the expansion of our United States manufacturing facility and approximately $5.0 million related to maintenance of our existing assets. To date, we have spent $18.2 million of this amount. In November 2002, in connection with the Tempur acquisition, we obtained from a syndicate of lenders a $170.0 million senior secured credit facility under United States and European term loans and long-term revolving credit facilities. Additionally, we obtained a total of $50.0 million of 12.5% senior subordinated unsecured debt financing under United States and European term loans, all of which was drawn upon at the inception of this facility to fund a portion of the various payments required in connection with the Tempur acquisition. At June 30, 2003, we had approximately $38.2 million available under our United States and European revolving credit facilities. Our net weighted-average borrowing cost was 5.9% for combined twelve months 2002 and 6.2% for the year ended December 31, 2001, and 7.2% and 5.7% for the six months ended June 30, 2003 and June 30, 2002, respectively.

Our cash flow from operations increased to $35.1 million for combined 2002 as compared to $19.7 million for the year ended December 31, 2001, an increase of $15.4 million, or 78.2%. This increase resulted primarily from improved net income and working capital management. Our cash flow from operations increased to $23.0 million for the six months ended June 30, 2003 as compared to $10.0 million for the six months ended June 30, 2002, an increase of $13.0 million, or 130%. This increase in operating cash flows was primarily the result of increased net income, partially offset by increased investment in inventory as we continue to build up inventories in anticipation of our expanded capacity at our United States manufacturing facility becoming operational, which we expect will occur in the first quarter of 2004.

Net cash used in investing activities for combined 2002 and the years ended December 31, 2001 and 2000 was $6.5 million, $34.9 million and $27.0 million, respectively. Investing activities consisted primarily of purchases of property and equipment related to investment in information technology and ongoing plant expenditures in all periods. The net cash used in investing activities was significantly higher in 2000 and 2001 than for combined 2002 because of the timing of the costs associated with the expansion of our Danish manufacturing facility and the construction of our new United States manufacturing facility. In May 2000, we began construction of our United States manufacturing facility. Capital expenditures in 2001 and 2000 included the cost to construct this facility, the equipment used in the facility and new equipment in our manufacturing facility in Denmark. Total capital expenditures in combined 2002 were $11.1 million, and proceeds from the sale of our United Kingdom distribution facility was $5.3 million.

Cash flow provided by financing activities decreased to $12.6 million for the year ended December 31, 2001 as compared to cash flow provided by financing activities of $34.3 million for the year ended December 31, 2000, a decrease of $21.7, or 63.3%. This decrease was caused by repayment of long-term debt. Cash flow used in financing activities increased to $23.9 million for combined 2002 as compared to cash flow provided by financing activities of $12.6 million for the year ended December 31, 2001, an increase of $36.5 million or 289.7%. This increase is due to the repayment of our long-term credit facilities. On November 1, 2002, in connection with the Tempur acquisition, we refinanced all of Tempur World’s existing credit facilities and issued new debt totaling $200.0 million to fund the Tempur acquisition. Cash flow used by financing activities increased to $21.9 million for the six months ended June 30, 2003 as compared to $13.7 million for the six months ended June 30, 2002, an increase of $8.2 million or 59.8%. This increase is due primarily to the repayment of our long-term credit facilities.

Capital Expenditures

Due to the continued growth in our business, in March 2003, we began construction on a $20.0 million addition to our United States manufacturing facility to support the continuing growth in mattress sales and to provide needed capacity to meet future demand for our products. We expect total capital expenditures related to this expansion to be $18.0 million for 2003. We spent $4.1 million in capital expenditures related to this

expansion through June 30, 2003. The additional production capacity at our United States manufacturing facility will allow us to significantly increase our mattress manufacturing capacity. Additionally, we plan to begin expanding mattress production capacity in our Denmark manufacturing facility in the fourth quarter of 2004 to meet the demands for our international operations. We expect total capital expenditures related to that expansion to be $20.0 million in 2004.

In May 2003, we engaged a site selection firm to assist us in selecting a location for our third manufacturing facility, which we expect to be located in North America. This facility is currently expected to require capital expenditures of approximately $45.0 million and to be completed by the fourth quarter of 2006. This facility will provide additional capacity to meet anticipated future demand.

Debt Service

Amended Senior Credit Facilities. In connection with the recapitalization, we entered into amended senior credit facilities on the terms described below.

Our amended senior credit facilities provide a total of $270.0 million in financing, consisting of:

- a $20.0 million United States revolving credit facility;
- a $30.0 million United States term loan A facility;
- a $135.0 million United States term loan B facility (the United States revolving credit facility and the United States term loans are collectively referred to herein as the “United States Facility”);
- a $20.0 million European revolving credit facility; and
- a $65.0 million European term loan A facility (the European revolving credit and the European term loan are collectively referred to herein as the “European Facility”).

Our revolving credit facilities and our term loan A facilities mature in 2008 and our term loan B facility matures in 2009. At September 30, 2003, we had a total of $232.0 million in borrowings outstanding under the amended senior credit facilities, and a total of $4.6 million in letters of credit outstanding.

Borrowing availability under the United States and European revolving credit facilities is subject to a borrowing base, as defined in the loan agreement. Each of the United States and European revolving facilities also provide for the issuance of letters of credit to support local operations. Allocations of the United States and European revolving facilities to such letters of credit will reduce the amounts available to be borrowed under their respective facilities.

Subject to exceptions for reinvestment of proceeds, we are required to prepay outstanding loans under our amended senior credit facilities with the net proceeds of certain asset dispositions, condemnation settlements and insurance settlements from casualty losses, issuances of certain equity and a portion of excess cash flow.

We may voluntarily prepay loans or reduce commitments under our amended senior credit facilities, in whole or in part, subject to minimum amounts. If we prepay Eurodollar rate loans other than at the end of an applicable interest period, we will be required to reimburse lenders for their redeployment costs.

The amended senior credit facilities contain negative and affirmative covenants and requirements affecting us and our domestic and foreign subsidiaries that we create or acquire, with certain exceptions set forth in our amended credit agreement. Our amended senior credit facilities contain the following negative covenants and restrictions, among others: restrictions on liens, real estate purchases, sale-leaseback transactions, indebtedness, dividends and other restricted payments, guarantees, redemptions, liquidations, consolidations and mergers, acquisitions, asset dispositions, investments, loans, advances, changes in line of business, formation of new subsidiaries, changes in fiscal year, transactions with affiliates, amendments to charter, by-laws and other material documents, hedging agreements and intercompany indebtedness.

The amended senior credit facilities contain the following affirmative covenants, among others: delivery of financial and other information to the administrative agent, compliance with laws, maintenance of properties, licenses and insurance, access to books and records by the lenders, notice to the administrative agent upon the occurrence of events of default, material litigation and other events, conduct of business and existence, payment of obligations, maintenance of collateral and maintenance of interest rate protection agreements.

The incremental proceeds of our amended senior credit facilities were used along with the proceeds from the offering of the senior subordinated notes and cash on hand to fund the recapitalization and provide working capital.

Senior Subordinated Notes. Pursuant to the terms of the indenture, the Issuers issued the old notes in the aggregate principal amount of $150.0 million. The notes will mature on August 15, 2010.

The Issuers are permitted to redeem some or all of the notes at any time after August 15, 2007 at specified redemption prices.

If the Issuers, TWI or any of TWI's other restricted subsidiaries sell certain assets or experience specific kinds of changes of control, the Issuers must offer to repurchase the notes at the prices, plus accrued and unpaid interest, and additional interest, if any, to the date of redemption specified in the indenture.

The indenture governing the notes contains certain negative and affirmative covenants and requirements affecting us and our guarantor subsidiaries that we create or acquire. Subject to certain important exceptions and qualifications set forth in the indenture, these covenants limit the ability of the Issuers, TWI and the restricted subsidiaries to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments, sell assets, including capital stock of our restricted subsidiaries, merge or consolidate with other entities, and enter into transactions with affiliates. See "Description of the Notes."

Future Liquidity Sources

Our primary sources of liquidity are cash flow from operations and borrowings under our revolving credit facilities. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources. We incurred substantial indebtedness in connection with the recapitalization, including as a result of the issuance of the senior subordinated notes. Upon completion of the recapitalization, on a pro forma basis as of June 30, 2003, we had approximately $391.8 million of indebtedness outstanding, excluding letters of credit, as compared to $178.1 million of indebtedness outstanding as of June 30, 2003. In addition, upon completion of the recapitalization, on a pro forma basis as of June 30, 2003, we had stockholders' equity of approximately $8.9 million as compared to stockholders' equity of $180.6 million as of June 30, 2003. Our significant debt service obligations following the recapitalization could, under certain circumstances, have material consequences to our security holders, including holders of the notes. Total cash interest payments related to our amended senior credit facilities and the senior subordinated notes is expected to be in excess of approximately $25.9 million annually. The scheduled installments for principal payments on our term loans under our amended senior credit facilities (as currently in effect) total to $5.9 million in 2003, $11.9 million in 2004, $15.4 million in 2005, $15.4 million in 2006, $22.4 million in 2007 and $165.5 million thereafter.

Based upon the current level of operations and anticipated growth, we believe that cash generated from operations and amounts available under the revolving credit facilities will be adequate to meet our anticipated debt services requirements, capital expenditures and working capital needs for the foreseeable future. There can be no assurance, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under the senior credit facilities or otherwise to enable us to service our indebtedness, including the senior credit facilities and the notes, or to make anticipated capital expenditures.

Our long-term obligations contain various financial tests and covenants. We were out of compliance with certain of such covenants restricting indebtedness, operating leases, capital expenditures, investments and changes to our corporate structure and requiring the delivery of financial statements and other reports, as of the year ended December 31, 2002, but obtained waivers from our lenders, and we were in compliance with these covenants as of June 30, 2003.

Contractual Obligations

Our contractual obligations and other commercial commitments as of June 30, 2003 after giving effect for the recapitalization completed in August 2003 are summarized below:

Contractual Obligations	2003	2004	2005	2006	2007	After 2007	Total Obligations
				($ in millions)			
Long-term Debt	$12.4	$13.9	$15.7	$19.2	$24.7	$296.3	$ 382.2
Operating Leases	2.8	2.4	1.9	1.6	1.5	3.7	13.9
Total	$15.2	$16.3	$17.6	$20.8	$26.2	$300.0	$ 396.1

(1) The long-term debt data give effect to the repayment of $177.4 million of long term debt in connection with the recapitalization in August 2003 and the incurrence of new long-term debt obligations of $382.2 million.

Impact of Recently Issued Accounting Pronouncements

In April 2002, the FASB issued SFAS 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections” (SFAS 145). SFAS 145 was effective January 1, 2003. SFAS 145 eliminates the required classification of gain or loss on extinguishment of debt as an extraordinary item of income and states that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board Opinion No. 30, “Reporting Results of Operations” (APB 30). SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, and makes various other technical corrections to existing pronouncements.

In June 2002, the FASB issued SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities” (SFAS 146). This statement nullifies Emerging Issues Task Force Issue 94-3 (Issue 94-3), “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity’s commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of SFAS 146 to have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. (“FIN”) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34” (FIN 45). FIN 45 elaborates on the disclosures to be made regarding obligations under certain issued guarantees by a guarantor in interim and annual financial statements. It also clarifies the requirement of a guarantor to recognize a liability at the inception of the guarantee at the fair value of the obligation. FIN 45 does not provide specific guidance for subsequently measuring the guarantor’s recognized liability over the term of the guarantee. The provisions relating to the initial recognition and measurement of a liability are applicable on a prospective basis for guarantees issued or modified subsequent to December 31, 2002. The disclosure requirements of FIN 45 are effective for interim and annual financial statements for periods ending after December 15, 2002. This did not have a significant impact on our consolidated financial statements.

In November 2002, the EITF reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21). EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods

beginning after June 15, 2003. We do not expect the adoption of EITF No. 00-21 to have a material impact on our consolidated financial statements.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement 123" (SFAS 148), which was effective on December 31, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method on reported results. The provisions regarding alternative methods of transition do not apply to us, which accounts for stock-based compensation using the intrinsic value method. The disclosure provisions have been adopted. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin ("ARB") No. 51" (FIN 46). FIN 46 requires a variable interest entity ("VIE") to be consolidated by the primary beneficiary of the entity under certain circumstances. FIN 46 is effective for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. As we do not have variable interest entities, it is not expected that the adoption of FIN 46 will have a material impact on our financial position or results of operations.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, (b) in connection with other FASB projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new guidance requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Application of SFAS 150 to financial instruments that exist on the date of adoption should be reported through a cumulative effect of a change in an accounting principle by measuring those instruments at fair value or as otherwise required by the SFAS 150. The adoption of SFAS 150 did not have a significant impact on our consolidated financial statements.

Foreign Currency Exposures

Our earnings, as a result of our global operating and financing activities, are exposed to changes in foreign currency exchange rates, which may adversely affect our results of operations and financial position. A sensitivity analysis indicates that if United States Dollar to foreign currency exchange rates at June 30, 2003 increased 10%, we would incur losses of approximately $2.3 million on foreign currency forward contracts outstanding at June 30, 2003. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged. This calculation assumes that each exchange rate would change in the same direction relative to the United States Dollar.

Within the normal course of business, we use derivative financial instruments principally to manage the exposure to changes in the value of certain foreign currency denominated assets and liabilities of our Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged. Gains and losses on these contracts generally offset losses and gains on our foreign currency receivables and foreign currency debt. We do not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor do we hedge exposure related to anticipated transactions.

We do not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked-to-market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings. Our currency forward contracts are denominated in United States Dollars, British Pound Sterling and Japanese Yen, each against the Danish Krone.

Interest Rate Risk

We are exposed to changes in interest rates. All of our indebtedness under our amended senior credit facilities is variable rate debt. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of our interest payments and therefore, our future earnings and cash flows, assuming other factors are held constant. Assuming we had completed the recapitalization, and applied the proceeds as intended as of June 30, 2003, we would have variable rate debt of approximately $236.5 million. Holding other variables constant including levels of indebtedness, a one hundred basis point increase in interest rates on our variable rate debt would have an estimated impact on income before income taxes for the next year of approximately $2.4 million. We are required under the terms of our existing senior credit facilities, and we are required under the terms of our amended senior credit facilities, to have at least $60.0 million of our total indebtedness subject to either a fixed interest rate or interest rate protection for a period of not less than three years within 60 days from the date of the closing of the recapitalization.

In January 2003, we paid a premium to purchase two three-year interest rate caps for the purpose of protecting $60.0 million of the existing variable interest rate debt outstanding, at any given time, against LIBOR rates rising above 5%. Under the terms of the interest rate caps, we have paid a premium to receive payments based on the difference between 3-month LIBOR and 5% during any period in which the 3-month LIBOR rate exceeds 5%. The interest rate caps settle on the last day of March, June, September and December until expiration.

As a result of entering into the interest rate caps, we have mitigated our exposure to interest rate fluctuations above the predetermined level. As the interest payments on long-term debt are based on 3-month LIBOR and we receive a payment based on the difference between the set ceiling (5%) and 3-month LIBOR from the interest rate cap counter-party, we have eliminated any impact to rising interest rates above the stated ceiling, for an amount equal to $60.0 million of our total debt outstanding.

The fair value carrying amount of these instruments was $0.1 million at December 31, 2001, $(2.0) million at December 31, 2002 and $0.5 million at June 30, 2003, which is recorded as follows:

	December 31, 2001	December 31, 2002	June 30, 2003
		($ in millions)	
Foreign exchange receivable	$ 0.1	$ —	$ 0.4
Foreign exchange payable	—	(2.0)	—
Interest rate caps	—	—	0.1
Total	$ 0.1	$ (2.0)	$ 0.5

BUSINESS

General

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In April 2003, *Consumers Digest* named one of our products among the eight "best buys" of the mattress industry in the applicable price range in recognition of the strong value it provides to consumers. Consumer surveys commissioned on our behalf over the last several years have indicated that our products achieve satisfaction ratings generally ranging from 80% to 92%. In the three years ended December 31, 2002, our total net sales, net income and Adjusted EBITDA have grown at compound annual rates of approximately 36%, 17% and 28%, respectively, and for the twelve months ended June 30, 2003, we had total net sales of $387.0 million, net income of $25.3 million and Adjusted EBITDA of $96.5 million.

While most standard mattress companies offer pricing discounts through a single channel, we sell our premium mattresses and pillows through multiple channels at full prices. We sell our products through four distribution channels: retail (furniture and specialty stores, as well as department stores internationally); direct (direct response and internet); healthcare (chiropractors, medical retailers, hospitals and other healthcare channels); and third party distributors. In the United States, we sell a majority of our mattresses and pillows through furniture and specialty retailers. We also have a direct response business that generates product sales and enhances awareness of our brand. International sales account for approximately 45% of our total net sales, with the United Kingdom, Germany, France, Spain and Japan representing our largest markets. In Asia, our net sales consist primarily of pillows. Internationally, in addition to sales through our retail channel, we sell a significant amount of our products through the healthcare channel and third party distributors.

Market Opportunity

Global Mattress Market

The International Sleep Products Association (ISPA) estimates that the United States wholesale market for mattresses and foundations in 2002 was approximately $4.8 billion. We believe the international mattress market is generally the same size as the domestic mattress market. The international market consists primarily of sales in Canada and Europe. According to ISPA, from 1991 to 2002 mattress units sales grew in the United States at an average of approximately 500,000 units annually, with 21.5 million mattress units sold in the United States in 2002. We believe a similar number of mattress units were sold outside the United States in 2002. ISPA further estimates that approximately 20% of those mattress units were sold at retail price points greater than $1,000, which is the premium segment of the market we target. According to ISPA, the premium segment of the market grew in the United States at an annual rate of 32% in 2002, and is the fastest-growing segment of this market.

Most standard mattresses are made using innersprings and most innerspring mattresses are sold for under $1,000, primarily through retail furniture and bedding stores. Alternatives to standard and premium innerspring mattresses include visco-elastic and other foam mattresses, airbeds and waterbeds. Four large manufacturers (Sealy Corporation, Serta, Inc., Simmons Company and The Spring Air Company) dominate the standard innerspring mattress market in the United States, accounting for approximately 60% of wholesale mattress dollar sales in 2001 according to *Furniture/Today*, a trade publication. The balance of the United States wholesale mattress market is fragmented, with a large number of other manufacturers, many of which operate primarily on a regional basis. Standard innerspring mattresses represent approximately 80% of the overall mattress market in the United States.

The medical community is also a large consumer of mattresses to furnish hospitals and nursing homes. In the United States, there are approximately 15,400 nursing homes and 5,000 hospitals with a total bed count in excess of 2.7 million. Medical facilities typically purchase twin mattresses with standard operating functions such as adjustable height and mechanisms to turn patients to prevent pressure ulcers (or bedsores). We believe demographic trends suggest that as the population ages, the healthcare market for mattresses will continue to grow.

Global Pillow Market

Based on our market research, we estimate that the United States retail market for pillows is approximately $1.1 billion. The United States pillow market has a traditional and specialty segment. Traditional pillows are generally made of low cost foam or feathers, other than down. Specialty pillows include all alternatives to traditional pillows, including visco-elastic and other foam, sponge rubber and down. We estimate that specialty pillows accounted for approximately 27%, or $300.0 million, of retail sales in the United States in 1999. We believe the international pillow market is generally the same size as the domestic pillow market.

Our Market Position

We believe we are the leading global manufacturer, marketer and distributor of visco-elastic foam mattresses and pillows, and we estimate we had an approximate 70% market share in 2002 in both the United States and globally. We believe consumer demand for our premium products in the United States is being driven primarily by increased housing and home furnishing purchases by the baby boom generation; significant growth in our core demographic market as the baby boom generation ages; increased awareness of the health benefits of a better quality mattress; and the shifting consumer preference from firmness to comfort. Our net sales of mattresses, including overlays, have increased from $79.3 million in 2000 to $156.0 million in 2002 (a 40.3% compound annual growth rate), and net sales of pillows have increased from $63.1 million in 2000 to $91.2 million in 2002 (a 20.3% compound annual growth rate). As consumers continue to prefer alternatives to standard innerspring mattresses, our products become more widely available and as our brand gains broader consumer recognition, we expect that our premium products will continue to attract sales away from the standard mattress market.

Competitive Strengths

We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

Superior Product Offering. Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and provide better spinal alignment, reduced pressure points, greater relief of lower back and neck pain and better quality sleep than traditional bedding products. We believe the benefits of our products have become widely recognized, as evidenced by the more than 25,000 healthcare professionals who recommend our products, and the approval of one or more of our products for purchase or reimbursement by the government healthcare agencies in several European countries. Consumer surveys commissioned on our behalf over the last several years indicate that our products achieve satisfaction ratings generally ranging from 80% to 92%. Net sales of our mattresses, including overlays, have increased from $116.8 million in 2001 to $156.0 million in 2002, and net sales of our pillows have increased from $75.3 million in 2001 to $91.2 million in 2002. Further, we continue to leverage our unique and proprietary manufacturing process to develop new products and refine existing products to meet the changing demands and preferences of consumers. Our innovative products distinguish us from the major manufacturers of standard innerspring mattresses and traditional pillows in the United States, which we believe offer generally similar products and must compete primarily on price.

Increasing Global Brand Awareness. We believe consumers in the United States and internationally increasingly associate our brand name with premium quality products that enable better overall sleep. We sell our products in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. Our Tempur brand has been in

existence since 1991 and its global awareness is reinforced by our high level of customer satisfaction. One of our products was recently ranked among the eight "best buys" of the mattress industry in the applicable price range by *Consumers Digest*, a recognition awarded to products that provide strong value to consumers. In addition, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand. We believe that our major competitors in the United States have limited brand awareness outside of the United States and our major international competitors have limited brand awareness outside of their respective regions.

Diversified Product Offerings Sold Globally Through Multiple Distribution Channels. We believe we have a highly-diversified, well-balanced business model, which provides us with a competitive advantage over our major competitors, which primarily sell standard innerspring mattresses or traditional pillows in the United States almost exclusively through retail furniture and bedding stores. In contrast, for the combined twelve months ended December 31, 2002, mattress, pillow and other product sales, primarily adjustable beds, represented 52%, 31% and 17%, respectively, of our total net sales. For the combined twelve months ended December 31, 2002, our retail channel represented 60% of total net sales, with our direct, healthcare and third party distributor channels representing 19%, 14% and 7%, respectively. Domestic and International operations generated 55% and 45%, respectively, of net sales for the combined twelve months ended December 31, 2002.

Strong Free Cash Flow Characteristics. Our business generates significant free cash flow due to the combination of our rapidly growing revenues, strong gross and operating margins, low maintenance capital expenditure and working capital requirements, and limited corporate overhead. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which is more than 1.5 times the average for three of the major bedding manufacturers in the United States. For the year ended December 31, 2002, our gross margin, net income margin and Adjusted EBITDA margins exceeded 50%, 5.7% and 21.0%, respectively, on net sales of $298.0 million. In addition, capital expenditures were $11.1 million for this period, of which approximately $3.0 million was related to the maintenance of our existing assets.

Significant Growth Opportunities. We believe our competitors in the United States standard innerspring mattress market have penetrated the majority of their addressable channels and, therefore, have limited growth opportunities in their core markets. In contrast, we have penetrated only a small percentage of our addressable market. For example, we currently sell our products in approximately 2,500 furniture retail stores in the United States, out of a total of approximately 9,000 stores we have identified as appropriate targets. Similarly, we currently sell our products in approximately 2,500 furniture retail stores outside the United States, out of a total of approximately 7,000 stores we have identified as appropriate targets. Furthermore, we have recently begun to expand our direct response business in our European markets, based on our similar, successful initiatives in the United States and in the United Kingdom, to reach a greater number of consumers and increase our brand awareness. In addition, we currently supply only a small percentage of the approximately 15,400 nursing homes and 5,000 hospitals in the United States (with approximately 2.7 million beds). As this healthcare market expands over time, we expect our growth potential in this market will also increase.

Management Team with Proven Track Record. Since launching our United States operations in 1992, Robert Trussell, Jr., has helped grow our company from its early stages into a global business with approximately

$387.0 million in total net sales for the twelve months ended June 30, 2003. Furthermore, Mr. Trussell has assembled a highly experienced management team with significant sales, marketing, consumer products, manufacturing, accounting and treasury expertise. From 2000 to 2002, our management team has:

- further penetrated the United States market, with net sales in our Domestic segment growing from $74.1 million in 2000 to $165.3 million in net sales for the combined twelve months ended December 31, 2002;
- achieved a compound annual sales growth rate of 36% from $162.0 million for our predecessor company for the year ended December 31, 2000 to $298.0 million in 2002;
- expanded our market share in the premium segment of the global mattress industry;
- improved EBITDA margins;
- successfully developed and constructed a manufacturing facility in the United States; and
- improved the efficiency of our product distribution network.

The management team and certain key employees currently own approximately 12.4% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options.

Our Strategy

Our goal is to become the leading global manufacturer, marketer and distributor of premium mattresses and pillows by pursuing the following key initiatives:

Maintain Focus on Core Products. We believe we are the leading provider of visco-elastic foam mattresses and pillows, which we sell at attractive margins. We utilize a vertically-integrated, proprietary process to manufacture a comfortable, durable and high quality visco-elastic foam. Although this foam could be used in a number of different products, we are currently committed to maintaining our focus primarily on premium mattresses and pillows. We also plan to lead the industry in product innovation and sleep expertise by continuing to develop and market mattress and pillow products that enable better overall sleep and personalized comfort. This strategy has contributed to significant growth in net sales of both mattresses (40.2% compound annual growth rate) and pillows (20.3% compound annual growth rate) over the past three years. We believe our focused sales, marketing and product strategies will enable us to increase market share in the premium market, while maintaining our margins and our ability to generate free cash flow.

Continue to Build Global Brand Awareness. We plan to continue to invest in increasing our global brand awareness through targeted marketing and advertising campaigns that further associate our brand name with better overall sleep and premium quality products. We estimate that our current advertising campaign yields 2.7 billion consumer “impressions” per month via television, radio, magazines and newspapers. Our high level of customer satisfaction further drives brand awareness through “word-of-mouth” marketing. Consumer surveys commissioned on our behalf over the last several years indicate that our products achieve satisfaction ratings generally ranging from 80% to 92%.

Further Penetrate U.S. Retail Channel. In the United States, the retail sales division is our largest sales division. Of the 33,000 retail stores in the United States selling mattresses, we have established a target market of over 9,000 potential stores. We plan to build and maintain our base of furniture retailers including Jordan’s, Art Van and Haverty’s and specialty retailers including Brookstone, Relax-the-Back and Bed, Bath & Beyond. We target retail stores that have significant sales volumes, experience marketing premium products and a corporate image that is consistent with our efforts to further build our brand awareness. In order to continue to penetrate this channel, we have increased our salesforce and have increased the number of personnel who train retail salespersons to sell our products more effectively. We believe we are able to more effectively attract and retain retailers because our premium products provide retailers with higher per unit profits than standard innerspring products.

Continue to Expand Internationally. We plan to increase sales growth internationally by further penetrating each of our existing distribution channels. We plan to expand our direct response business, which has increased both sales and brand awareness in the United States. We have already successfully introduced this program to the United Kingdom, and we intend to expand this program to our operations elsewhere in Europe and in Asia. In addition, we are focused on managing our third party distributors, including hiring regional sales managers, establishing training programs and expanding distribution. We will continue to promote our operations in Japan, which now represents a significant portion of our international business. In addition, we intend to further enhance sales growth in our retail channel by attracting new retailers that meet our criteria and by expanding sales within our existing customers' retail stores through the introduction of new mattress and pillow products tailored for specific markets, continued investment in our brand and ongoing sales and product training and education.

Increase Growth Capacity. We intend to continue to invest in our operating infrastructure to meet the requirements of our rapidly growing business. Currently, we manufacture our products in two highly automated, vertically-integrated facilities located in Aarup, Denmark and Duffield, Virginia. Over the past three years, we have invested more than $50.0 million to upgrade and expand these facilities. To accommodate our anticipated growth, we plan to invest an additional $75.0 to $100.0 million to increase productivity and expand manufacturing capacity during the next several years, including the development and construction of an additional manufacturing facility in North America. We also plan to continue to enhance our internal information technology systems and our product distribution network, as well as augment our personnel in management sales, marketing and customer service.

Our Products

Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and enable better spinal alignment, reduced pressure points, greater relief of lower back and neck pain and better quality sleep compared to standard innerspring products and traditional pillows. Net sales of our mattresses, including overlays, increased from $116.8 million in 2001 to $156.0 million in 2002, and net sales of our pillows increased from $75.3 million in 2001 to $91.2 million in 2002.

Our high-quality, high-density, temperature-sensitive visco-elastic foam distinguishes our products from other products in the marketplace. Visco-elastic foam was originally developed by NASA in 1971 in an effort to relieve astronauts of the g-forces experienced during lift-off, and NASA subsequently made this formula publicly available. The NASA foam originally proved unstable for commercial use. However, after several years of research and development, we succeeded in developing a proprietary formulation and proprietary process to manufacture a stable, durable and commercially viable product. The key feature of our visco-elastic foam is its temperature sensitivity. It conforms to the body, becoming softer in warmer areas where the body is making the most contact with the foam and remaining firmer in cooler areas where less body contact is being made. As the material molds to the body's shape, the body is supported in the correct anatomical position with the neck and spine in complete therapeutic alignment. The visco-elastic foam also has higher density than other foam, resulting in improved durability and enhanced comfort. In addition, clinical evidence indicates that our products are both effective and cost efficient for the prevention and treatment of decubitis, or bed sores, a major problem for elderly and bed-ridden patients.

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Our core product offerings are:

Mattresses		Summary Description	Suggested U.S. Retail Price
Classic	•	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of a 4.5” high resiliency foam base (Airflow System™)	$999-$1,699
	•	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points	
	•	Recommended by over 25,000 healthcare professionals	
Deluxe	•	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of two 3” high resiliency foam layers (Dual Airflow System™)	$1,249-$2,099
	•	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points	
	•	Specially designed to fit on platform frames	
CelebrityBed	•	Our highest profile bed, with a total height of 13 1/4".	$ 1,999-$2,999
	•	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of two 3" high resiliency foam layers (Dual Airflow System™), together with a pillowtop layer of six individual comfort sheets filling a specially designed cover.	
	•	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points.	
Medical	•	Designed to provide high level therapeutic pressure management for institutional and homecare providers	$999
	•	Proven to help prevent and treat pressure ulcers (bed sores)	
	•	Features waterproof cover	
Overlays	•	Provides therapeutic, pressure-relieving support	$500-$950
	•	Ideally suited for camping, recreational vehicles and overnight guests	
	•	Available in most standard sizes	
Pillows			
Comfort	•	“Micro-cushions” fill a specially designed cover	$125
	•	Provides plush and pressure-relieving comfort in a luxurious, traditional pillow style	
Cervical	•	Therapeutic, dual-lobed design provides proper neck/ spine alignment	$70-$165
	•	Available in a variety of sizes	
Millennium	•	Patented design provides proper neck alignment and therapeutic support for sleeping on back or side	$99-$125
Other			
Adjustable Beds	•	Highest quality and most advanced adjustable bed available	$1,300-$2,800
	•	Mattress easily molds to shape of base to stay in place and perform better than other mattresses	

Marketing and Sales

We are the leading worldwide manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows. While primarily a wholesaler, we market directly to consumers in the United States and the United Kingdom and have recently begun to expand similar programs in Europe. Our marketing strategy is to increase consumer awareness of the benefits of our visco-elastic foam products and to further associate our brand name with better overall sleep and premium quality products. We position our products as high-end, high-tech, functional and unique products, which we sell at full retail prices.

We have four distribution channels: retail, direct, healthcare and third party.

Channel		Summary Description	2002 Net Sales % Mix	
			U.S.	Non-U.S.
Retail	•	This channel is our fastest growing sales channel and is driven by a sales team dedicated to introducing our products to traditional furniture and bedding retailers. We work with and target furniture retailers, sleep shops, specialty back and gift stores, home stores and international department stores.	63%	55%
	•	Retail furniture customers include Art Van, El Corte Ingles, Furniture Village and Haverty's. Specialty retail customers include Brookstone, Bed, Bath & Beyond, Linens'n Things and Relax the Back.		
Direct	•	Advertising channels include television, magazines, radio and newspapers.	29%	8%
Healthcare	•	We sell to chiropractors, physical therapists, massage therapists, sleep clinics, other medical professionals and medical retailers that could utilize our products to treat patients or recommend and/or sell them to their clients. In addition, we work closely with hospitals, nursing homes, and medical equipment providers to place our products in facilities where they will receive general public use.	6%	24%
	•	Customers include Veterans Administration Hospitals, Marriott Senior Living Centers, Delta Health Group, Inc. and the National Institute of Health.		
Third Party Distributors	•	We have successfully expanded distribution into smaller international markets by utilizing third party distributors. Our approach to these developing markets has allowed us to build sales, marketing and brand awareness with minimal capital risk.	2%	13%

Retail

We are currently positioned in approximately 5,000 furniture stores worldwide. In the United States, the largest sales division is the retail sales division, which currently sells to approximately 1,180 specialty retail and approximately 2,500 furniture stores. We plan to build and maintain our base of specialty retail stores. In addition, since 2000, we have prioritized expanding our products into more traditional furniture stores in both the United States and Europe. We now sell our products in approximately 2,500 such stores in Europe and 2,500 in the United States.

As of September 30, 2003, we had 198 employees in our worldwide retail sales force, including regional sales managers, trainers, sales representatives and regional vice presidents. Our sales force develops this channel through identifying and contacting potential targets, trade publication advertising, presentations at trade shows and referrals. Our sales force seeks to convince potential accounts to stock our products based on our superior product offerings, strong brand awareness and attractive margins. As part of our marketing and sales effort in the United States, our trainers train in-store personnel in our products and their benefits in order to make the in-store personnel more effective sellers of our products, and we often provide mattresses and pillows to these in-store personnel so that they become personally familiar with the benefits of our products.

Direct

Our direct response marketing in the United States and United Kingdom targets customers through television, radio, magazine and newspaper product offering advertisements. Sales from this division in the United States has grown from $7.0 million of sales in 1997 to $48.8 million of sales in 2002. During the same period in the United Kingdom, direct sales increased from $970,000 to $10.1 million. Growth in direct response is primarily a function of advertising, which we intend to increase over the next three years. We have recently

introduced a direct response program in certain European markets to replicate the success achieved in the United States and the United Kingdom. Most direct response sales orders are taken through responding to in-bound telephone calls, although some orders are also accepted through the internet. We will seek to increase the portion of direct sales orders taken over the internet in order to make our direct sales process more efficient.

As of September 30, 2003, we had 42 employees in our worldwide direct response sales force.

Healthcare

Our healthcare sales division offers medical mattresses, pillows and wheelchair cushions to the worldwide medical market. The structure of our healthcare business varies according to the local market. Within our healthcare channel, approximately 25,000 healthcare professionals recommend and/or sell our products to their patients; medical retailers, including pharmacists; and hospitals and nursing homes. Our principal markets in this channel are in the United States and in Europe, in Germany, Sweden, Norway and Spain. In each of our local markets, we operate our healthcare business on a local basis with direct sales forces and telemarketing programs. As of September 30, 2003, we had 34 employees in our healthcare channel worldwide.

Our healthcare sales division in the United States, which we refer to as Tempur Medical, began primarily through indirect sales of our mattresses and pillows through a network of medical professionals, and has grown to include direct sales to hospitals, nursing homes and medical retailers. In 2001, we developed a joint initiative with Swiss-American Products, Inc., a wound care management company, in the nursing home market to address the use of our products to help prevent and treat pressure ulcers (or bed sores). We believe that this is a large potential market for our products, including approximately 15,400 nursing homes in the United States with a total bed count in excess of 1.7 million beds, and that this market should expand over time as the baby boom generation ages. We now sell products to five major nursing home chains, which operate a total of more than 85 facilities. We believe this program can be expanded to aid nursing homes across the United States, which currently face sizeable lawsuits regarding damages resulting from bed sores. Our products can help prevent these injuries and the subsequent lawsuits against nursing homes, thus helping both the patient and caregiver.

As part of our marketing to the healthcare channel, we offer the Tempur Ultimate Skin Management Program, under which we provide a $250,000 indemnity reimbursement for pressure ulcer claims for nursing home facilities in compliance with the program. If a facility is in complete compliance with the program, but nevertheless becomes liable for a pressure sore claim, we will pay up to $250,000. To date, we have never had a claim, and we have insurance to mitigate our risk with respect to this indemnity.

Third Party

We have entered into written and verbal arrangements with third party distributors located in Eastern Europe, Asia/Pacific, the Middle East, Central and South America and Canada and Mexico. We utilize third party distributors to serve markets that are currently outside the range of our wholly-owned subsidiaries, which has enabled us to reach new markets with minimal capital investment. We have recently made an additional investment in personnel to manage and grow this important form of product distribution, and have restructured our organization to better track and manage our third party distribution arrangements.

Operations

Manufacturing and Related Technology

Our products are manufactured at plants in Aarup, Denmark and Duffield, Virginia, both of which we own. Much of the sewing and production of mattress and pillow covers is outsourced to third party suppliers.

The Danish plant has undergone several major plant extensions in the past four years, including an $11.5 million facility expansion in 1999. The Danish plant is approximately 440,000 square feet, which we plan to expand to double its mattress production capacity. This plant is currently running close to capacity for mattresses

and at approximately 85% of capacity for pillows. Our current mattress production at this plant is near capacity in part to support inventory build-up in the United States in anticipation of additional growth until we complete the expansion of our manufacturing capacity in the United States.

The opening of the Virginia plant in 2001 has provided needed capacity while reducing working capital. The Virginia plant is about 327,000 square feet and we are in the process of doubling the manufacturing capacity, which we expect to complete in the first quarter of 2004. This plant is currently running close to capacity for mattresses and at approximately 55% of capacity for pillows.

In order to increase productivity and expand our manufacturing capacity, we plan to develop and construct a third manufacturing facility and are currently in the process of selecting a site in North America.

Our foam is a polyurethane product manufactured from polyol and proprietary additives. We limit the number of individuals who know or have access to the exact formula and manufacturing processes to make the foam. Our manufacturing process begins with the material used to make the foam being mixed and poured into molds for pillows or formed into slabs for mattresses. For mattresses, the foam is then cut into appropriate sizes which are laminated before covering and shipping.

Suppliers

We currently obtain all of the materials used to produce our visco-elastic foam from outside sources. We currently acquire almost all our polyol, an industrial commodity based on petroleum, from one supplier with a number of manufacturing locations around the world. We purchase proprietary additives from a number of vendors, including one from whom we are obligated to purchase minimum quantities. We expect to continue these supplier relationships for the foreseeable future. We do not consider ourselves dependent upon any single outside vendor as a source of raw materials and believe that sufficient alternative sources of supply for the same or similar raw materials are available.

Distribution

We recently launched two key supply chain initiatives developed to improve the overall efficiency of our product distribution network. We believe these initiatives will optimize management of our inventories throughout our network, enable us to meet or exceed our targeted delivery goals and enhance our customer service levels.

The first initiative is the design and implementation of a $1.6 million warehouse management system. This system provides network-wide scan, bar code and electronic processing capabilities for receipt, movement and shipment transactions for all distribution center activities. Additionally, we redesigned our distribution network by implementing a two-tier network structure. The first tier consists of two regional distribution centers, with a third scheduled to open in the third quarter of 2003. These regional centers provide inventories that service both our high volume retail customers and replenish our second tier distribution centers. The second tier consists of 16 home delivery service centers located throughout the United States, which are replenished as required with custom assembled truckloads of product that meet location-specific demand requirements. We use third party delivery services to transport our products from our distribution centers to our customers.

Research and Development

We continuously seek to improve our products’ performance and benefits. Through consumer surveys and consumer focus groups, we seek feedback on a regular basis to help enhance our products. Since the introduction of our first product in 1991, we have continued to improve and expand our product line, including new mattresses and pillows for all channels. In addition to our research and development efforts, we also devote significant efforts to product development as part of our sales and marketing operations. We intend to increase our spending on research and development efforts in order to continue providing superior and innovative mattress and pillow products to our target markets, as well as develop new consumer products using our proprietary visco-elastic foam.

Competition

The mattress and pillow industries are highly competitive. Participants in the mattress and pillow industries have traditionally competed primarily based on price. Our premium mattresses compete with a number of different types of premium and standard mattress alternatives, including innerspring mattresses, foam mattresses, waterbeds, futons, air beds and other air-supported mattresses that are sold through a variety of channels, including furniture stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs. The pillow industry is characterized by an extremely large number of competitors, none of which is dominant.

The standard mattress market is dominated by four large manufacturers of innerspring mattresses with nationally recognized brand names, Sealy, Serta, Simmons and Spring Air. These four competitors also offer premium innerspring mattresses and collectively have a significant share of the premium mattress market in the United States. Select Comfort Corporation competes in the premium specialty mattress market and focuses on the air mattress market segment. The balance of the mattress market is served by a large number of other manufacturers, primarily operating on a regional basis. Many of these competitors and, in particular, the four largest manufacturers named above, have greater financial, marketing and manufacturing resources and better brand name recognition than our products and sell their products through broader and more established distribution channels. We also believe that a number of companies have begun to offer foam mattress products similar to our products.

Intellectual Property

We hold various United States and foreign patents and patent applications regarding certain elements of the design and function of our products, including our Combi and Deluxe mattress products, and our Millennium, Comfort and Leg-Spacer pillow products, among others. We have eight issued United States patents, expiring at various points between 2013 and 2021, and 10 United States patent applications pending. We also hold approximately thirty-two foreign patents and have approximately fifteen foreign patent applications pending. Notwithstanding these patents and patent applications, we cannot assure you that these patent rights will provide substantial protection or that others will not be able to develop products that are similar to or competitive with our products. In addition, the principal product formula and manufacturing processes for our visco-elastic foam products are not patented. To our knowledge, no third party has asserted a claim against us alleging that any element of our product infringes or otherwise violates any intellectual property rights of any third party.

We hold approximately 86 trademark registrations worldwide, which we believe have significant value and are important to the marketing of our products to retailers. Tempur® and Tempur-Pedic® are trademarks registered with the United States Patent and Trademark Office. We have a number of other registered marks, including Swedish Sleep System® and Tempur-Med®, and our Tempur-Pedic logo is registered. In addition, we have U.S. applications pending for additional marks. Several of our trademarks have been registered, or are the subject of pending applications, in various foreign countries. Each United States trademark registration is renewable indefinitely as long as the mark remains in use. We periodically review our portfolio of patents, patent applications, trademarks, trademark registrations and trademark registration applications, as well as our business plans, to determine whether our intellectual property portfolio is appropriately aligned with our business. Accordingly, we sometimes permit certain intellectual property to lapse or go abandoned under appropriate circumstances. In addition, due to the uncertainties inherent in prosecuting patent applications and trademark registration applications, sometimes patent applications and trademark applications are rejected and we subsequently abandon them. In other circumstances, applications are allowed and either issue as patents or are registered. We are not aware of any material claims of infringement or other challenges asserted against our right to use these marks.

Governmental Regulation

Our operations are subject to state, local and foreign consumer protection and other regulations relating to the mattress and pillow industry. These regulations vary among the states and countries in which we do business. The regulations generally impose requirements as to the proper labeling of bedding merchandise, restrictions

regarding the identification of merchandise as "new" or otherwise, controls as to hygiene and other aspects of product handling and sale and penalties for violations.

The U.S. Consumer Product Safety Commission and various state regulatory agencies are considering new rules relating to fire retardancy standards for the mattress and pillow industry. The State of California plans to adopt, proposed to be effective in 2005, new fire retardancy standards that have yet to be fully defined. If adopted, such new rules may adversely affect our costs, manufacturing processes and materials. We are developing product solutions that are intended to enable us to meet the new standards. Because the new standards have not been finally determined, however, no assurance can be given that our solutions will enable us to meet the new standards. We expect that any required product modifications will add cost to our product. Many foreign jurisdictions also regulate fire retardancy standards, and changes to these standards and changes in our products that require compliance with additional standards would raise similar risks.

Information Systems

We use technology to support our business and reduce operating costs, enhance our customer service and provide real-time information to manage our business. We use technology platforms from market leaders such as Microsoft, Oracle and Hyperion to run both packaged applications and internally developed systems. We have purchased upgraded replacements for the majority of our technology infrastructure over the past several years as equipment has come off of lease. Our major systems include manufacturing resource planning, direct marketing and customer service in-bound/out-bound telemarketing systems, e-commerce systems, retail partners support systems, Oracle ERP and Hyperion financial reporting systems.

The retail, direct marketing, customer service, and e-commerce applications are interfaced together to provide a fully integrated view of our customers and their activities across sales channels. Our Oracle based ERP applications include modules in support of our finance and distribution operations. We are currently upgrading our Oracle applications to the 11i version to provide significantly more flexibility, functionality and productivity cost savings. Our Microsoft-based manufacturing systems provide integrated resource planning and cost accounting applications to provide support for our manufacturing operations.

We use our own employees, supplemented by consultants and contractors, to deliver and maintain our technology systems and assets. Outsourcing is occasionally used for cost effectiveness or strategic reasons. We have a disaster recovery plan in place.

Facilities

We operate in 54 countries and have wholly-owned subsidiaries in fifteen countries, including our wholly-owned subsidiaries that own our manufacturing facilities in Denmark and Virginia. The following table sets forth certain information regarding our principal facilities at September 30, 2003.

Name/Location	Approximate Square Footage	Title	Type of Facility
Tempur Production USA, Inc. Duffield, Virginia	327,000	Owned	Manufacturing
Tempur World Holding Company ApS Aarup, Denmark	440,000	Owned	Manufacturing
Tempur-Pedic, Inc. Lexington, Kentucky	72,000	Leased (until 2009)	Office and Warehouse
Tempur UK Ltd. Tempur House Middlesex, UB3 1BE, United Kingdom	56,650	Leased (until 2010 with a cancellation option in 2007)	Office and Warehouse
Tempur Deutschland GmbH Steinhagen, Germany	121,277	Owned	Office and Warehouse

We have additional facilities in 14 locations in 12 countries under leases with one to ten year terms.

Employees

As of September 30, 2003, we have approximately 1,000 employees, with approximately 400 in the United States, 300 in Denmark and 300 in the rest of the world. As of September 30, 2003, we have approximately 340 employees in sales and marketing, 450 employees in manufacturing, 130 employees in general and administrative, 75 employees in warehouse operations, and 5 employees in research and development, and a number of part-time employees. Our employees in Denmark are under a government labor union contract. None of our United States employees are covered by a collective bargaining agreement. We believe our relations with our employees are generally good.

Legal Proceedings

On July 29, 2003, we were served with a Civil Investigative Demand from the office of the Attorney General of the State of Texas in connection with that office's investigation into "the possibility of price fixing in the mattress industry." In connection with the investigation, we have been asked to produce certain documents that may be relevant to the investigation and to respond to written interrogatories. The demand seeks, among other things, documents relating to the retail pricing of our products, including retail pricing policies and correspondence with retail accounts. We are unable to predict the scope or possible outcome of the investigation or to quantify its potential impact on our business or operations. We are cooperating with the Attorney General's office in connection with the demand.

We are involved in various other legal proceedings incident to the ordinary course of our business. We believe that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on our business, financial condition, liquidity or operating results.

MANAGEMENT

TWI Holdings' executive officers and directors and their ages as of September 15, 2003 are as follows:

Name	Age	Position
Robert B. Trussell, Jr.	51	President, Chief Executive Officer and Director
H. Thomas Bryant	56	Executive Vice President and President of North American Operations
David Montgomery	42	Executive Vice President and President of International Operations
Dale E. Williams	40	Senior Vice President and Chief Financial Officer
David C. Fogg	44	Senior Vice President of TWI Holdings and President of Tempur-Pedic, Inc. Retail Division.
Jeffrey B. Johnson	38	Vice President, Corporate Controller and Chief Accounting Officer
P. Andrews McLane	55	Chairman and Director
Jeffrey S. Barber	30	Director
Tully M. Friedman	61	Director
Christopher A. Masto	36	Director
Francis A. Doyle	55	Director

The present principal occupations and recent employment history of each of our executive officers and directors listed above is as follows:

Executive Officers

Robert B. Trussell, Jr. is the President and Chief Executive Officer of TWI Holdings and a member of TWI Holdings' board of directors. He has served in these capacities at TWI or its predecessor since 2000. From 1992 to 2000, Mr. Trussell served as President of Tempur-Pedic, Inc., one of the predecessors to TWI Holdings. Prior to joining TWI Holdings, Mr. Trussell was general partner of several racing limited partnerships that owned racehorses in England, France and the United States. He was also the owner of several start-up businesses in the equine lending and insurance business. Mr. Trussell received his B.S. degree from Marquette University.

H. Thomas Bryant joined TWI Holdings in July 2001 and serves as Executive Vice President and President of North American Operations. From 1998 to 2001, Mr. Bryant was the President and Chief Executive Officer of Stairmaster Sports & Medical Products, Inc. From 1989 to 1997, Mr. Bryant served in various senior management positions at Dunlop Maxfli Sports Corporation, most recently as President. Prior to that, Mr. Bryant spent 15 years in various management positions at Johnson & Johnson. Mr. Bryant received his B.S. degree from Georgia Southern University.

David Montgomery joined TWI Holdings in February 2003 and serves as Executive Vice President and President of International Operations. From 2001 to November 2002, Mr. Montgomery was employed by Rubbermaid, Inc., where he served as President of Rubbermaid Europe. From 1988 to 2001, Mr. Montgomery held various management positions at Black & Decker Corporation, most recently as Vice President of Black & Decker Europe, Middle East and Africa. Mr. Montgomery received his B.A. degree, with honors, from L' Ecole Superieure de Commerce de Reims, France and Middlesex Polytechnic, London.

Dale E. Williams joined TWI Holdings in July 2003 and serves as Senior Vice President and Chief Financial Officer. From 2001 to September 2002, Mr. Williams served as Vice President and Chief Financial Officer of Honeywell Control Products, a division of Honeywell International, Inc. From September 2002, when he left Honeywell in connection with a reorganization, to July 2003, Mr. Williams received severance from Honeywell and was not employed. From 2000 to 2001, Mr. Williams served as Vice President and Chief Financial Officer of Saga Systems, Inc./Software AG, Inc. Prior to that, Mr. Williams spent 15 years in various management positions at General Electric Company, most recently as Vice President and Chief Financial Officer of GE Information Services, Inc. Mr. Williams received his B.A. degree in finance from Indiana University.

David C. Fogg has served as a Senior Vice President and President of our North American Retail Division since 2001, and has been employed with TWI or its predecessor, since 1995. Prior to that, Mr. Fogg was Vice President of International Sales at Occidental Petroleum's Island Creek Coal Company. Mr. Fogg's professional activities include participation in the International Sleep Products Association (ISPA) Board of Trustees, Better Sleep Council Board and Strategic Planning Committee. Mr. Fogg received his B.A. degree from Pomona College.

Jeffrey B. Johnson joined us in November 1999 and serves as Vice President, Corporate Controller and Chief Accounting Officer. From 1993 to 1999, Mr. Johnson was an experienced manager at Arthur Andersen in the audit and business advisory services division. Mr. Johnson is a certified public accountant and a certified management accountant and holds a B.S. degree, with honors, from the University of Kentucky and an M.B.A. degree, with honors, from the University of Chicago.

Directors

P. Andrews McLane has served as chairman of TWI Holdings' board of directors since November 2002. Mr. McLane joined TA Associates, Inc., a private equity firm, which is one of our controlling shareholders, in 1979, where he is Senior Managing Director and a member of the firm's Executive Committee. Mr. McLane's activity at TA Associates centers on leveraged buyouts and minority recapitalizations of companies in the consumer, financial services and business services sectors. Mr. McLane is a director of IXION Technologies and United Pet Group and also serves on the boards of the United States Ski and Snowboard Team, St. Paul's School and the Appalachian Mountain Club. Mr. McLane graduated from Dartmouth College in 1969 with an A.B. degree and from the Amos Tuck School at Dartmouth in 1973 with an M.B.A. degree.

Jeffrey S. Barber has served as a member of TWI Holdings' board of directors since November 2002. Mr. Barber is Vice President of TA Associates, Inc., a private equity firm, which is one of our controlling shareholders, where he has been employed since 2001. Mr. Barber's activity at TA Associates centers on leveraged buyouts and minority recapitalizations of companies in the consumer, financial services and business services sectors. Mr. Barber was employed as an Associate in the Private Equity Group of Weiss, Peck & Greer, LLC during 2000 and as an Associate in the Private Equity Group of Vestar Capital Partners from 1997 through 1999. Prior to that, Mr. Barber was employed at Morgan Stanley & Co., where he worked in the investment banking department. Mr. Barber received his B.A. degree, with University and Departmental honors, from Johns Hopkins University and his M.B.A. degree, as a Beta Gamma Scholar, from Columbia University.

Tully M. Friedman has served as a member of TWI Holdings' board of directors since November 2002. Mr. Friedman is Chief Executive Officer of Friedman Fleischer & Lowe, LLC, a private equity firm he co-founded in 1997, which is one of our controlling shareholders. Prior to forming Friedman Fleischer & Lowe, Mr. Friedman co-founded and served as one of two managing general partners of private equity firm Hellman & Friedman. He is currently on the board of directors of Advanced Career Technologies, Inc., Archimedes Technology Group, CapitalSource, LLC, The Clorox Company, Mattel, Inc. and McKesson Corporation. He received his B.A. degree, with great distinction, from Stanford University and received a J.D. degree from Harvard Law School.

Christopher A. Masto has served as a member of TWI Holdings' board of directors since November 2002. Mr. Masto is a Managing Director of Friedman Fleischer & Lowe, LLC, a private equity firm he co-founded in 1997, which is one of our controlling shareholders. Prior to 1997, he worked as a management consultant with Bain & Company. Prior to that, Mr. Masto was employed at Morgan Stanley & Co., where he worked in the investment banking department. He currently serves on the board of Archimedes Technology Group. Mr. Masto received his B.A. degree, *magna cum laude*, from Brown University with an Sc.B. in Electrical Engineering and received his M.B.A. degree from Harvard Business School.

Francis A. Doyle has served as a member of TWI Holdings' board of directors since March 2003. Mr. Doyle has served as President and Chief Executive Officer of Connell Limited Partnership since 2001. From 1972 to 2001, he was a partner at PricewaterhouseCoopers LLP, where he was Global Technology and E-Business Leader and a member of the firm's Global Leadership Team. He currently serves on the board of directors of

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Liberty Mutual Holding Company, Inc. and Citizens Financial Group. He is a trustee of the Joslin Diabetes Center and Boston College. Mr. Doyle is a certified public accountant and holds a B.S. degree and an M.B.A. degree from Boston College.

Our directors have determined that Francis A. Doyle, a member of our audit committee, is an audit committee financial expert and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

Compensation of Executive Officers

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to TWI Holdings or Tempur World, Inc. for each year in the three-year period ended December 31, 2002 of those persons who served as (i) the chief executive officer during each year in the three-year period ended December 31, 2002 and (ii) our other four most highly compensated executive officers for the year ended December 31, 2002, whom together with the chief executive officer we refer to collectively as the "Named Executive Officers":

SUMMARY COMPENSATION TABLE

Annual Compensation Long-Term Compensation

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation (a)	All Other Compensation (b)
Robert B. Trussell, Jr.	2002	$ 310,000	$ 84,893	$ 7,200	$ 10,270
President and Chief Executive Officer	2001	276,975	40,425	6,000	9,691
	2000	269,500	73,500	—	1,440
Jeffrey P. Heath(c)	2002	$ 180,000	$ 49,455	$ 7,200	$ 46,568
	2001	164,000	47,100	6,000	24,475
	2000	157,000	—	—	1,308
H. Thomas Bryant(d)	2002	$ 214,600	$ 45,833	$ 7,200	$ 5,140
Executive Vice President	2001	206,000	—	90,864	—
	2000	n/a	n/a	n/a	n/a
David C. Fogg	2002	$ 260,000	$ 71,190	$ 7,200	$ 10,451
Senior Vice President	2001	237,300	33,000	6,000	9,265
	2000	220,000	—	—	1,440
Jeffrey B. Johnson	2002	$ 115,000	$ —	$ —	$ 5,576
Vice President, Corporate Controller and Chief Accounting Officer	2001	100,000	—	—	4,627
	2000	95,000	5,000	—	781

(a) Represents amounts paid on behalf of each of the Named Executive Officers for the following four respective categories of other annual compensation: (i) compensation recorded associated with the exercise of stock options, (ii) compensation associated with the pay out of previously deferred compensation, (iii) relocation expenses incurred and (iv) car and financial planning allowances paid on behalf of the Named Executive Officers. Amounts for each of the Named Executive Officers for each of the four respective preceding categories is as follows: Mr. Trussell: (2002-$0, $0, $0, $7,200; 2001-$0, $0, $0, $6,000; 2000-$0, $0, $0, $0); Mr. Heath: (2002-$0, $0, $0, $7,200; 2001-$0, $0, $39,411, $6,000; 2000-$0, $0, $17,554, $0); Mr. Bryant: (2002-$0, $0, $216, $7,200; 2001-$0, $0, $90,384, $0; 2000-$0, $0, $0, $0); Mr. Fogg: (2002-$0, $0, $0, $7,200; 2001-$0, $0, $0, $6,000; 2000-$0, $0, $0, $0); Mr. Johnson (2002-$0, $0, $0, $0; 2001-$0, $0, $7,186; 2000-$0, $0, $27,930).

(b) Represents amounts paid on behalf of each of the Named Executive Officers for the following three respective categories of compensation: (i) premiums for life and accidental death and dismemberment insurance, (ii) premiums for long-term disability benefits and (iii) contributions to our defined contribution plans. Amounts for each of the Named Executive Officers for each of the three respective preceding

categories is as follows: Mr. Trussell: (2002-$1,020, $420, $8,830; 2001-$1,020, $420, $8,251; 2000-$1,020, $420, $0); Mr. Bryant: (2002-$1,020, $420, $3,484; 2001-$340, $140, $0; 2000-$0, $0, $0); Mr. Fogg: (2002-$1,020, $420, $9,011; 2001-$1,020, $420, $7,825; 2000-$1,020, $420, $0); Mr. Johnson: (2002-$612, $210, $4,754; 2001-$581, $199, $3,846; 2000-$581, $199, $0).

(c) Mr. Heath served as Executive Vice President and Chief Financial Officer until July 2003.

(d) Data for 2000 is not available for Mr. Bryant as he joined our company in July 2001.

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

	Individual Grants				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term(a)	
Name	**Number of Securities Underlying Options/SARS Granted(#)**	**% of Total Options/SARS Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/Sh)**	**Expiration Date**	**5%($)**	**10%($)**
Robert B. Trussell, Jr.	3,300	25.3%	800	11/01/2012	$ 1,662,007	$ 6,842,419
Jeffrey P. Heath	1,180	9.0%	800	11/01/2012	594,293	2,446,702
H. Thomas Bryant	1,700	13.0%	800	11/01/2012	856,185	3,524,896
David C. Fogg	1,604	12.3%	800	11/01/2012	807,836	3,325,829
Jeffrey B. Johnson	160	1.2%	800	11/01/2012	80,582	331,765

(a) Potential Realizable Value is based on certain assumed rates of appreciation from the option exercise price since our board of directors determined that the stock's then current value was equal to or less than such option exercise price. These values are not intended to be a forecast of our stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the stock. There can be no assurance that the amounts reflected in this table will be achieved. In accordance with the rules promulgated by the Securities and Exchange Commission, Potential Realizable Value is based upon the exercise price of the options.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name	**Number of Securities Underlying Unexercised Options/SARS at FY-End(#) Exercisable/Unexercisable(a)**
Robert B. Trussell, Jr.	0/3,300
Jeffrey P. Heath	0/1,180
H. Thomas Bryant	0/1,700
David C. Fogg	0/1,604
Jeffrey B. Johnson	0/160

(a) Includes options exercisable within 60 days after December 31, 2002.

Employee Benefit Plans

2002 Stock Option Plan. In November 2002, our board of directors and shareholders approved a stock option plan, effective for a ten-year term, to encourage ownership of stock by our employees, directors and consultants and to provide them with additional financial incentives. Under the plan, the number of outstanding shares of our class B common stock attributable to the exercise of options, together with the number of shares issuable upon the exercise of outstanding options, shall not exceed 18,871.14 shares except in the event of a stock dividend, split, reclassification or other similar corporate transaction. No individual may be granted options for more than 66 2/3% of this total number of shares.

Employees, directors and consultants are eligible to receive options under the plan. However, directors who are not also employees are not eligible to receive incentive options. In the case of incentive options, the option price shall be not less than 100% of the fair market value of our class B common stock on the date the option is granted, or not less than 110% of that fair market value for a holder of 10% of our voting stock. Incentive options expire ten years after the date on which they are granted, or five years after the grant date for holders of 10% of our voting stock. Other options under the plan are not subject to such limitation.

Director Compensation

Francis A. Doyle has been granted options to purchase 400 shares of Class B-1 common stock for service as a director and as chairman of the audit committee. Other members of our board of directors do not receive compensation for their service on our board of directors or any committee of our board, but are reimbursed for their out-of-pocket expenses.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as members of our board of directors or compensation committee.

Employment Arrangements, Termination of Employment Arrangements and Change in Control Arrangements

In October 2002, we entered into several executive employment agreements, which became effective upon the closing of the Tempur acquisition on November 1, 2002. We entered into an amended and restated employment agreement with Robert B. Trussell, Jr., providing for his employment as Chief Executive Officer. The agreement has an initial term of two years and will be automatically renewed for successive one-year periods. Either party may terminate the agreement, upon written notice, 90 days prior to the expiration of the initial or renewal term. The agreement provides for an annual base salary of $310,000, subject to annual adjustment by TWI Holdings' board of directors beginning January 1, 2004, plus a variable performance bonus set to target 30% of Mr. Trussell's base salary if certain criteria are met, plus options to purchase shares of our voting common stock.

We entered into an amended and restated employment agreement with David C. Fogg, providing for his employment as Executive Vice President, or such other executive position as may be assigned from time to time by our Chief Executive Officer. The agreement has an initial term of one-year and a perpetual one-year renewal term. Either party may terminate the agreement, upon written notice, 90 days prior to the expiration of the initial or renewal term. The agreement provides for an annual base salary of $260,000, subject to annual adjustment by TWI Holdings' board of directors beginning January 1, 2004, a variable performance bonus set to target 30% of Mr. Fogg's base salary if certain criteria are met, and options to purchase shares of our voting common stock.

We entered into an amended and restated employment agreement with H. Thomas Bryant for his employment as Executive Vice President, or such other executive position as may be assigned from time to time by our Chief Executive Officer. The agreement has an initial term of one-year and a perpetual one-year renewal term. Either party may terminate the agreement, upon written notice, 90 days prior to the expiration of the initial or renewal term. Mr. Bryant's agreement provides for an annual base salary of $250,000, subject to annual adjustment by TWI Holdings' board of directors beginning January 1, 2004, a variable performance bonus set to target 30% of Mr. Bryant's base salary if certain criteria are met, and options to purchase shares of our voting common stock.

We entered into an amended and restated employment agreement with Jeffrey P. Heath for his employment as Chief Financial Officer. The agreement had an initial term of one year and a perpetual one-year renewal term. Mr. Heath's agreement provided for an annual base salary of $180,000, subject to annual adjustment by our board of directors beginning January 1, 2004, a variable performance bonus set to target 30% of Mr. Heath's base salary if certain criteria were met, and options to purchase shares of our voting common stock. In July 2003, we entered into a separation agreement with Mr. Heath containing customary terms and conditions, including provisions related to severance, option acceleration, note forgiveness and non-competition.

On July 11, 2003, we entered into an executive employment agreement with Dale E. Williams, providing for his employment as Senior Vice President and Chief Financial Officer, or such other executive position as may be assigned from time to time by our Chief Executive Officer. The agreement has an initial term of one-year and a perpetual one-year renewal term. Either party may terminate the agreement, upon written notice, 90 days prior to the expiration of the initial or renewal term. The agreement provides for an annual base salary of $225,000, subject to annual adjustment by TWI Holdings' board of directors beginning January 1, 2004, a variable performance bonus set to target 30% of Mr. Williams' base salary if certain criteria are met, and options to purchase shares of our voting common stock.

On September 12, 2003, we entered into an executive employment agreement with David Montgomery, providing for his employment as Executive Vice President, or such other executive position as may be assigned from time to time by our Chief Executive Officer. The agreement provides that employment shall continue unless and until terminated by either party. Mr. Montgomery may terminate employment with six months written notice. We may terminate employment with 12 months written notice. The agreement provides for an annual base salary of £192,500, subject to an annual adjustment of TWI Holdings' board of directors on or about January 1 of each year beginning with January 1, 2004, and a variable performance bonus set to target 30% of Mr. Montgomery's base salary if certain criteria are met.

By the terms of their employment agreements, Mr. Trussell, Mr. Fogg, Mr. Bryant, Mr. Heath, Mr. Williams and Mr. Montgomery are prohibited from disclosing certain confidential information and trade secrets, soliciting any employee for one or two years following their employment and working with or for any competing companies during their employment and for one or two years thereafter.

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PRINCIPAL SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of September 15, 2003 regarding the beneficial ownership of our outstanding equity securities by:

- each person known to beneficially own more than 5% of TWI Holdings' outstanding voting securities of each class;
- each of TWI Holdings' directors and Named Executive Officers; and
- all of TWI Holdings' directors and executive officers as a group.

Except as otherwise indicated, the persons named in the table below have sole voting and investment power with respect to all shares of capital stock held by them. Unless otherwise indicated, the address of each officer, director and 5% stockholder listed below is c/o TWI Holdings, Inc., 1713 Jaggie Fox Way, Lexington, Kentucky 40511.

	Shares Beneficially Owned						
	Class A Common(1)		Class B-1 Common		Series A Preferred(2)		Percentage of Total Outstanding Voting Securities
Name of Beneficial Owner:	Number Shares	Percentage of Class	Number Shares	Percentage of Class	Number Shares	Percentage of Class	
5% Stockholders:							
TA Associates Funds(3)	—	—	5,944.41	57.5%	93,513.60	63.9%	58.2%
Friedman Fleischer & Lowe Funds(4)	—	—	—	—	48,705.05	33.3%	29.5%
Gleacher Mezzanine Funds(5)	—	—	2,547.60	36.7%	3,000.00	2.1%	3.3%
Jeffrey P. Heath	—	—	556.23	12.6%	75.00	*	*
James H. Wheeler III, M.D.(6)	1,484.65	10.6%	—	—	—	—	*
Robert Hoeller(7)	1,026.05	7.3%	—	—	—	—	*
Alain Falourd	780.84	5.6%	—	—	—	—	*
Executive Officers and Directors:							
Robert B. Trussell, Jr.(8)	5,254.42	37.5%	1,178.86	26.8%	—	—	3.9%
H. Thomas Bryant	—	—	528.47	12.0%	20.00	*	*
David C. Fogg	1,953.56	14.0%	620.08	14.1%	—	—	1.6%
David Montgomery	—	—	375.00	8.5%	—	—	*
Jeffrey B. Johnson	—	—	40.00	*	—	—	*
P. Andrews McLane(9)	—	—	5,944.41	57.5%	93,513.60	63.9%	58.2%
Jeffrey S. Barber(10)	—	—	5,944.41	57.5%	93,513.60	63.9%	58.2%
Tully M. Friedman(11)	—	—	—	—	48,705.05	33.3%	29.5%
Christopher A. Masto(12)	—	—	—	—	48,705.05	33.3%	29.5%
Francis A. Doyle(13)	—	—	100.00	2.3%	—	—	*
All Executive Officers and Directors as a group(10 persons)(14):	7,207.98	51.5%	8,786.82	84.9%	142,238.65	97.1%	92.6%

* Represents ownership of less than one percent

(1) Class A common stock is convertible into Class B-1 common stock at the option of the holder and upon certain events. Holders of Class A common stock vote on an as-converted basis, at the current rate of one vote per share.

(2) Series A preferred stock is convertible into Class B-1 common stock at the option of the holder and upon certain events. Holders of Series A preferred stock vote on an as-converted basis, at the current rate of one vote per share.

(3) Amounts shown reflect the aggregate number of shares of Class B-1 common stock and Series A preferred stock held by TA IX L.P., TA/Atlantic and Pacific IV L.P., TA/Advent VIII L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA Investors LLC and TA Subordinated Debt Fund, L.P. (collectively, the "TA Associates Funds"). Includes 5,944.41 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable warrants. Investment and voting control of the TA Associates Funds is held by TA Associates, Inc. Mr. McLane is Senior Managing Director of

TA Associates, Inc., the manager of the general partner of TA IX L.P., TA Advent VIII L.P. and TA Subordinated Debt Fund, L.P.; the manager of TA Investors LLC; and the general partner of TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. Mr. Barber is Vice President of TA Associates, Inc., the manager of the general partner of TA IX L.P., TA Advent VIII L.P. and TA Subordinated Debt Fund, L.P.; the manager of TA Investors LLC; and the general partner of TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. The address of the TA Associates Funds is c/o TA Associates, Inc., High Street Tower, Suite 2500, 125 High Street, Boston, MA 02110.

(4) Amounts shown reflect the aggregate number of shares of Series A preferred stock held by Friedman Fleischer & Lowe Capital Partners, LP and FFL Executive Partners, LP (collectively, the “Friedman Fleischer & Lowe Funds”). The Friedman Fleischer & Lowe Funds are controlled by Friedman Fleischer & Lowe GP, LLC, their general partner. Mr. Friedman and Mr. Masto are Managing Members of Friedman Fleischer & Lowe GP, LLC and direct the vote of the FFL funds as shareholders of TWI Holdings. The address of the Friedman Fleischer & Lowe Funds is c/o Friedman Fleischer & Lowe, LLC, One Maritime Plaza, 10th Floor, San Francisco, CA 94111.

(5) Amounts shown reflect the aggregate number of shares of Class B-1 common stock and Series A preferred stock held by Gleacher Mezzanine Fund I, L.P. and Gleacher Mezzanine Fund P, L.P. (collectively, the “Gleacher Mezzanine Funds”). Includes 2,547.60 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable warrants. Investment and voting control of the Gleacher Mezzanine Funds is held by Eric Gleacher. Mr. Gleacher may be deemed to beneficially own shares held by the Gleacher Mezzanine Funds, but he disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address of the Gleacher Mezzanine Funds is c/o Gleacher Partners, 660 Madison Avenue, New York, NY 10021.

(6) The address for Dr. Wheeler is c/o Stephen R. Little, Little Sheffer & Golsan, P.A., 20 North Main Street, Marion, NC 28752.

(7) The address for Mr. Hoeller is 543 Laketower Drive #139, Lexington, Kentucky 40502.

(8) Includes 5,254.42 shares of Class A common stock held by Mr. Trussell’s wife.

(9) Includes 5,944.41 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable warrants. Mr. McLane is Senior Managing Director of TA Associates, Inc., the manager of the general partner of TA IX L.P., TA Advent VIII L.P. and TA Subordinated Debt Fund, L.P.; the manager of TA Investors LLC; and the general partner of TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. Accordingly, Mr. McLane may be deemed to beneficially own shares owned by TA IX L.P., TA Advent VIII L.P., TA Subordinated Debt Fund, L.P., TA Investors LLC, TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. Mr. McLane disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address for Mr. McLane is c/o TA Associates, Inc., High Street Tower, Suite 2500, 125 High Street, Boston, MA 02110.

(10) Includes 5,944.41 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable warrants. Mr. Barber is Vice President of TA Associates, Inc., the manager of the general partner of TA IX L.P., TA Advent VIII L.P. and TA Subordinated Debt Fund, L.P.; the manager of TA Investors LLC; and the general partner of TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. Accordingly, Mr. Barber may be deemed to beneficially own shares owned by TA IX L.P., TA Advent VIII L.P., TA Subordinated Debt Fund, L.P., TA Investors LLC, TA/Atlantic and Pacific IV L.P., TA Strategic Partners Fund A L.P. and TA Strategic Partners Fund B L.P. Mr. Barber disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address for Mr. Barber is c/o TA Associates, Inc., High Street Tower, Suite 2500, 125 High Street, Boston, MA 02110.

(11) Mr. Friedman is Senior Managing Member of Friedman Fleischer & Lowe GP, LLC, which is the general partner of Friedman Fleischer & Lowe Capital Partners, LP and FFL Executive Partners, LP. Accordingly, Mr. Friedman may be deemed to beneficially own shares owned by the Friedman Fleischer & Lowe Funds. Mr. Friedman disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address for Mr. Friedman is c/o Friedman Fleischer & Lowe, LLC, One Maritime Plaza, 10th Floor, San Francisco, CA 94111.

(12) Mr. Masto is Managing Member of Friedman Fleischer & Lowe GP, LLC, which is the general partner of Friedman Fleischer & Lowe Capital Partners, LP and FFL Executive Partners, LP. Accordingly, Mr. Masto may be deemed to beneficially own shares owned by the Friedman Fleischer & Lowe Funds. Mr. Masto disclaims beneficial ownership of any such shares in which he does not have a pecuniary interest. The address for Mr. Masto is c/o Friedman Fleischer & Lowe, LLC, One Maritime Plaza, 10th Floor, San Francisco, CA 94111.

(13) The address for Mr. Doyle is c/o Connell Limited Partnership, One International Place, Fort Hill Square, Boston, MA 02110.

(14) Includes 5,944.41 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable warrants and 2,166.00 shares of Class B-1 common stock issuable upon exercise of outstanding and currently exercisable options.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Contribution Agreement

In October 2002, TWI Holdings entered into a contribution agreement with a number of parties, including the TA Associates Funds and the Friedman Fleischer & Lowe Funds. In exchange for shares of our Class A common stock, Series A preferred stock or Class B-1 common stock, these parties pledged to deliver to TWI Holdings Tempur World common stock, cash or promissory notes, respectively. The agreement also allowed for additional investments to be made by certain accredited investors in our Class A common stock or Series A preferred stock.

In November 2002, stockholder notes were executed pursuant to the contribution agreement by four investors in exchange for shares of Class B-1 voting common stock. Robert B. Trussell, Jr. executed a note in the principal amount of $40,273.49; David C. Fogg executed a note in the principal amount of $24,933.10; H. Thomas Bryant executed a note in the principal amount of $11,776.20; and Jeffrey P. Heath executed a note in the principal amount of $23,017.21. Each note matures on November 1, 2012 and accrues interest at 5% per annum. We had been granted a security interest in all shares issued under the notes, and any other shares of capital stock of our company acquired by these investors due to a stock dividend, distribution or recapitalization with respect to the pledged shares were to be delivered and pledged to us. Shares pledged under the notes were not to be sold, assigned or transferred, but holders thereof had voting rights and were to retain any issued dividends with respect thereto while the notes were not in default. As part of his separation agreement, Mr. Heath's note was forgiven and his pledge was released. Messrs. Trussell and Fogg repaid their notes in full on September 3, 2003. Mr. Bryant repaid his note in full on September 4, 2003.

Stockholder Agreements

In November 2002, TWI Holdings and certain of our stockholders, including the TA Associates Funds and the Friedman Fleischer & Lowe Funds, entered into a stockholder agreement. The stockholder agreement, among other things, (i) grants tag-along rights (rights to participate on a pro rata basis in sales of stock by other stockholders) on certain transfers of shares of our capital stock; (ii) grants TWI Holdings a first right of purchase on any proposed transfer of shares of TWI Holdings' capital stock held by stockholders other than the management investors and the TA Associates Funds and Friedman Fleischer & Lowe Funds; (iii) grants TWI Holdings a first right of purchase on any proposed transfer of warrant securities held by mezzanine stockholders, including certain of the TA Associates Funds; (iv) requires stockholders to consent to a sale of TWI Holdings to an independent third party if such sale is approved by TWI Holdings' board of directors and holders of more than 50% of the number of then issued and outstanding shares of Class B common stock included in the securities issued to our sponsor investors including certain of the TA Associates Funds and the Friedman Fleischer & Lowe Funds; (v) requires each stockholder to vote all of TWI Holdings' voting securities held by them and to cause to be elected to TWI Holdings' board of directors (x) four designees, one of whom will serve as chairman, of the holders of a majority of TWI Holdings' outstanding Class B common stock issued to TWI Holdings' sponsor investors, the Friedman Fleischer & Lowe Funds and certain of the TA Associates Funds, and (y) one management employee, who shall be Robert B. Trussell, Jr. as long as he is an employee; (vi) grants an irrevocable proxy to TWI Holdings' board of directors in the event of a breach of such voting requirements; and (vii) grants all sponsor and mezzanine investors, and all stockholders owning more than 1% of TWI Holdings' outstanding Class B common stock, pre-emptive rights to purchase a pro-rata portion of additional shares in certain cases when additional shares are issued. The stockholder agreement provides that, if the initial public offering described in "Prospectus Summary —Recent Developments" is consummated, the stockholder agreement will terminate.

In November 2002, TWI Holdings also entered into a Series A preferred stock stockholder agreement with the TA Associates Funds and the Friedman Fleischer & Lowe Funds, which together own a majority of TWI Holdings' outstanding Series A preferred stock and would own a majority of our outstanding Class B-1 common

stock if all shares of Series A preferred stock were converted. This agreement, among other things, (i) restricts both the TA Associates Funds and the Friedman Fleischer & Lowe Funds from transfers of securities that would result in their respective set of funds' loss of majority ownership of the Class B common stock either issued to them or which would be issued to them upon conversion of their Series A preferred stock, unless they receive prior written consent from the majority holders of the other set of funds; (ii) requires that each of the parties vote all of TWI Holdings' voting securities held by them and to cause to be elected to TWI Holdings' board of directors two designees of the majority holders of the TA Associates Funds, one of whom will serve as chairman, two designees of the majority holders of the Friedman Fleischer & Lowe Funds and one management employee who shall be Robert B. Trussell, Jr. as long as he is an employee of our company; and (iii) grants an irrevocable proxy from each Friedman Fleischer & Lowe stockholder to the majority holders of the TA Associates Funds and an irrevocable proxy from each TA Associates stockholder to the majority holders of the Friedman Fleischer & Lowe Funds in the event of a breach of such voting requirements. The Series A preferred stock stockholder agreement provides that, if the initial public offering described in "Prospectus Summary—Recent Developments" is consummated, the Series A preferred stock stockholder agreement will terminate.

Registration Rights Agreement

On November 1, 2002, TWI Holdings and certain of its stockholders, including the TA Associates Funds and the Friedman Fleischer & Lowe Funds, entered into a registration rights agreement. Under this agreement, holders of 10% of TWI Holdings' registrable securities, as defined in the registration rights agreement, and certain stockholders who hold notes with an aggregate unpaid principal balance of $15.0 million have the right, subject to certain conditions, to require TWI Holdings to register any or all of their shares under the Securities Act at TWI Holdings' expense. In addition, all holders of registrable securities are entitled to request the inclusion of any of their shares in any registration statement at TWI Holdings' expense whenever we propose to register any of our securities under the Securities Act. In connection with all such registrations, TWI Holdings has agreed to indemnify all holders of registrable securities against certain liabilities, including liabilities under the Securities Act. All holders requesting or joining in a registration have agreed to indemnify TWI Holdings against certain liabilities.

Special Bonuses

In August 2003, the board of directors of TWI Holdings authorized the payment of special bonuses to Robert B. Trussell, Jr., David C. Fogg and H. Thomas Bryant of $41,900, $25,900 and $12,300, respectively.

THE EXCHANGE OFFER

Purpose and Effect

In connection with the sale of the old notes on August 15, 2003, the Issuers and the Guarantors entered into a registration rights agreement with the initial purchasers of the old notes. The registration rights agreement requires us to file the registration statement under the Securities Act with respect to the exchange notes. Once the SEC declares the registration statement effective, we will offer the holders of the old notes the opportunity to exchange their old notes for a like principal amount of exchange notes. The exchange notes will be issued without a restrictive legend and generally may be reoffered and resold without registration under the Securities Act.

The registration rights agreement provides that we must use our reasonable best efforts to cause the registration statement to be declared effective within 180 days of the issue date of the old notes and that we must use our reasonable best efforts to consummate the exchange offer within 30 business days after the effective date of our registration statement.

Except as described below, upon the completion of the exchange offer, our obligations with respect to the registration of the old notes and the exchange notes will terminate. We also refer you to “Description of the Notes—Registration Rights; Additional Interest.” A copy of the registration rights agreement has been filed as an exhibit to the registration statement of which this prospectus is a part. We urge you to read the registration rights agreement in its entirety.

As a result of the timely filing and the effectiveness of the registration statement, we will not have to pay additional interest on the old notes as provided in the registration rights agreement. Following the completion of the exchange offer, holders of old notes not tendered will not have any further registration rights other than as set forth in the paragraphs below, and the old notes will continue to be subject to certain restrictions on transfer. Additionally, the liquidity of the market for the old notes could be adversely affected upon consummation of the exchange offer. See “Risk Factors—If you do not properly tender your old notes, your ability to transfer your old notes will be adversely affected.”

In order to participate in the exchange offer, a holder must represent to us, among other things, that:

- the exchange notes acquired pursuant to the exchange offer are being obtained in the ordinary course of business of the holder;
- the holder is not engaging in and does not intend to engage in a distribution of the exchange notes;
- the holder does not have an arrangement or understanding with any person to participate in the distribution of the exchange notes;
- the holder is not an “affiliate,” as defined under Rule 405 under the Securities Act, of Tempur-Pedic, Inc., Tempur Production USA, Inc. or any guarantor; and
- if the holder is a broker-dealer that will receive exchange notes for its own account in exchange for old notes that were acquired as a result of market-making or other trading activities, then the holder will deliver a prospectus in connection with any resale of such exchange notes.

Under certain circumstances specified in the registration rights agreement, we may be required to file a “shelf” registration statement for a continuous offer in connection with the old notes pursuant to Rule 415 under the Securities Act.

Based on an interpretation by the SEC's staff set forth in no-action letters issued to third parties unrelated to us, we believe that, with the exceptions set forth below, exchange notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by the holder of exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, unless the holder:

- is an "affiliate" of Tempur-Pedic, Inc., Tempur Production USA, Inc. or any guarantor within the meaning of Rule 405 under the Securities Act;
- is a broker-dealer who purchased old notes directly from us for resale under Rule 144A or Regulation S or any other available exemption under the Securities Act;
- acquired the exchange notes other than in the ordinary course of the holder's business; or
- has an arrangement with any person to engage in the distribution of the exchange notes.

Any holder who tenders in the exchange offer for the purpose of participating in a distribution of the exchange notes cannot rely on this interpretation by the SEC's staff and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where such old notes were acquired by such broker-dealer as a result of market making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See "Plan of Distribution." Broker-dealers who acquired old notes directly from us and not as a result of market making activities or other trading activities may not rely on the staff's interpretations discussed above or participate in the exchange offer, and must comply with the prospectus delivery requirements of the Securities Act in order to sell the old notes.

Terms of the Exchange Offer

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept any and all old notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on   , 2003, or such date and time to which we extend the offer.

We will issue $1,000 in principal amount of exchange notes in exchange for each $1,000 principal amount of old notes accepted in the exchange offer. Holders may tender some or all of their old notes pursuant to the exchange offer. However, old notes may be tendered only in integral multiples of $1,000 in principal amount.

The exchange notes will evidence the same debt as the old notes and will be issued under the terms of, and entitled to the benefits of, the indenture relating to the old notes.

As of the date of this prospectus, $150.0 million in aggregate principal amount of 10¼% Senior Subordinated Notes due 2010 were outstanding, and there were two registered holders, a nominee of the Depository Trust Company and High Street Partners L.P. This prospectus, together with the letter of transmittal, is being sent to each registered holder and to others believed to have beneficial interests in the old notes. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC promulgated under the Exchange Act.

We will be deemed to have accepted validly tendered old notes when, as and if we have given oral or written notice thereof to Wells Fargo Bank Minnesota, National Association, the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the exchange notes from us. If any tendered old notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth under the heading "—Conditions to the Exchange Offer" or otherwise, certificates for any such unaccepted old notes will be returned, without expense, to the tendering holder of those old notes promptly after the expiration date unless the exchange offer is extended.

Holders who tender old notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of old notes in the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, applicable to the exchange offer. See "—Fees and Expenses."

Expiration Date; Extensions; Amendments

The expiration date shall be 5:00 p.m., New York City time, on , 2003, unless we, in our sole discretion, extend the exchange offer, in which case the expiration date shall be the latest date and time to which the exchange offer is extended. In order to extend the exchange offer, we will notify the exchange agent and each registered holder of any extension by oral or written notice prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date and will also disseminate notice of any extension by press release or other public announcement prior to 9:00 a.m., New York City time. We reserve the right, in our sole discretion:

- to delay accepting any old notes or to extend the exchange offer, provided that we may not delay payment subsequent to the expiration date other than in anticipation of receiving necessary governmental approvals, or, if any of the conditions set forth under "—Conditions to the Exchange Offer" shall not have been satisfied, to terminate the exchange offer, by giving oral or written notice of that delay, extension or termination to the exchange agent; or
- to amend the terms of the exchange offer in any manner.

If we make any material change to the terms of the exchange offer, we will promptly disclose this change in a manner reasonably calculated to inform the holders of our old notes of the change, including providing public announcement or giving oral or written notice to these holders. A material change in the terms of the exchange offer could include the waiver of a material condition. If we make any change to the exchange offer that also constitutes a "fundamental change" within the meaning of applicable SEC rules, we will disclose this change by means of a post-effective amendment to the registration statement which includes this prospectus and, if required, will distribute an amended or supplemented prospectus to each registered holder of old notes. In addition, we will extend the exchange offer for an additional five to ten business days as required by the Exchange Act, depending on the significance of the amendment, if the exchange offer would otherwise expire during that period.

Procedures for Tendering

Only a holder of old notes may tender the old notes in the exchange offer. Except as set forth under "—Book-Entry Transfer," to tender in the exchange offer a holder must complete, sign and date the letter of transmittal, or a copy of the letter of transmittal, have the signatures on the letter of transmittal guaranteed if required by the letter of transmittal and mail or otherwise deliver the letter of transmittal or copy to the exchange agent prior to the expiration date. In addition:

- certificates for the old notes must be received by the exchange agent along with the letter of transmittal prior to the expiration date; or
- a timely confirmation of a book-entry transfer, or a book-entry confirmation, of the old notes, if that procedure is available, into the exchange agent's account at The Depository Trust Company, which we refer to as the book-entry transfer facility, following the procedure for book-entry transfer described below, must be received by the exchange agent prior to the expiration date, or you must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the letter of transmittal and other required documents must be received by the exchange agent at the address set forth under "—Exchange Agent" prior to the expiration date.

Your tender, if not withdrawn prior to 5:00 p.m., New York City time, on the expiration date, will constitute an agreement between you and us in accordance with the terms and subject to the conditions set forth herein and in the letter of transmittal.

The method of delivery of old notes and the letter of transmittal and all other required documents to the exchange agent is at your election and risk. Instead of delivery by mail, it is recommended that you use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure delivery to the exchange agent before the expiration date. No letter of transmittal or old notes should be sent to us. You may request your broker, dealer, commercial bank, trust company or nominee to effect these transactions for you.

Any beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and who wishes to tender should contact the registered holder promptly and instruct the registered holder to tender on the beneficial owner's behalf. If the beneficial owner wishes to tender on its own behalf, the beneficial owner must, prior to completing and executing the letter of transmittal and delivering the owner's old notes, either make appropriate arrangements to register ownership of the old notes in the beneficial owner's name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Exchange Act unless old notes tendered pursuant thereto are tendered:

- by a registered holder who has not completed the box entitled "Special Registration Instruction" or "Special Delivery Instructions" on the letter of transmittal; or
- for the account of an eligible guarantor institution.

If signatures on a letter of transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, the guarantee must be by any eligible guarantor institution that is a member of or participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or an eligible guarantor institution.

If the letter of transmittal is signed by a person other than the registered holder of any old notes listed in the letter of transmittal, the old notes must be endorsed or accompanied by a properly completed bond power, signed by the registered holder as that registered holder's name appears on the old notes.

If the letter of transmittal or any old notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal unless waived by us.

All questions as to the validity, form, eligibility, including time of receipt, acceptance, and withdrawal of tendered old notes will be determined by us in our sole discretion, which determination will be final and binding. We reserve the absolute right to reject any and all old notes not properly tendered or any old notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular old notes. If we waive a condition to the exchange offer, the waiver will be applied equally to all noteholders. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes must be cured within such time as we shall determine. Although we intend to notify holders of defects or irregularities with respect to tenders of old notes, neither we, the exchange agent, nor any other person shall incur any liability for failure to give that notification. Tenders of old notes will not be deemed to have been made until such defects or irregularities have been cured or waived. Any old notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the exchange agent to the tendering holders, unless otherwise provided in the letter of transmittal, promptly after the expiration date, unless the exchange offer is extended.

In addition, we reserve the right in our sole discretion to purchase or make offers for any old notes that remain outstanding after the expiration date or, as set forth under "—Conditions to the Exchange Offer," to terminate the exchange offer and, to the extent permitted by applicable law, purchase old notes in the open market, in privately negotiated transactions, or otherwise. The terms of any such purchases or offers could differ from the terms of the exchange offer.

By tendering, you will be representing to us that, among other things:

- the exchange notes acquired in the exchange offer are being obtained in the ordinary course of business of the person receiving such exchange notes, whether or not such person is the registered holder;
- you are not engaging in and do not intend to engage in a distribution of the exchange notes;
- if you are a broker-dealer that will receive exchange notes for your own account in exchange for old notes that were acquired as a result of market-making or other trading activities, then you will deliver a prospectus in connection with any resale of such exchange notes;
- you do not have an arrangement or understanding with any person to participate in the distribution of such exchange notes; and
- you are not an "affiliate," as defined under Rule 405 of the Securities Act, of ours.

In all cases, issuance of exchange notes for old notes that are accepted for exchange in the exchange offer will be made only after timely receipt by the exchange agent of certificates for such old notes or a timely book-entry confirmation of such old notes into the exchange agent's account at the book-entry transfer facility, a properly completed and duly executed letter of transmittal or, with respect to DTC and its participants, electronic instructions in which the tendering holder acknowledges its receipt of and agreement to be bound by the letter of transmittal, and all other required documents. If any tendered old notes are not accepted for any reason set forth in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or non-exchanged old notes will be returned without expense to the tendering holder or, in the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility according to the book-entry transfer procedures described below, those non-exchanged old notes will be credited to an account maintained with that book-entry transfer facility, in each case, promptly after the expiration or termination of the exchange offer.

Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where those old notes were acquired by such broker-dealer as a result of market making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of those exchange notes. See "Plan of Distribution."

Book-Entry Transfer

We understand that the exchange agent will make a request to establish an account with respect to the old notes at the book-entry transfer facility for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in the book-entry transfer facility's systems may make book-entry delivery of old notes being tendered by causing the book-entry transfer facility to transfer such old notes into the exchange agent's account at the book-entry transfer facility in accordance with that book-entry transfer facility's procedures for transfer. However, although delivery of old notes may be effected through book-entry transfer at the book-entry transfer facility, the letter of transmittal or copy of the letter of transmittal, with any required signature guarantees and any other required documents, must, in any case other than as set forth in the following paragraph, be transmitted to and received by the exchange agent at the address set forth under "—Exchange Agent" on or prior to the expiration date or the guaranteed delivery procedures described below must be complied with.

The Automated Tender Offer Program of the Depository Trust Company (DTC) is the only method of processing exchange offers through DTC. To accept the exchange offer through the Automated Tender Offer

Program, participants in DTC must send electronic instructions to DTC through DTC's communication system instead of sending a signed, hard copy letter of transmittal. DTC is obligated to communicate those electronic instructions to the exchange agent. To tender old notes through the Automated Tender Offer Program, the electronic instructions sent to DTC and transmitted by DTC to the exchange agent must contain the character by which the participant acknowledges its receipt of and agrees to be bound by the letter of transmittal.

Guaranteed Delivery Procedures

If a registered holder of the old notes desires to tender old notes and the old notes are not immediately available, or time will not permit that holder's old notes or other required documents to reach the exchange agent prior to 5:00 p.m., New York City time, on the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

- the tender is made through an eligible guarantor institution;
- prior to 5:00 p.m., New York City time, on the expiration date, the exchange agent receives from that eligible guarantor institution a properly completed and duly executed letter of transmittal or a facsimile of a duly executed letter of transmittal and notice of guaranteed delivery, substantially in the form provided by us, by telegram, telex, fax transmission, mail or hand delivery, setting forth the name and address of the holder of old notes and the amount of the old notes tendered and stating that the tender is being made by guaranteed delivery and guaranteeing that within three business days from the expiration date, the certificates for all physically tendered old notes, in proper form for transfer, or a book-entry confirmation, as the case may be, will be deposited by the eligible guarantor institution with the exchange agent; and
- the certificates for all physically tendered old notes, in proper form for transfer, or a book-entry confirmation, as the case may be, are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

Tenders of old notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal of a tender of old notes to be effective, a written or, DTC participants, electronic Automated Tender Offer Program transmission, notice of withdrawal, must be received by the exchange agent at its address set forth under "—Exchange Agent" prior to 5:00 p.m., New York City time, on the expiration date. Any such notice of withdrawal must:

- specify the name of the person having deposited the old notes to be withdrawn, whom we refer to as the depositor;
- identify the old notes to be withdrawn, including the certificate number or numbers and principal amount of such old notes;
- be signed by the holder in the same manner as the original signature on the letter of transmittal by which such old notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee register the transfer of such old notes into the name of the person withdrawing the tender; and
- specify the name in which any such old notes are to be registered, if different from that of the depositor.

All questions as to the validity, form, eligibility and time of receipt of such notices will be determined by us, whose determination shall be final and binding on all parties. Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes which have been tendered for exchange, but which are not exchanged for any reason, will be returned to the holder of those old notes without cost to that holder promptly after withdrawal, rejection of tender, or termination of the exchange offer. Properly withdrawn old notes may be retendered by following one of the procedures under "—Procedures for Tendering" at any time on or prior to the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any old notes and may terminate or amend the exchange offer if at any time before expiration of the exchange offer:

(1) any law, statute, rule, regulation or interpretation by the staff of the SEC is proposed, adopted or enacted, which, in our reasonable judgment, might materially impair our ability to proceed with the exchange offer or materially impair the contemplated benefits of the exchange offer to us;

(2) any action or proceeding is instituted or threatened in any court or by or before any governmental agency or body that would reasonably be expected to prohibit, prevent or otherwise impair our ability to proceed with the exchange offer; or

(3) we do not obtain any governmental approvals that we deem in our sole discretion necessary to complete the exchange offer.

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition or may be waived by us in whole or in part at any time and from time to time in our sole discretion. Notwithstanding the foregoing, all conditions to the exchange offer, other than those related to necessary governmental approvals, must be satisfied or waived before the expiration of the exchange offer. The failure by us at any time to exercise any of the foregoing rights shall not be deemed a waiver of any of those rights and each of those rights shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, we will not accept for exchange any old notes tendered, and no exchange notes will be issued in exchange for those old notes, if at such time any stop order shall be threatened or in effect with respect to the registration statement of which this prospectus constitutes a part. We are required to use every reasonable effort to obtain the withdrawal of any stop order at the earliest possible time.

Exchange Agent

All executed letters of transmittal should be directed to the exchange agent. Wells Fargo Bank Minnesota, National Association has been appointed as exchange agent for the exchange offer. Questions, requests for assistance and requests for additional copies of this prospectus or of the letter of transmittal should be directed to the exchange agent addressed as follows:

By Hand, Regular, Registered or Certified Mail or Overnight Courier:

Wells Fargo Bank Minnesota, National Association
Corporate Trust Department
213 Court Street, Suite 703
Middletown, CT 06457
Attention: Joseph P. O’Donnell

By Facsimile:

Wells Fargo Bank Minnesota, National Association
Corporate Trust Department
Attention: Joseph P. O’Donnell
Fax No. 860-704-6219

For more information or confirmation by telephone please call 860-704-6217.

Originals of all documents sent by facsimile should be sent promptly by registered or certified mail, by hand or by overnight delivery service.

Fees And Expenses

We will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. The principal solicitation is being made by mail; however, additional solicitations may be made in person or by telephone by our officers and employees. The estimated cash expenses to be incurred in connection with the exchange offer will be paid by us and will include fees and expenses of the exchange agent, accounting, legal, printing and related fees and expenses.

Transfer Taxes

Holders who tender their old notes for exchange will not be obligated to pay any transfer taxes in connection with that tender or exchange, except that holders who instruct us to register exchange notes in the name of, or request that old notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax on those old notes.

Other

Participation in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may from time to time in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes.

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DESCRIPTION OF OTHER INDEBTEDNESS

General

In connection with the recapitalization, TWI and its subsidiaries entered into amended senior credit facilities on the terms described below.

The amended senior credit facilities provide a total of $270.0 million in financing, consisting of:

- a $20.0 million United States revolving credit facility;
- a $30.0 million United States term loan A facility;
- a $135.0 million United States term loan B facility (the United States revolving credit and the United States term loans are collectively referred to herein as the "United States Facility");
- a $20.0 million European revolving credit facility; and
- a $65.0 million European term loan A facility (the European revolving credit and the European term loan are collectively referred to herein as the "European Facility").

The incremental proceeds of our amended senior credit facilities were used, along with the proceeds from the offering of the old notes and cash on hand, to fund the recapitalization and provide working capital.

Our revolving credit facilities and our term loan A facilities will mature in 2008 and our new term loan B facility will mature in 2009.

Borrowers

Borrowers under our United States Facility are the Issuers and borrowers under our European facility are certain of our European subsidiaries.

Guarantees

The United States Facility and the European Facility are guaranteed by certain of TWI's direct and indirect foreign subsidiaries and each of our direct and indirect United States subsidiaries that are not borrowers under these facilities. The European Facility is guaranteed by TWI and certain of its direct and indirect foreign subsidiaries that are not borrowers under these facilities.

Security Interests

The United States Facility is secured by (i) a first priority lien on substantially all of the United States assets of TWI and each of our direct and indirect United States subsidiaries and (ii) a pledge of all of the capital stock of each of our direct and indirect United States subsidiaries and a pledge of 65% of the capital stock of TWI's first tier foreign subsidiaries. The European Facility is secured by (i) a lien on certain of the assets of our foreign subsidiaries and (ii) a pledge of substantially all of the capital stock of certain of the foreign subsidiaries.

Revolver Availability

Borrowing availability under the United States revolving credit facility is subject to a borrowing base, as defined in the loan agreement. Borrowing availability under the European revolving credit facility is subject to a borrowing base, as defined in the loan agreement. Each of the United States and European revolving facilities also provide for the issuance of letters of credit to support local operations. Allocations of the United States and European revolving facilities to such letters of credit will reduce the amounts available to be borrowed under their respective facilities.

Interest Rates and Fees

Borrowings under our amended senior credit facilities bear interest, at the option of the borrower subsidiaries, at either:

- a base rate, plus an applicable margin for the term loan facility and revolving facility, respectively; or
- a Eurodollar rate on deposits for one, two, three or six-month periods, plus an applicable margin for the term loan facility and revolving credit facility, respectively.

The borrower subsidiaries will also pay the lenders a commitment fee on the unused commitments under our amended revolving credit facility, which will be payable quarterly in arrears.

Mandatory and Optional Repayment

Subject to exceptions for reinvestment of proceeds, the borrower subsidiaries are required to prepay outstanding loans under our amended senior credit facilities with the net proceeds of certain asset dispositions, condemnation settlements and insurance settlements from casualty losses, issuances of certain equity and a portion of excess cash flow.

The borrower subsidiaries may voluntarily prepay loans or reduce commitments under our amended senior credit facilities, in whole or in part, subject to minimum amounts. If the borrower subsidiaries prepay Eurodollar rate loans other than at the end of an applicable interest period, we will be required to reimburse lenders for their redeployment costs.

Covenants

The amended senior credit facilities contain negative and affirmative covenants and requirements affecting us and our subsidiaries that we create or acquire, with certain exceptions set forth in our amended credit agreement. Our amended senior credit facilities contain the following negative covenants and restrictions, among others: restrictions on liens, real estate purchases, sale-leaseback transactions, indebtedness, dividends and other restricted payments, guarantees, redemptions, liquidations, consolidations and mergers, acquisitions, asset dispositions, investments, loans, advances, changes in line of business, formation of new subsidiaries, changes in fiscal year, transactions with affiliates, amendments to charter, by-laws and other material documents, hedging agreements, and intercompany indebtedness.

The amended senior credit facilities contain the following affirmative covenants, among others: delivery of financial and other information to the administrative agent, compliance with laws, maintenance of properties, licenses and insurance, access to books and records by the lenders, notice to the administrative agent upon the occurrence of events of default, material litigation and other events, conduct of business and existence, payment of obligations, further assurances, maintenance of collateral and maintenance of interest rate protection agreements.

The amended senior credit facilities contain financial covenants that require us to maintain the following financial ratios:

- maximum capital expenditures (as defined in the amended senior credit facilities) of not more than $30.0 million for the fiscal year ending December 31, 2003 and increasing each fiscal year thereafter to not more than $40.0 million for the fiscal year ending December 31, 2008;
- a minimum ratio of consolidated fixed charges to consolidated EBITDA (each as defined in amended senior credit facilities) of not less than 1.05 to 1.00 for the four fiscal quarter period ending on September 30, 2003 and increasing to not less than 1.15 to 1.00 for the four fiscal quarter period ending on June 30, 2006 and thereafter, as provided in the amended senior credit facilities;
- a minimum ratio of consolidated interest expense to consolidated EBITDA (each as defined in the amended senior credit facilities) of not less than 3.00 to 1.00 for each four fiscal quarter period ending after the closing of the amended senior credit facilities, as provided in those facilities;

- a maximum ratio of consolidated funded indebtedness to consolidated EBITDA (each as defined in the amended senior credit facilities) of not more than 4.25 to 1.00 for the four fiscal quarter period ending on September 30, 2003 and decreasing to not more than 3.00 to 1.00 for the four fiscal quarter period ending on September 30 2006 and thereafter, as provided in the amended senior credit facilities; and
- a maximum ratio of consolidated senior funded indebtedness to consolidated EBITDA (each as defined in the amended senior credit facilities) of not more than 2.75 to 1.00 for the four fiscal quarter period ending on September 30, 2003 and decreasing to not more than 2.00 to 1.00 for the four fiscal quarter period ending on March 31, 2006 and thereafter, as provided in the amended senior credit facilities.

Events of Default

The amended senior credit facilities specify certain events of default, including, among others: failure to pay principal, interest or fees; material inaccuracy of representations and warranties; violation of covenants; cross-defaults and cross-accelerations in other material agreements; certain bankruptcy and insolvency events; certain ERISA events; certain undischarged judgments; invalidity of guarantees or security documents; and change of control.

DESCRIPTION OF THE NOTES

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, the words "the Issuers", "we", "us" and "our" refer only to Tempur-Pedic, Inc. and Tempur Production USA, Inc., as co-obligors and co-issuers of the notes, and not to any of their parents or Subsidiaries. References in this description to "the Parent Guarantors" refers to our direct and indirect parent companies, TWI Holdings Inc., Tempur World, Inc. and Tempur World Holdings, Inc., collectively; references to "TWI" refer to TWI Holdings, Inc. only and not to any of its Subsidiaries; references to the "First Tier Parent Guarantor" refer only to our direct parent company, Tempur World Holdings, Inc. and not to any of its Subsidiaries; and references to a "Restricted Subsidiary" of TWI includes the First Tier Parent Guarantor, the Issuers and their respective Restricted Subsidiaries, including the Foreign Restricted Subsidiaries. All of TWI's Foreign Subsidiaries are currently Subsidiaries of the First Tier Parent Guarantor but are not Subsidiaries of the Issuers.

The Issuers issued the old notes and will issue the exchange notes (collectively, the "notes") under an indenture dated August 15, 2003 among themselves, the Guarantors and Wells Fargo Bank Minnesota, National Association, as trustee. The old notes and the exchange notes will be identical in all material respects, except that the exchange notes have been registered under the Securities Act. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939.

The following description is a summary of the provisions of the indenture and the registration rights agreement that we consider material. It does not restate those agreements in their entirety. We urge you to read the indenture and the registration rights agreement because they, and not this description, define your rights as holders of the notes. We have filed copies of the indenture and the registration rights agreement as exhibits to the registration statement. You may also request copies of these agreements at our address set forth under the heading "Where You Can Find More Information."

Certain defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the indenture.

Brief Description of the Notes and the Guarantees

The Notes

The notes will be:

- general unsecured obligations of the Issuers;
- senior in right of payment to all existing and future Subordinated Obligations of the Issuers;
- subordinated in right of payment to all existing and future Senior Debt of the Issuers;
- equal in right of payment with any future senior subordinated Indebtedness of the Issuers; and
- fully and unconditionally guaranteed on a senior subordinated basis by the Guarantors.

The Guarantees

The notes are guaranteed, on a joint and several basis, by the Guarantors. The term "Guarantors" refers to the Parent Guarantors and the Subsidiary Guarantors, collectively. The terms "Parent Guarantors" and "Subsidiary Guarantors" are defined below under "—Certain Definitions."

Each Guarantee of the notes:

- will be a general unsecured obligation of that Guarantor;
- will be senior in right of payment to all existing and future Subordinated Obligations of that Guarantor;
- will be subordinated in right of payment to all existing and future Senior Debt of that Guarantor; and
- will be equal in right of payment with any future senior subordinated Indebtedness of that Guarantor.

As of June 30, 2003, after giving pro forma effect to the recapitalization, the Issuers and the Subsidiary Guarantors would have had total Senior Debt of approximately $171.6 million, and the Parent Guarantors would have had outstanding guarantees with respect to an aggregate of approximately $244.6 million of Senior Debt; the Foreign Subsidiaries, who are not guarantors of the notes, would have had outstanding indebtedness of approximately $73.0 million, substantially all of which would have been guaranteed on a senior basis by TWI Holdings, the Issuers and the Domestic Subsidiaries; and the Issuers' outstanding senior subordinated Indebtedness, including the old notes, would have been $150.0 million. As indicated above and as discussed below under the caption "—Subordination," payments on the notes and under these Guarantees will be subordinated to the payment of Senior Debt. The indenture will permit the Issuers and the Guarantors to incur additional Senior Debt. See "—Material Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock."

Initially, all of the Issuers' Restricted Subsidiaries will guarantee the notes. However, none of the Foreign Restricted Subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of the Foreign Restricted Subsidiaries, those Foreign Restricted Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the First Tier Parent Guarantor. The Foreign Restricted Subsidiaries of the First Tier Parent Guarantor generated approximately 45% of the pro forma consolidated revenues of TWI for the year ended December 31, 2002 and held approximately 46% of TWI's consolidated assets as of June 30, 2003. See note 16 to the Consolidated Financial Statements for the year ended December 31, 2002 and note 13 to the Consolidated Condensed Interim Financial Statements of TWI Holdings Inc. included elsewhere in this prospectus for more information about the division of consolidated revenues and assets among the Issuers, the Subsidiary Guarantors, the Parent Guarantors and the Foreign Restricted Subsidiaries.

As of the closing date of the offering of the old notes, all of the Issuers' Subsidiaries were Restricted Subsidiaries and Subsidiary Guarantors, and all of the Foreign Subsidiaries of the First Tier Parent Guarantor were Foreign Restricted Subsidiaries. However, under the circumstances described below under the subheading "—Material Covenants—Designation of Restricted and Unrestricted Subsidiaries," TWI and its Restricted Subsidiaries will be permitted to designate certain Subsidiaries as "Unrestricted Subsidiaries." Unrestricted Subsidiaries will not be subject to most of the restrictive covenants in the indenture. None of TWI's Unrestricted Subsidiaries, if any, will guarantee the notes.

Principal, Maturity and Interest

We initially issued notes in the aggregate principal amount of $150.0 million (the "initial notes"). We may issue additional notes under the indenture from time to time after this offering in an unlimited principal amount without the consent of any of the holders of the initial notes. Any offering of additional notes will be subject to the covenant described below under the caption "—Material Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock." The initial notes and any additional notes will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. We will issue notes in denominations of $1,000 principal amount and integral multiples of $1,000.

The notes will mature on August 15, 2010.

Interest on the notes accrues at the rate of 10.25% per annum and is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2004. The Issuers will make each interest payment to the holders of record on the immediately preceding February 1 and August 1.

Interest on the notes accrues from the date of issuance of the initial notes, or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

As described under the caption "—Registration Rights; Additional Interest" below, the Issuers are required to pay Additional Interest on interest payment dates in the event the Issuers and the Guarantors do not comply with certain provisions of the registration rights agreement.

Methods of Receiving Payments on the Notes

If a holder has given wire transfer instructions to the Issuers, the Issuers will pay all principal, interest and premium and Additional Interest, if any, on that holder's notes in accordance with those instructions. All other payments on notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless the Issuers elect to make interest payments by check mailed to the holders at their address set forth in the register of holders.

Paying Agent and Registrar for the Notes

The trustee will initially act as paying agent and registrar. The Issuers may change the paying agent or registrar without prior notice to the holders of the notes, and any Issuer or any Subsidiary of such Issuer may act as paying agent or registrar.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. The Issuers are not required to transfer or exchange any note selected for redemption. Also, the Issuers are not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Guarantees

The notes are guaranteed by TWI and each of its current and future Domestic Subsidiaries. These Guarantees are joint and several obligations of the Guarantors. Each Guarantee will be subordinated to the prior payment in full of all Senior Debt of that Guarantor. The obligations of each Guarantor under its Guarantee will be limited as necessary to prevent that Guarantee from constituting a fraudulent conveyance or fraudulent transfer under applicable law. See "Risk Factors—Federal and state statutes allow courts, under specific circumstances, to void the notes, certain transactions and subsidiary guarantees, subordinate claims in respect of the notes and require our noteholders to return payments received from subsidiary guarantors."

No Subsidiary Guarantor may sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than an Issuer or another Subsidiary Guarantor, unless:

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(2) either:

(a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of that Guarantor under the indenture, its Guarantee and the registration rights agreement pursuant to a supplemental indenture satisfactory to the trustee; or

(b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture.

The Guarantee of a Subsidiary Guarantor will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Restricted Subsidiary of TWI, if the sale or other disposition complies with the "Asset Sale" provisions of the indenture;

(2) in connection with any sale of all of the Capital Stock of a Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) a Restricted Subsidiary of TWI, if the sale complies with the "Asset Sale" provisions of the indenture;

(3) if TWI designates any Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or

(4) to the extent provided under "—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge."

See "—Repurchase at the Option of Holders—Asset Sales."

The Guarantees of the Parent Guarantors shall remain in full force and effect for so long as any notes remain outstanding, subject to any merger of a Parent Guarantor into another Parent Guarantor permitted under the indenture.

Subordination

The payment of principal, interest and premium and Additional Interest, if any, on the notes will be subordinated to the prior payment in full of all Senior Debt of the Issuers and the Guarantors, including Senior Debt incurred after the issue date.

The holders of such Senior Debt will be entitled to receive payment in full of all Obligations due in respect of Senior Debt (including interest after the commencement of any bankruptcy proceeding at the rate specified in the applicable Senior Debt, regardless of whether such interest is allowed as a claim in a Proceeding) before the holders of notes will be entitled to receive any payment with respect to the notes or the Guarantees (except that holders of notes may receive and retain Permitted Junior Securities and payments made from the trust described under "—Legal Defeasance and Covenant Defeasance"), in the event of any distribution to creditors of any Issuer or any Guarantor:

(1) in a total or partial liquidation or dissolution of any Issuer or any Guarantor;

(2) in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to any Issuer or any Guarantor or their respective properties (a "Proceeding");

(3) in an assignment for the benefit of creditors by any Issuer or any Guarantor; or

(4) in any marshaling of any Issuer's or any Guarantor's assets and liabilities.

Neither any Issuer nor any Guarantor may make any payment in respect of the notes or their Guarantees (except in Permitted Junior Securities or from the trust described under "—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge") if:

(1) a payment default on Designated Senior Debt occurs and is continuing beyond any applicable grace period; or

(2) any other default occurs and is continuing on any series of Designated Senior Debt that permits holders of that series of Designated Senior Debt to accelerate its maturity and the trustee receives a notice of such default (a "Payment Blockage Notice") from the holders of that series of Designated Senior Debt or any agent or representative thereof.

Payments on the notes or any Guarantee may and will be resumed:

(1) in the case of a payment default on Designated Senior Debt, upon the date on which such default is cured or waived; and

(2) in the case of a default (other than a payment default) on Designated Senior Debt, upon the earlier of the date on which such default (other than a payment default) is cured or waived, or such Designated Senior Debt is defeased or retired, or 179 days after the date on which the applicable Payment Blockage Notice is received, unless the maturity of any Designated Senior Debt has been accelerated.

No new Payment Blockage Notice may be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Payment Blockage Notice.

No default (other than a payment default) that existed or was continuing on the date of delivery of any Payment Blockage Notice to the trustee will be, or be made, the basis for a subsequent Payment Blockage Notice unless such default has been cured or waived for a period of not less than 90 days.

If the trustee or any holder of the notes receives a payment in respect of the notes or a Guarantee of a Guarantor (except in Permitted Junior Securities or from the trust described under "—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge") when:

(1) the payment is prohibited by these subordination provisions; and

(2) either the trustee or such holder has actual knowledge that the payment is prohibited;

the trustee or such holder will hold the payment in trust for the benefit of the holders of Senior Debt. Upon the proper written request of the holders of Senior Debt, the trustee or the holder, as the case may be, will deliver the amounts in trust to the holders of Senior Debt or their proper representative.

The Issuers must promptly notify the agent or any representatives of the holders of Senior Debt if payment of the notes is accelerated.

As a result of the subordination provisions described above, in the event of a bankruptcy, liquidation or reorganization of the Issuers or the Guarantors, holders of notes and Guarantees may recover less ratably than creditors of the Issuers or the Guarantors who are holders of Senior Debt. See "Risk Factors—Your right to receive payments on the notes and the guarantees is junior to all our existing and future senior debt."

Optional Redemption

At any time before August 15, 2006, the Issuers may on one or more occasions redeem up to 35% of the aggregate principal amount of the notes (including additional notes) issued under the indenture at a redemption price of 110.25% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of any Equity Offering that are contributed to the common equity capital of the Issuers; *provided*, *however*, that:

(1) at least 65% of the original aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by the Parent Guarantors, any Issuer or any of their respective Subsidiaries); and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

Notwithstanding the foregoing, at any time prior to August 15, 2007, the Issuers may redeem all or any portion of the notes, at once or over time, after giving the required notice under the indenture, at a redemption price in cash equal to the greater of:

(a) 100% of the principal amount of the notes to be redeemed, and

(b) the sum of the present values of (x) the redemption price of the notes at August 15, 2007 (as set forth in the next succeeding paragraph) and (y) the remaining scheduled payments of interest from the redemption date through August 15, 2007, but excluding accrued and unpaid interest through the redemption date, discounted to the redemption date (assuming a 360-day year consisting of twelve 30-day months), at the Treasury Rate plus 50 basis points,

plus, in either case, accrued and unpaid interest, including Additional Interest, if any, to but excluding the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest date).

On or after August 15, 2007, the Issuers may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on August 15 of the years indicated below:

Year	Percentage
2007	105.125%
2008	102.563%
2009 and thereafter	100.000%

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption as follows:

(1) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

No notes of $1,000 or less may be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

Mandatory Redemption

The Issuers are not required to make mandatory redemption or sinking fund payments with respect to or otherwise repurchase the notes prior to their stated maturity, other than as set forth below under "—Repurchase at the Option of Holders."

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of notes will have the right to require the Issuers to repurchase all or any part (equal to $1,000 or an integral multiple of $1,000) of that holder's notes pursuant to a Change of Control offer on the terms set forth in the indenture. In the Change of Control Offer, the Issuers will offer a Change of Control payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest and Additional Interest, if any, on the notes repurchased, to the date of purchase. Within ten days following any Change of Control, the Issuers will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date of such Change of Control, pursuant to the procedures required by the indenture and described in such notice. The Issuers will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes pursuant to a Change of Control offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Change of Control provisions of the indenture by virtue of such conflict.

On the Change of Control payment date, the Issuers will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered and not withdrawn pursuant to the Change of Control offer;

(2) deposit with the paying agent an amount equal to the Change of Control payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Issuers.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each new note will be in a principal amount of $1,000 or an integral multiple of $1,000.

Prior to complying with any of the provisions of this "Change of Control" covenant, but in any event within 90 days following a Change of Control, the Issuers will either repay all outstanding Senior Debt or obtain the requisite consents, if any, under all agreements governing outstanding Senior Debt to permit the repurchase of notes required by this covenant. The Issuers will publicly announce the results of the Change of Control offer on or as soon as practicable after the Change of Control payment date.

The provisions described above that require the Issuers to make a Change of Control offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Issuers repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Issuers will not be required to make a Change of Control offer upon a Change of Control if (i) a third party makes the Change of Control offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control offer made by the Issuers and purchases all notes properly tendered and not withdrawn under the Change of Control offer, or (ii) notice of redemption in respect of all outstanding notes has been given pursuant to the indenture as described above under the heading

"—Optional Redemption," unless and until there is a default in payment of the applicable redemption price. A Change in Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer. Notes repurchased pursuant to a Change of Control Offer will be retired and cancelled.

The Change of Control purchase feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of the Issuers or TWI and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the initial purchasers and us. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional Indebtedness are contained in the covenants described under "—Material Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock." Such restrictions can only be waived with the consent of the holders of a majority in the principal amount of the notes then outstanding. Except for the limitations contained in such covenant, however, the indenture will not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of either TWI and its Restricted Subsidiaries, taken as a whole, or the Issuers and their Restricted Subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require the Issuers to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of either TWI and its Restricted Subsidiaries, taken as a whole, or the Issuers and their Restricted Subsidiaries, taken as a whole to another Person or group may be uncertain.

Asset Sales

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries (each a "seller") to, consummate an Asset Sale unless:

(1) TWI, the Issuers or such Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets sold, leased, transferred, conveyed or otherwise disposed of or Equity Interests issued or sold or otherwise disposed of;

(2) the fair market value is determined by TWI's Board of Directors and evidenced by a resolution of such Board of Directors set forth in an officer's certificate delivered to the trustee; and

(3) at least 75% of the consideration received in the Asset Sale by TWI, the Issuers or such Restricted Subsidiary is in the form of cash.

For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the seller's most recent balance sheet (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Guarantee) that are assumed by the transferee of any such assets pursuant to a written instrument that releases the seller from further liability; and

(b) any securities, notes or other obligations received by any such seller from such transferee that are converted into cash within 90 days after the receipt thereof, to the extent of the cash received in that conversion.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, TWI, the Issuers or such Restricted Subsidiary may apply those Net Proceeds (subject, in all respects, to the other covenants set forth in the indenture) at its option:

(1) to repay Senior Debt (or, in the case of a Foreign Restricted Subsidiary, to repay Indebtedness or other liabilities) of TWI, the Issuers or any of their Restricted Subsidiaries and, if the Senior Debt (or, in the case of a Foreign Restricted Subsidiary, the Indebtedness or other liabilities) repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(2) to acquire (or enter into a binding agreement to acquire; *provided* that the commitment to acquire under such agreement shall be subject only to customary conditions and such acquisition shall be consummated within 60 days after the end of such 365-day period) either all or substantially all of the assets of, or a majority of the Voting Stock of, another Person engaged in a Permitted Business or the minority interest in any Restricted Subsidiary; or

(3) to make a capital expenditure, or to otherwise acquire long-term assets or property that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, TWI, the Issuers or such Restricted Subsidiary may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute “Excess Proceeds.” When the aggregate amount of Excess Proceeds exceeds $10.0 million, the Issuers will make an Asset Sale Offer to all holders of notes to purchase the maximum principal amount of notes and, if the Issuers are required to do so under the terms of any other Indebtedness that is *pari passu* with the notes, such other Indebtedness on a pro rata basis with the notes, that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount plus accrued and unpaid interest and Additional Interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of the purchase of all properly tendered and not withdrawn notes pursuant to an Asset Sale Offer, TWI, the Issuers and/or their respective Restricted Subsidiaries may use such remaining Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Issuers will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Asset Sale provisions of the indenture by virtue of such conflict.

The agreements governing the Issuers’ outstanding Senior Debt currently prohibit them from purchasing any notes, and also provide that certain change of control or asset sale events with respect to the Issuers would constitute a default under these agreements. Any future credit agreements or other agreements relating to Senior Debt to which the Issuers become a party may contain similar restrictions and provisions. In the event a Change of Control or an Asset Sale resulting in Excess Proceeds occurs at a time when the Issuers are prohibited from purchasing notes, the Issuers could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If Issuers do not obtain such a consent or repay such borrowings, the Issuers will remain prohibited from purchasing notes. In such case, the Issuers’ failure to purchase tendered notes would constitute an Event of Default under the indenture which would, in turn, constitute a default under such Senior Debt. In such circumstances, the subordination provisions in the indenture would likely restrict payments to the holders of notes. See “Risk Factors—We may not be able to repurchase the notes upon a change of control.”

Material Covenants

Restricted Payments

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of its or any Restricted Subsidiary's Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Parent Guarantors or any Restricted Subsidiary) or to the direct or indirect holders of the Equity Interests of TWI, the Issuers or any of their respective Restricted Subsidiaries in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of TWI or to TWI or a Restricted Subsidiary of TWI);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving TWI) any Equity Interests of the Parent Guarantors;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Obligation of TWI, the Issuers or any of their Restricted Subsidiaries (other than Subordinated Obligations owed to the Issuers, TWI or any of their respective Restricted Subsidiaries), except a payment of interest or principal at the Stated Maturity thereof; or

(4) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing;

(2) the Issuers, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, would have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by TWI, the Issuers and their respective Restricted Subsidiaries after the issue date (excluding Restricted Payments permitted by clauses (2), (3), (4) and (6) of the next succeeding paragraph), is less than the sum, without duplication, of:

(a) 50% of the Consolidated Net Income of TWI for the period (taken as one accounting period) from July 1, 2003 to the end of TWI's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(b) 100% of the aggregate net cash proceeds received by TWI since the issue date (x) as a contribution to its common equity capital or from the issuance or sale of its Equity Interests (excluding Disqualified Stock and other than an issuance or sale of Equity Interests to a Subsidiary of TWI) or (y) from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of TWI that have been converted into or exchanged for its Equity Interests (excluding Disqualified Stock and other than Disqualified Stock or debt securities sold to a Subsidiary of TWI); *provided, however,* that there shall be excluded from this paragraph (b) any net cash proceeds to the extent applied as permitted by clause (9) of the definition of "Permitted Investments"); *plus*

(c) to the extent that any Restricted Investment that was made after the issue date is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment; *plus*

(d) any dividends received by TWI, the Issuers or any of their respective Restricted Subsidiaries after the issue date from an Unrestricted Subsidiary, to the extent that such dividends were not otherwise included in TWI's Consolidated Net Income for such period; *plus*

(e) in case, after the issue date, any Unrestricted Subsidiary has been redesignated as a Restricted Subsidiary under the terms of the indenture or has been merged, consolidated or amalgamated with or into, or transfers or conveys assets to, or is liquidated into, TWI, the Issuers or any of their respective Restricted Subsidiaries, an amount equal to the lesser of (1) the net book value at the date of redesignation, combination or transfer of the aggregate Investments made in such Unrestricted Subsidiary (or of the assets transferred or conveyed, as applicable), and (2) the fair market value of the Investments owned by TWI or its Restricted Subsidiaries in such Unrestricted Subsidiary at the time of the redesignation, combination or transfer (or of the assets transferred or conveyed, as applicable).

The preceding provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the indenture;

(2) the redemption, repurchase, retirement, defeasance or other acquisition of any Equity Interests or Subordinated Obligations of TWI, any Issuer or any Subsidiary Guarantor in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary) of, Equity Interests (or a contribution to the common equity capital) of TWI (other than Disqualified Stock); *provided*, *however*, that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3)(b) of the preceding paragraph;

(3) the defeasance, redemption, repurchase or other acquisition of Subordinated Obligations of TWI, any Issuer or any other Guarantor with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) the payment of (x) any dividend by a Restricted Subsidiary to the holders of its Equity Interests on a pro rata basis and (y) the payment of any dividend by the Parent Guarantors or the Issuers on Disqualified Stock that was permitted to be incurred in accordance with the indenture;

(5) the (x) repurchase, redemption or other acquisition or retirement for value of any Equity Interests of TWI, the Issuers or any of their respective Restricted Subsidiaries held by current or former officers, employees or members of the Board of Directors of TWI, the Issuers or any of their respective Restricted Subsidiaries, other than any of the Principals or their Affiliates or Related Parties, pursuant to any management equity subscription agreement, stock option agreement, employment agreement or similar agreement ("Management Equity Repurchases") and (y) cash payments with respect to subordinated promissory notes issued to fund Management Equity Repurchases to the extent the Indebtedness represented by such subordinated promissory notes is permitted to be incurred pursuant to the first paragraph of the covenant described under "—Incurrence of Indebtedness and Issuance of Preferred Stock;" *provided* that the aggregate amount paid for all Management Equity Repurchases pursuant to this clause (5) may not exceed $750,000 in any calendar year; and *provided further* that in the event the aggregate price paid during any calendar year, including cash payments made pursuant to such subordinated promissory notes is less than $750,000, the unused amount may be carried forward to the next succeeding calendar year; *provided* that the aggregate amount paid for all Management Equity Repurchases, including cash payments made pursuant to such subordinated promissory notes pursuant to this clause (5) in any twelve-month period shall not exceed $2.0 million;

(6) any Restricted Payment pursuant to the transactions contemplated by the recapitalization as described under the caption "Use of Proceeds" in the Offering Memorandum; and

(7) other Restricted Payments in an aggregate amount since the issue date not to exceed $25.0 million;

provided, *however*, that in the case of clauses (5) and (7) above, no Default or Event of Default has occurred and is continuing.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s), property or securities proposed to be transferred or issued pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors of TWI whose resolution with respect thereto will be delivered to the trustee. The determination by the Board of Directors of TWI shall be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds $10.0 million. Not later than the date of making any Restricted Payment, the Issuers will deliver to the trustee an officers' certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the indenture.

Incurrence of Indebtedness and Issuance of Preferred Stock

TWI and the Issuers will not, and they will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and TWI and the Issuers will not issue any Disqualified Stock and will not permit any of its or their respective other Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Parent Guarantors and the Issuers may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and any Subsidiary Guarantor may incur Indebtedness or issue preferred stock, if the Fixed Charge Coverage Ratio of TWI for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock or Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

(1) the incurrence by TWI, the Issuers and their respective Restricted Subsidiaries that are Subsidiary Guarantors, as applicable, of additional Indebtedness and letters of credit under one or more Credit Facilities; *provided* that (A) the aggregate principal amount of all Indebtedness of the Issuers and the Subsidiary Guarantors (excluding Indebtedness in the form of guarantees of Indebtedness incurred under clause (B) below) incurred pursuant to this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Issuers and the Subsidiary Guarantors thereunder) does not exceed an amount equal to $215.0 million less the aggregate amount of all repayments of any term Indebtedness under such Credit Facility or repayments of any revolving credit Indebtedness under such Credit Facility together with a corresponding commitment reduction that have been made by the Issuers or the Subsidiary Guarantors since the issue date with the proceeds of Asset Sales pursuant to the provisions described above under the caption "—Asset Sales;" and (B) the aggregate principal amount of all Indebtedness of the Foreign Restricted Subsidiaries incurred pursuant to this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Foreign Restricted Subsidiaries thereunder) does not exceed an amount equal to the greater of (i) $100.0 million less the aggregate amount of all repayments of any term Indebtedness under one or more Credit Facilities or repayments of revolving credit Indebtedness under one or more Credit Facilities together with a corresponding commitment reduction that have been made by the Parent Guarantors, the Issuers or any Subsidiary Guarantor that have been made by the Foreign Restricted Subsidiaries since the issue date with the proceeds of Asset Sales pursuant to the provisions described above under the caption "—Asset Sales" and (ii) the Borrowing Base;

(2) the incurrence by TWI, the Issuers and their respective Restricted Subsidiaries of Existing Indebtedness;

(3) the incurrence by the Issuers of Indebtedness represented by the notes to be issued on the issue date (and the related Exchange Notes to be issued pursuant to the Registration Rights Agreement, and any Exchange Notes issued in respect of additional notes incurred in compliance with the indenture) and the incurrence by the Guarantors of the guarantees of those notes;

(4) the incurrence by TWI, the Issuers or any of their respective Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of the Person incurring such Indebtedness, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed $20.0 million at any time outstanding;

(5) the incurrence of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was incurred under the first paragraph of this covenant or clauses (2), (3) or (5) of this paragraph;

(6) the incurrence by TWI, the Issuers or any of their respective Restricted Subsidiaries of intercompany Indebtedness between or among any of them, *provided*, *however*, that Foreign Restricted Subsidiaries shall not incur intercompany Indebtedness owed to any Issuer or a Subsidiary Guarantor pursuant to this clause (6) except to the extent the incurrence thereof constitutes a Permitted Investment or a Restricted Payment not prohibited by the covenant described under "—Limitations on Restricted Payments;" *provided further, however*, that:

(a) if the Issuers are the obligors on such Indebtedness, such Indebtedness shall be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the notes;

(b) if a Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all Obligations with respect to such Subsidiary Guarantor's guarantee of the notes;

(c) if a Foreign Restricted Subsidiary is an obligor on such Indebtedness owed to the Issuers or any Subsidiary Guarantor such Indebtedness shall be senior to, or pari passu with, all other Indebtedness (other than Senior Debt) of such obligor;

(d) if the First Tier Parent Guarantor is an obligor on such Indebtedness owed to any Foreign Restricted Subsidiary, such Indebtedness shall be junior to, or pari passu with, the Guarantee of the First Tier Parent Guarantor; and

(e) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than TWI, the Issuer or one of their respective Restricted Subsidiaries and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either TWI, an Issuer or one of their respective Restricted Subsidiaries shall be deemed, in each case, to constitute an incurrence of Indebtedness by the respective obligor that was not permitted by this clause (6);

(7) the incurrence by TWI, the Issuers, or any of their respective Restricted Subsidiaries of Hedging Obligations that are incurred in the normal course of business for the purpose of fixing or hedging currency, commodity or interest rate risk (including with respect to any floating rate Indebtedness that is permitted by the terms of the Indenture to be outstanding) in connection with the conduct of their respective businesses and not for speculative purposes;

(8) the guarantee by (i) TWI, the Issuers or any their respective Restricted Subsidiaries (other than Foreign Restricted Subsidiaries) of Indebtedness of the Parent Guarantors, the Issuers or any Subsidiary Guarantor, (ii) any Foreign Restricted Subsidiary of Indebtedness of any other Foreign Restricted Subsidiary, in each case to the extent such Indebtedness was permitted to be incurred by another provision of this "—Incurrence of Indebtedness and Issuance of Preferred Stock" covenant, and (iii) TWI or any

Restricted Subsidiary (other than a Foreign Restricted Subsidiary) of TWI or the Issuers of Indebtedness of a Foreign Restricted Subsidiary incurred pursuant to clause (1)(B) of this "—Incurrence of Indebtedness and Issuance of Preferred Stock" covenant;

(9) the incurrence by Unrestricted Subsidiaries of Non-recourse Debt; *provided*, *however*, that if any such Indebtedness ceases to be Non-recourse Debt of an Unrestricted Subsidiary, such event shall be deemed to be an incurrence of Indebtedness that was not permitted by this clause (9);

(10) Indebtedness incurred by TWI, the Issuers or any of their respective Restricted Subsidiaries constituting reimbursement obligations with respect to letters of credit issued in the ordinary course of business, including without limitation to letters of credit in respect to workers' compensation claims or self-insurance, or other Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims; *provided*, *however*, that upon the drawing of such letters of credit or the incurrence of such Indebtedness, such obligation are reimbursed within 30 days following such drawing or incurrence;

(11) obligations in respect of performance and surety bonds and completion guarantees provided by TWI, the Issuers or any of their respective Restricted Subsidiaries in the ordinary course of business;

(12) the incurrence by TWI, the Issuers or any of their respective Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within three business days of incurrence;

(13) Indebtedness consisting of repurchase or other recourse obligations incurred in the ordinary course of business owed to third party providers of credit to consumers purchasing products from TWI and its Restricted Subsidiaries; *provided* that the such Indebtedness shall not exceed $10.0 million in the aggregate outstanding at any time; and

(14) the incurrence by TWI, the Issuers or any of their respective Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (14), not to exceed $30.0 million.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (14) above or is entitled to be incurred pursuant to the first paragraph of this covenant, in each case, as of the date of incurrence thereof, the Issuers may, in their sole discretion, classify (or later reclassify in whole or in part, in their sole discretion) such item of Indebtedness in any manner that complies with this covenant and such Indebtedness will be treated as having been incurred pursuant to such clauses or the first paragraph hereof, as the case may be, designated by the Issuers. Indebtedness under any Credit Facility (including the Credit Agreement, as amended and restated in connection with the recapitalization) outstanding on the date on which the notes are first issued under the indenture will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) above.

Notwithstanding anything to the contrary contained in this "—Incurrence of Indebtedness and Issuance of Preferred Stock" covenant, any increase in the amount of Indebtedness solely by reason of currency fluctuation shall not be considered an incurrence of Indebtedness for purposes of this covenant. For purposes of determining compliance with this covenant, the U.S. dollar-equivalent principal amount of Indebtedness denominated in any currency other than U.S. dollars shall be calculated based on the relevant currency exchange rate in effect as of the date such Indebtedness is incurred; provided, that the amount of any Permitted Refinancing Indebtedness denominated in the same currency as the Indebtedness being refinanced thereby shall be calculated based on the relevant exchange rate in effect as of the date of the incurrence of the Indebtedness being so refinanced.

The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of addition Indebtedness with the same terms, the accumulation of dividends on Disqualified Stock or preferred stock of Subsidiary Guarantors (to the extent not paid) and the payment of dividends on Disqualified Stock or preferred stock of Subsidiary Guarantors in the form of additional shares of the same class of Disqualified Stock or preferred stock of Subsidiary Guarantors will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock or preferred stock of Subsidiary Guarantors for purposes of this covenant; *provided* that, in each case, the amount thereof shall be included in the calculation of Fixed Charges as accrued.

Liens

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind (other than Permitted Liens) on any asset now owned or hereafter acquired by any of them unless all payments due under the notes or the applicable Subsidiary Guarantees are secured on an equal and ratable basis if such secured Indebtedness is *pari passu* with the notes or the applicable Guarantee, as the case may be, and otherwise, on a senior basis to the Indebtedness so secured until such time as such Indebtedness is no longer secured by a Lien; *provided, however,* that in the case of TWI, the Issuers and the Subsidiary Guarantors, the foregoing shall only prohibit Liens (other than Permitted Liens) securing Indebtedness ranking *pari passu* with, or junior to, the notes or the applicable Guarantees.

No Senior Subordinated Debt

The Issuers will not incur any Indebtedness (other than the Existing Indebtedness) that is subordinate or junior in right of payment to any Senior Debt of the Issuers and senior in any respect in right of payment to the notes. No Guarantor will incur any Indebtedness (other than the Existing Indebtedness) that is subordinate or junior in right of payment to the Senior Debt of such Guarantor and senior in any respect in right of payment to such Guarantor's Guarantee.

You should note that unsecured Indebtedness is not deemed to be subordinated to secured Indebtedness merely because it is unsecured, nor is any Indebtedness deemed to be subordinate or junior to other Indebtedness merely because it matures after such other Indebtedness.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, directly or indirectly, create, assume or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to the First Tier Parent Guarantor (in the case of its Foreign Restricted Subsidiaries) or to TWI, the Issuers or any of the Issuers' Restricted Subsidiaries (other than any such dividends, distributions or payments by a Foreign Restricted Subsidiary to a Domestic Subsidiary);

(2) make loans or advances to the First Tier Parent Guarantor (in the case of its Restricted Foreign Subsidiaries) or to TWI, the Issuer or any of the Issuers' Restricted Subsidiaries (other than loans or advances by a Foreign Restricted Subsidiary to a Domestic Subsidiary); or

(3) transfer any of its properties or assets to any Parent Guarantor or any of such Parent Guarantor's Restricted Subsidiaries (other than transfers by a Foreign Restricted Subsidiary to a Domestic Subsidiary).

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Existing Indebtedness and Credit Facilities as in effect on the issue date (including the Credit Agreement as amended and restated in connection with the recapitalization) and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or

refinancings of those agreements, *provided* that the amendments, modifications, restatements, renewals, increases, supplements, refundings, replacement or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the issue date (or the Credit Agreement as amended and restated in connection with the recapitalization);

(2) the indenture, the notes and the Guarantees;

(3) applicable law;

(4) any instrument governing Indebtedness or Capital Stock of a Person acquired by TWI, the Issuers or any their respective Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, *provided* that such Indebtedness or Capital Stock (if constituting preferred stock) was permitted by the terms of the indenture to be incurred, determined at the time of such acquisition;

(5) customary non-assignment provisions in leases and contracts entered into in the ordinary course of business;

(6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (c) of the preceding paragraph;

(7) any agreement for the sale or other disposition of a Restricted Subsidiary or its assets that restricts distributions by that Restricted Subsidiary pending such sale or other disposition;

(8) Permitted Refinancing Indebtedness; *provided*, *however*, that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(9) Liens securing Indebtedness otherwise permitted to be incurred under the provisions of the covenant described above under the caption "—Liens" that limit the right of the debtor to dispose of the assets subject to such Liens; and

(10) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business.

Issuances and Sales of Capital Stock of Restricted Subsidiaries

TWI and the Issuers:

(1) will not, and will not permit any of their respective Restricted Subsidiaries to, transfer, convey, sell, lease or otherwise dispose of any Capital Stock of any Restricted Subsidiary to any Person (other than to TWI, the Issuers or any of their respective Restricted Subsidiaries), unless:

(a) such transfer, conveyance, sale, lease or other disposition is of all the Capital Stock of such Restricted Subsidiary, and

(b) the Net Proceeds from such transfer, conveyance, sale, lease or other disposition are applied in accordance with the provisions described under "—Repurchase at the Option of Holders—Asset Sales" above;

provided, *however,* that this clause (a) will not apply to any pledge of Capital Stock of any Restricted Subsidiary securing Indebtedness under Credit Facilities, including the Credit Agreement, or any exercise of remedies in connection therewith; and

(2) will not permit any Restricted Subsidiary to issue any of its Equity Interests (other than, if necessary, shares of its Capital Stock constituting directors' qualifying shares and shares of Capital Stock of foreign Subsidiaries issued to foreign nationals to the extent required under applicable law) to any Person other than TWI, the Issuers or any of their respective Restricted Subsidiaries.

Merger, Consolidation or Sale of Assets

TWI, the other Parent Guarantors and the Issuers may not, directly or indirectly, consolidate or merge with or into another Person (whether or not TWI, such other Parent Guarantor or such Issuer is the surviving corporation) or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of TWI, such other Parent Guarantor or such Issuer taken as a whole, in one or more related transactions, to another Person; unless:

(1) either: (a) TWI, such other Parent Guarantor or such Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than TWI, such other Parent Guarantor or such Issuer, as the case may be) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than TWI, such other Parent Guarantor or such Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of TWI, such other Parent Guarantor or such Issuer under the notes, the Guarantee, if applicable, and the indenture pursuant to agreements reasonably satisfactory to the trustee;

(3) immediately after such transaction no Default or Event of Default exists; and

(4) TWI, such other Parent Guarantor or such Issuer, or the Person formed by or surviving any such consolidation or merger (if other than TWI or such Issuer), or to which such sale, assignment, transfer, conveyance or other disposition has been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock."

In addition, TWI, the other Parent Guarantors and the Issuers may not, directly or indirectly, lease all or substantially all of their respective properties or assets, in one or more related transactions, to any other Person.

The Person formed by or surviving any consolidation or merger (if other than TWI, such other Parent Guarantor or such Issuer) will succeed to, and be substituted for, and may exercise every right and power of TWI, such other Parent Guarantor and such Issuer under the indenture.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of TWI may designate any Restricted Subsidiary of TWI (other than the Issuers) or of the Issuers as an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by TWI, the Issuers and their respective Restricted Subsidiaries in the Subsidiary properly designated will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under clause (3)(c) of the first paragraph of the covenant described above under the caption "—Material Covenants—Restricted Payments" or will reduce the amount available for certain Permitted Investments, as determined by TWI. That designation will only be permitted if such Investment would

be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of TWI may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary only if the redesignation would not cause a Default or Event of Default and to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with TWI, the Issuers or any of their respective Restricted Subsidiaries unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to TWI, the Issuers or their respective Restricted Subsidiaries than those that might be obtained at the time from Persons who are not their Affiliates;

(3) is a Person with respect to which none of TWI, the Issuers or any of their respective Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of TWI, the Issuers or any their respective Restricted Subsidiaries.

Any designation of a Subsidiary as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of the Board Resolution giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock," there will be a Default in respect of such covenant. The Board of Directors of TWI may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock," calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

Transactions with Affiliates

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on terms that are no less favorable to TWI, the Issuers or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by TWI, the Issuers or such Restricted Subsidiary with an unrelated Person; and

(2) the Issuers deliver to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $3.0 million, a resolution of the Board of Directors of TWI set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of TWI's Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $10.0 million, an opinion as to the fairness to TWI, the Issuers or such Restricted Subsidiary, as applicable, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreements or arrangements and benefits plans or arrangements, and any transactions contemplated by any of the foregoing relating to the compensation and employee benefits matters, in each case in respect of employees, officers or directors entered into by TWI, the Issuers or any of their respective Restricted Subsidiaries in the ordinary course of business;

(2) transactions between or among TWI, the Issuers and any Restricted Subsidiary that is a Guarantor;

(3) commercial transactions in the ordinary course of business between or among TWI, the Issuers and their respective Restricted Subsidiaries that are Guarantors and Foreign Restricted Subsidiaries;

(4) transactions with a Person that is an Affiliate of TWI or of an Issuer or any of their respective Restricted Subsidiaries solely because TWI or such Issuer or such Restricted Subsidiary owns an Equity Interest in such Person (and such Person is not otherwise a Subsidiary of TWI or of the Issuers or any of their respective Restricted Subsidiaries);

(5) payment of reasonable directors fees and indemnitees to Persons who are not otherwise Affiliates of TWI or the Issuers or any of their respective Restricted Subsidiaries;

(6) loans or advances to employees in the ordinary course of business, but in any event, not to exceed $500,000 in the aggregate outstanding at any one time;

(7) the pledge of Equity Interests of Unrestricted Subsidiaries to support the Indebtedness thereof;

(8) any Affiliate Transaction between or among TWI, the Issuers and their respective Restricted Subsidiaries existing and as in effect on the issue date and, in each case, any amendment thereto so long as any such amendment is no less favorable to TWI, the Issuers and their respective Restricted Subsidiaries, as the case may be, in any material respect than the original agreement as in effect on the issue date; and

(9) Permitted Investments and Restricted Payments that are permitted by the provisions of the indenture described above under the caption "—Restricted Payments."

Additional Subsidiary Guarantees

If TWI, the Issuers or any of their respective Restricted Subsidiaries acquires or creates another Domestic Subsidiary after the issue date, then that newly acquired or created Domestic Subsidiary will become a Guarantor and execute a supplemental indenture and deliver an opinion of counsel satisfactory to the trustee within 20 Business Days of the date on which it was acquired or created; *provided, however,* that the foregoing shall not apply to Subsidiaries that have properly been designated as Unrestricted Subsidiaries in accordance with the indenture for so long as they continue to constitute Unrestricted Subsidiaries.

Sale and Leaseback Transactions

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that TWI, the Issuers or any of the Subsidiary Guarantors may enter into a sale and leaseback transaction if:

(1) TWI, such Issuer or such Subsidiary Guarantor could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the fair market value, as determined in good faith by the Board of Directors of TWI and set forth in an officers' certificate delivered to the trustee, of the property that is the subject of that sale and leaseback transaction; and

(3) the transfer of assets in that sale and leaseback transaction is permitted by, and the proceeds of such transaction are applied in compliance with, the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales."

The foregoing provisions will not prohibit the leasing back for a period not to exceed twelve consecutive months of any portion of real property in connection with the disposition of such real property.

Business Activities

TWI and the Issuers will not, and will not permit any Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to TWI, the Issuers and their Subsidiaries taken as a whole. The Parent Guarantors shall engage in no material business activities other than those incident to the respective status of each as a holding company whose principal assets consist of all the Capital Stock of its direct, wholly owned Subsidiaries.

Payments for Consent

TWI and the Issuers will not, and will not permit any of their respective Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture or the notes unless such consideration is offered to be paid and is paid to all holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports

Whether or not required by the Commission, so long as any notes are outstanding, the Issuers will furnish to the trustee and registered holders of notes, within 15 days of the dates on which the Issuers would be required to file such information with the Commission, if the Issuers were subject to Sections 13 or 15(d) of the Exchange Act:

(1) all quarterly and annual financial and other information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Issuers were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report on the annual financial statements by the Issuers' certified independent accountants; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if the Issuers were required to file such reports;

provided, *however*, that the first quarterly report to be furnished pursuant to this paragraph shall be furnished as soon as is reasonably practicable following the end of such quarterly period but in no event later than November 15, 2003; *provided*, *further*, that the Issuers will not be required to furnish such information to the trustee or the registered holders of the notes to the extent such information is electronically filed with the Commission and is electronically available to the public free of cost.

If TWI or the Issuers have designated any of their respective Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of TWI and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of TWI.

In addition, following the consummation of the exchange offer, whether or not required by the Commission, the Issuers will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Issuers and the Guarantors have agreed that, for so long as any notes remain outstanding, they will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, to the extent such information is not electronically filed with the Commission and is not electronically available to the public free of cost.

For so long as Rule 3-10 of Regulation S-X under the Exchange Act (or any successor rule or regulation) permits TWI to provide the financial statements and other information referred to above in lieu of separate financial statements and other information of the Issuers, the Issuers will be deemed to have satisfied their obligations under this covenant by providing TWI financial statements and other information, so long as such financial statements and other information otherwise comply in all respects with the requirements set forth above with respect to the Issuers.

Events of Default and Remedies

Each of the following is an Event of Default:

(1) default for 30 days in the payment when due of interest on, or Additional Interest with respect to, the notes (whether or not prohibited by the subordination provisions of the indenture);

(2) default in payment when due of the principal of or premium, if any, on the notes (whether or not prohibited by the subordination provisions of the indenture);

(3) failure by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries to comply with the provisions described under the caption "—Merger, Consolidation or Sale of Assets;"

(4) failure by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries for 30 days after notice to comply with the provisions described under the captions "Material Covenants—Restricted Payments," "Repurchase at the Option of Holders—Asset Sales" or "Repurchase at the Option of Holders—Change of Control;"

(5) failure by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries for 60 days after notice to comply with any of their other agreements in the indenture or the notes;

(6) default under any mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced any Indebtedness for money borrowed by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries (or the payment of which is guaranteed by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the issue date, if that default:

(a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the outstanding principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $10.0 million or more;

(7) failure by a Guarantor, the Issuers or any of their respective Restricted Subsidiaries to pay final judgments aggregating in excess of $10.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

(8) except as permitted by the indenture, any Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm its obligations under its Guarantee; and

(9) certain events of bankruptcy or insolvency described in the indenture with respect to a Guarantor, the Issuers or any of their respective Restricted Subsidiaries that would constitute a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to TWI, the Issuers or any of their Restricted Subsidiaries that is a Significant Subsidiary of TWI or any group of their Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary of TWI, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding notes may declare all the notes to be due and payable immediately.

Holders of the notes may not enforce the indenture or the notes except as provided in the indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal or interest or Additional Interest.

The holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may on behalf of the holders of all of the notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or Additional Interest on, or the principal of, the notes.

The Issuers are required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, the Issuers are required to deliver to the trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuers or any Guarantor, as such, will have any liability for any obligations of the Issuers or the Guarantors under the notes, the indenture, the Guarantees, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

The Issuers may, at their option and at any time, elect to have all of their obligations discharged with respect to the outstanding notes and all obligations of the Guarantors discharged with respect to their Guarantees ("Legal Defeasance") except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium and Additional Interest, if any, on such notes when such payments are due from the trust referred to below;

(2) The Issuers' obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee, and the Issuers' and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance provisions of the indenture.

In addition, the Issuers may, at their option and at any time, elect to have the obligations of the Issuers and the Guarantors released with respect to certain covenants that are described in the indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment on the notes, bankruptcy, receivership, rehabilitation and insolvency events) described under "—Events of Default and Remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) The Issuers must irrevocably deposit or cause to be deposited with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium and Additional Interest, if any, on the outstanding notes on the stated maturity or on the applicable redemption date, as the case may be, and the Issuers must specify whether the notes are being defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuers have delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that (a) the Issuers have received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the issue date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuers have delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indenture) to which the Issuers or any of the Guarantors is a party or by which the Issuers or any of the Guarantors is bound;

(6) the Issuers must deliver to the trustee an officers' certificate stating that the deposit was not made by the Issuers with the intent of preferring the holders of notes over the creditors of the Issuers or others with the intent of defeating, hindering, delaying or defrauding creditors of the Issuers or others; and

(7) the Issuers must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the indenture and/or the notes may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing Default or compliance with any provision of the indenture or the notes may be waived with the consent of the holders of a majority in principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the notes (other than provisions (and applicable definitions) relating to the covenants described above under the caption "—Repurchase at the Option of Holders");

(3) reduce the rate of or change the time for payment of interest on any note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium, or Additional Interest, if any, on the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture (including applicable definitions) relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, or interest or premium or Additional Interest, if any, on the notes;

(7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption "—Repurchase at the Option of Holders");

(8) release any Guarantor from any of its obligations under its Subsidiary Guarantee or the indenture, except in accordance with the terms of the indenture;

(9) make any change to the subordination provisions of the indenture (including applicable definitions) that would adversely affect the holders of the notes; or

(10) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, the Issuers, the Guarantors and the trustee may amend or supplement the indenture or the notes:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of the obligations of TWI, the other Parent Guarantors and the Issuers to holders of notes in the case of a merger or consolidation or sale of all or substantially all of the assets of TWI, the other Parent Guarantors or the Issuers;

(4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any such holder;

(5) to comply with requirements of the Commission in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

(6) to comply with the rules of any applicable securities depositary;

(7) to add Guarantees with respect to notes or to secure the notes;

(8) to add to the covenants of us or any Guarantor for the benefit of the holders of the notes or surrender any right or power conferred upon us or any Guarantor;

(9) to evidence and provide for the acceptance and appointment under the indenture of a successor trustee pursuant to the requirements thereof; or

(10) to conform the text of the indenture or the note to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indenture, the Guarantees or the notes.

The consent of the holders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the indenture becomes effective, we are required to mail to holders of the notes a notice briefly describing such amendment. However, the failure to give such notice to all holders of the notes, or any defect therein, will not impair or affect the validly of the amendment.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

(a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to the Issuers, have been delivered to the trustee for cancellation; or

(b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year, and the Issuers have irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in such amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the notes not delivered to the trustee for cancellation for principal, premium and Additional Interest, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which any Issuer or any Guarantor is a party or by which any Issuer or any Guarantor is bound;

(3) any Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the indenture; and

(4) the Issuers have delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or the redemption date, as the case may be.

In addition, the Issuers must deliver an officers' certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustee

If the trustee becomes a creditor of any Issuer or any Guarantor, the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; *however*, if it acquires any conflicting interest, it must (i) eliminate such conflict within 90 days, (ii) apply to the Commission for permission to continue or (iii) resign.

The holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Registration Rights; Additional Interest

The following description is a summary of the material provisions of the registration rights agreement. It does not restate that agreement in its entirety. We urge you to read the registration rights agreement in its entirety because it, and not this description, defines your registration rights as holders of these notes. We have filed a copy of the registration rights agreement as an exhibit to the registration statement. You may also request a copy of the registration rights agreement at our address set forth under the heading "Where You Can Find More Information."

The Issuers, the Guarantors and the initial purchasers entered into the registration rights agreement on August 15, 2003. Pursuant to the registration rights agreement, the Issuers and the Guarantors agreed to file with the Commission the Exchange Offer Registration Statement on the appropriate form under the Securities Act with respect to the Exchange Notes. Upon the effectiveness of the Exchange Offer Registration Statement, the Issuers and the Guarantors will offer to the holders of Transfer Restricted Securities pursuant to the Exchange Offer who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for Exchange Notes.

If:

(1) the Issuers and the Guarantors are not

(a) required to file the Exchange Offer Registration Statement; or

(b) permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or Commission policy; or

(2) any holder of Transfer Restricted Securities notifies the Issuers prior to the 20th day following consummation of the Exchange Offer that:

(a) it is prohibited by law or Commission policy from participating in the Exchange Offer; or

(b) that it may not resell the Exchange Notes acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales; or

(c) that it is a broker-dealer and owns notes acquired directly from the Issuers or an affiliate of the Issuers,

The Issuers and the Guarantors will file with the Commission a Shelf Registration Statement to cover resales of the notes by the holders of the notes who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement.

The Issuers and the Guarantors will use their reasonable best efforts to cause the applicable registration statement to be declared effective as promptly as possible by the Commission.

For purposes of the preceding, "Transfer Restricted Securities" means each note until:

(1) the date on which such note has been exchanged by a Person other than a broker-dealer for an Exchange Note in the Exchange Offer;

(2) following the exchange by a broker-dealer in the Exchange Offer of a note for an Exchange Note, the date on which such Exchange Note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement;

(3) the date on which such note has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement; or

(4) the date on which such note is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

The registration rights agreement will provide that:

(1) the Issuers and the Guarantors will file an Exchange Offer Registration Statement with the Commission on or prior to 90 days after the closing of this offering;

(2) the Issuers and the Guarantors will use their reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the Commission on or prior to 180 days after the closing of this offering;

(3) unless the Exchange Offer would not be permitted by applicable law or Commission policy, the Issuers and the Guarantors will

(a) commence the Exchange Offer; and

(b) use their reasonable best efforts to issue on or prior to 30 business days, or longer, if required by the federal securities laws, after the date on which the Exchange Offer Registration Statement was declared effective by the Commission, Exchange Notes in exchange for all notes tendered prior thereto in the Exchange Offer; and

(4) if obligated to file the Shelf Registration Statement, the Issuers and the Guarantors will use their reasonable best efforts to file the Shelf Registration Statement with the Commission on or prior to 30 days after such filing obligation arises and to cause the Shelf Registration to be declared effective by the Commission on or prior to 90 days after the filing of such Shelf Registration Statement.

If:

(1) the Issuers fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2) any of such registration statements is not declared effective by the Commission on or prior to the date specified for such effectiveness (the "Effectiveness Target Date"); or

(3) the Issuers fail to consummate the Exchange Offer within 30 business days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or

(4) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Transfer Restricted Securities during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a "Registration Default"),

then the Issuers and the Guarantors will pay Additional Interest to each holder of notes, with respect to the first 90-day period immediately following the occurrence of the first Registration Default in an amount equal to $.05 per week per $1,000 principal amount of notes held by such holder.

The amount of the Additional Interest will increase by an additional $.05 per week per $1,000 principal amount of notes with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of Additional Interest for all Registration Defaults of $.50 per week per $1,000 principal amount of notes.

All accrued Additional Interest will be paid by the Issuers and the Guarantors on each Damages Payment Date to the Global Note Holder by wire transfer of immediately available funds or by federal funds check and to holders of Certificated Notes by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified.

Following the cure of all Registration Defaults, the accrual of Additional Interest will cease.

Holders of notes will be required to make certain representations to the Issuers (as described in the registration rights agreement) in order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the registration rights agreement in order to have their notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest set forth above. By acquiring Transfer Restricted Securities, a holder will be deemed to have agreed to indemnify the Issuers and the Guarantors against certain losses arising out of information furnished by such holder in writing for inclusion in any Shelf Registration Statement. Holders of notes will also be required to suspend their use of the prospectus included in the Shelf Registration Statement under certain circumstances upon receipt of written notice to that effect from the Issuers.

Certain Definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Additional Interest*" means the Additional Interest, if any, to be paid on the notes as described under "Registration Rights; Additional Interest."

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Asset Acquisition*" means:

(1) an Investment by TWI, the Issuers or any of their respective Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with TWI or any of its Restricted Subsidiaries but only if such Person's primary business is a Permitted Business, or

(2) an acquisition by TWI, the Issuers or any of their respective Restricted Subsidiaries of the property and assets of any Person other than TWI, the Issuers or any of their respective Restricted Subsidiaries that constitute all or substantially all of a division, operating unit or line of business of such Person but only if the property and assets acquired are a Permitted Business.

"*Asset Disposition*" means the sale or other disposition by TWI, the Issuers or any of their respective Restricted Subsidiaries other than to TWI, the Issuers or another Restricted Subsidiary of all or substantially all of the Capital Stock of any Restricted Subsidiary, or all or substantially all of the assets that constitute a division, operating unit or line of business of TWI, the Issuers or any of their respective Restricted Subsidiaries.

"*Asset Sale*" means:

(1) the sale, lease, conveyance or other disposition of any assets or rights; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of TWI or the Issuers and their respective Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "—Repurchase at the Option of Holders—Change of Control" and/or the provisions described above under the caption "—Material Covenants—Merger, Consolidation or Sale of Assets" and not by the provisions described under the caption "—Repurchase at the Option of the Holders—Asset Sales"; and

(2) the issuance and sale of Equity Interests in any Restricted Subsidiaries of TWI.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

(1) any single transaction or series of related transactions that involves assets having a fair market value of less than $2.0 million;

(2) a sale, lease, conveyance or other disposition of assets between or among TWI, the Issuers and their respective Restricted Subsidiaries,

(3) an issuance of Equity Interests by a Restricted Subsidiary of TWI to the Issuers, TWI or to another Restricted Subsidiary of TWI;

(4) a Restricted Payment or Permitted Investment that is permitted by the covenant described above under the caption "—Material Covenants—Restricted Payments;"

(5) a sale, lease, transfer, conveyance or other disposition of inventory or accounts receivable in the ordinary course of business;

(6) the sale or other disposition of cash or Cash Equivalents in the ordinary course of business;

(7) any sale of Equity Interests in or Indebtedness of or other securities of an Unrestricted Subsidiary;

(8) sales of property or equipment that has become worn out, obsolete or damaged or otherwise unsuitable for use in connection with the business of TWI, the Issuers or any of their respective Restricted Subsidiaries;

(9) the license of patents, trademarks, copyrights and know-how to third persons in the ordinary course of business;

(10) a Restricted Payment that is permitted by the covenant described above under the caption "—Material Covenants—Restricted Payments" or any Permitted Investment; and

(11) a Permitted Asset Swap.

"*Attributable Debt*" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors of the corporation;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(3) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Borrowing Base*" means, as of any date, an amount equal to:

(1) 85% of the face amount of all accounts receivable owned by the Foreign Restricted Subsidiaries as of the end of the most recent fiscal quarter preceding such date that were not more than 90 days past due; *plus*

(2) 60% of the book value of all inventory owned by the Foreign Restricted Subsidiaries as of the end of the most recent fiscal quarter preceding such date.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means:

(1) United States dollars;

(2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition;

(3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any lender party to the Credit Agreement or with any domestic commercial bank having capital and surplus in excess of $500.0 million and a Thomson Bank Watch Rating of "B" or better;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within six months after the date of acquisition;

(6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition; and

(7) in the case of any Foreign Restricted Subsidiary:

(a) direct obligations of the sovereign nation (or agency thereof) in which such Foreign Restricted Subsidiary is organized and is conducting business or obligations fully and unconditionally guaranteed by such sovereign nation (or any agency thereof); and

(b) investments of the type and maturity described in clause (1) through (5) above of foreign obligors, which investments or obligors have ratings described in such clauses or equivalent ratings from comparable foreign rating agencies.

"*Change of Control*" means the occurrence of any of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of (x) TWI and its Restricted Subsidiaries, taken as a whole, or (y) the Issuers' and their Restricted Subsidiaries, taken as whole, in either case to any "person" or "group" (as those terms are used in Section 13(d)(3) of the Exchange Act) other than one or more Principals and/or its or their respective Affiliates or Related Parties;

(2) the adoption of a plan relating to the liquidation or dissolution of TWI or the Issuers, provided that if the adoption of such plan is required to be approved by TWI's stockholders, a Change of Control will only occur upon the adoption of such plan by TWI's stockholders;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) (i) prior to the consummation of a Qualified IPO, the result of which is that (A) any "person" or "group" (as defined above), other than one or more of the Principals and/or its or their respective Affiliates or Related Parties, becomes the Beneficial Owner, directly or indirectly, of more than 35% of the Voting Stock of TWI, measured by voting power rather than number of shares and (B) the Principals and their Affiliates and Related Parties cease to be the Beneficial Owners, directly or indirectly, of at least 35% of the Voting Stock of TWI, measured by voting power rather than number of shares, or (ii) following the consummation of a Qualified IPO, the result of which is that any "person" (as defined above), other than the Principals or their Affiliates or Related Parties, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of TWI, measured by voting power rather than number of shares;

(4) the first day on which a majority of the members of the Board of Directors of TWI are not Continuing Directors**;**

(5) TWI consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, TWI, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of TWI or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of TWI outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance); or

(6) the Issuers shall cease to be direct or indirect Wholly Owned Subsidiaries of the First Tier Parent Guarantor, the First Tier Parent Guarantor shall cease to be a Wholly Owned Subsidiary of Tempur World, Inc, or Tempur World, Inc. shall cease to be a Wholly Owned Subsidiary of TWI, except that Tempur World, Inc. or the First Tier Parent Guarantor may be merged with or into TWI.

"*Comparable Treasury Issue*" means the United States Treasury security selected by an Independent Investment Bank maturing in 2007 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities maturing in 2007.

"*Comparable Treasury Price*" means, with respect to any redemption date:

(1) the average of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the most recently published statistical release designated "H.15(519)" (or any successor release) published by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities;" or

(2) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations for such redemption date.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*:

(1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Subsidiaries in connection with a sale or other disposition of assets or the extinguishment of any Indebtedness of such Person or any of its Subsidiaries, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*

(2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; *plus*

(4) depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*

(5) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with GAAP.

"*Consolidated Leverage Ratio*" means with respect to any specified Person as of the date of determination, the ratio of (A) the aggregate amount of Indebtedness of such Person and its Restricted Subsidiaries on a consolidated basis outstanding on such date, determined in accordance with GAAP, to (B) the aggregate amount of Consolidated Cash Flow of such Person and its Restricted Subsidiaries for the then most recent four fiscal quarters for which internal financial statements of such Person are available.

In determining the Consolidated Leverage Ratio, pro forma effect shall be given to:

(1) any Indebtedness that is to be incurred or repaid on the applicable date of determination as if such incurrence or repayment had occurred on the first day of the applicable four quarter reference period;

(2) Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during the period beginning on the first day of the applicable four quarter reference period and ending on the date of determination as if they had occurred and such proceeds had been applied on the first day of such reference period; and

(3) asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the specified Person or any Restricted Subsidiary during such reference period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such reference period.

To the extent that pro forma effect is given to an Asset Acquisition or Asset Disposition, such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the date of determination of the Person, or division, operating unit or line of business of the Person, that is acquired or disposed of for which financial information is available.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:

(1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders; and

(3) the cumulative effect of a change in accounting principles will be excluded.

"*Consolidated Net Tangible Assets*" means as to any Person, as of any date of determination, the sum of the amounts that would appear on a consolidated balance sheet of such Person and any of its consolidated Restricted Subsidiaries as the total assets (less accumulated depreciation and amortization, allowances for doubtful receivables, other applicable reserves and other properly deductible items) of such Person and its Restricted Subsidiaries, after giving effect to purchase accounting, and after deducting therefrom consolidated current liabilities and, to the extent otherwise included, the amounts of (without duplication):

(1) the excess of cost over fair market value of assets or businesses acquired;

(2) any revaluation or other write-up in book value of assets subsequent to the last day of the fiscal quarter of the Issuers immediately preceding the date of issuance of the notes as a result of a change in the method of valuation in accordance with GAAP;

(3) unamortized debt discount and expenses and other unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights licenses, organization or developmental expenses and other tangible items;

(4) minority interests in consolidated subsidiaries held by Persons other than any Parent Guarantor, the Issuers or any of their respective Restricted Subsidiaries;

(5) treasury stock;

(6) cash or securities set aside and held in a sinking or other analogous fund established for the purpose of redemption or other retirement of Capital Stock to the extent such obligation is not reflected in consolidated current liabilities; and

(7) Investments in and assets of Unrestricted Subsidiaries.

"*Continuing Directors*" means, as of any date of determination, any member of the Board of Directors of the referent Person who:

(1) was a member of such Board of Directors on the issue date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"*Credit Agreement*" means that certain Amended and Restated Credit Agreement, dated as of November 1, 2002 by and among TWI and Tempur World, Inc., Tempur World Holdings, S.L., Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur World Holding Company ApS and Dan-Foam ApS as Borrowers, the other Credit Parties signatory thereto, as Credit Parties, the Lenders signatory thereto from time to time, Nordea Bank Danmark, as European Loan Agent, and General Electric Capital Corporation, as Administrative Agent, providing for up to $170,000,000 of term loan borrowings and revolving credit borrowings, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, modified, renewed, restated, refunded, replaced or refinanced from time to time, whether by the same or any other lender or group of lenders (including pursuant to Indebtedness issued pursuant to an indenture).

"*Credit Facilities*" means one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, bank guaranties or bankers' acceptances, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time and any agreement, instrument or document governing Indebtedness under such debt facilities, including any agreement, instrument or facility governing Indebtedness incurred to refinance, in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under any Credit Facility or any successor Credit Facility, whether by the same or any other lender or group of lenders (including pursuant to indebtedness issued pursuant to an indenture).

"*Currency Exchange Protection Agreement*" means, for any Person, any foreign exchange contract, currency swap agreement, currency option, forward contract or other similar agreement or arrangement, in each case, including any guarantee and collateral documents referred to therein designed to protect such Person against fluctuations in currency exchange rates.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Designated Senior Debt*" means (i) any Indebtedness outstanding from time to time under the Credit Agreement and (ii) any other Senior Debt permitted to be incurred under the indenture the principal amount of which is $25.0 million or more and that has been designated by TWI as "Designated Senior Debt;" provided, however, that only an agent or representative of Designated Senior Debt from time to time outstanding under the Credit Facilities may issue a Payment Blockage Notice.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the

date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer of such Capital Stock to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that neither TWI nor the Issuers nor their respective Restricted Subsidiaries may repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Material Covenants—Restricted Payments."

"*Domestic Subsidiary*" means any Restricted Subsidiary of TWI that was formed under the laws of the United States or any state of the United States or the District of Columbia.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Equity Offering*" means any private or public sale of common stock of TWI Holdings Inc.

"*Existing Indebtedness*" means Indebtedness of any Parent Guarantor, the Issuers and their respective Subsidiaries (other than Indebtedness under the Credit Agreement) in existence on the issue date, until such amounts are repaid.

"*Fixed Charges*" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations; *plus*

(2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person (other than preferred stock of the Parent Guarantors or the Issuers that is not Disqualified Stock) or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests (other than Disqualified Stock) of the issuer of such preferred stock or payable to the Issuers, TWI or any of their respective Restricted Subsidiaries, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person and its Restricted Subsidiaries for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to

the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “Calculation Date”), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect (calculated in accordance with Regulation S-X) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date; and

(4) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness shall be calculated as if the interest rate in effect for such floating rate of interest on the date of determination had been a fixed rate of interest for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of twelve months).

“*Foreign Restricted Subsidiary*” means any Restricted Subsidiary that is not a Domestic Subsidiary.

“*GAAP*” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the issue date.

“*guarantee*” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness. The capitalized term, “Guarantee” shall refer only to the guarantees of the notes provided by the Guarantors.

“*Guarantors*” means each of the Parent Guarantors and the Subsidiary Guarantors, collectively.

“*Hedging Obligation*” of any Person means any obligation or liability, direct of indirect, contingent or otherwise, of such Person in respect of any Interest Rate Agreement, Currency Exchange Protection Agreement or any other similar agreement or arrangement.

“*Indebtedness*” means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of banker's acceptances;

(4) representing Capital Lease Obligations;

(5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or

(6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by the specified Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount; and

(2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness.

"*Independent Investment Bank*" means an investment banking firm or national standing or any third party appraiser that is determined by a majority of the independent directors of the First Tier Parent Guarantor to be competent to issue or valuation with respect to the matters for it is proposed to be engaged; *provided* that such firm or appraiser is not an Affiliate of TWI.

"*Interest Rate Agreement*" means, for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement, in each case, including any guarantee and collateral documents referred to therein designed to protect such Person against fluctuations in interest rates.

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If TWI, the Issuers or any of their respective Restricted Subsidiaries sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of TWI, the Issuers or such Restricted Subsidiary, such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of TWI, the Issuers or any of their Restricted Subsidiaries, TWI will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Material Covenants—Restricted Payments." The acquisition by TWI, the Issuers or any of their respective Restricted Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by TWI in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Material Covenants—Restricted Payments."

"*issue date*" means the date on which notes are initially issued under the indenture.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:

(1) any gain (or loss), together with any related provision for taxes on such gain (or loss), realized in connection with: (a) any sale or other disposition of assets; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and

(2) any extraordinary gain (or loss), together with any related provision for taxes on such extraordinary gain (or loss).

"*Net Proceeds*" means the aggregate cash proceeds received by TWI, the Issuers or any of their respective Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale, but only as and when received), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, recording fees, title transfer fees, costs of preparation of assets for sale, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness, other than Senior Debt, secured by a Lien on the asset or assets that were the subject of such Asset Sale, all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of the Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"*Non-recourse Debt*" means Indebtedness:

(1) as to which none of TWI, the Issuers or any of their respective Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time of both any holder of any other Indebtedness (other than the notes) of TWI, the Issuers or any of their respective Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of TWI, the Issuers or any of their respective Restricted Subsidiaries.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Offering Memorandum" means the offering memorandum, dated August 8, 2003, relating to the notes.

"*Parent Guarantors*" means TWI Holdings, Inc., Tempur World, Inc. and Tempur World Holdings, Inc., collectively, and their respective successors and assigns.

"*Permitted Asset Swap*" means sales, transfers or other dispositions of assets, including all of the outstanding Capital Stock of a Restricted Subsidiary (other than the Issuers), for consideration at least equal to the fair market value of the assets sold or disposed of, but only if the consideration received consists of Capital Stock of a Person that becomes a Restricted Subsidiary engaged in, or property or assets (other than cash, except to the extent used as a bona fide means of equalizing the value of the property or assets involved in the swap transaction) of a nature or type or that are used in, a business having property or assets of a nature or type, or engaged in a business similar or related to the nature or type of the property and assets of, or business of, the Restricted Subsidiaries of TWI, including the Issuers, existing on the date of such sale or other disposition.

"*Permitted Business*" means the lines of business conducted by the Issuers and the Foreign Restricted Subsidiaries of TWI on the issue date and businesses reasonably related thereto.

"Permitted Investments" means:

(1) any Investment in TWI, the Issuers or any Guarantor;

(2) any Investment by the Parent Guarantors, the Issuers or a Subsidiary Guarantor in a Foreign Restricted Subsidiary of TWI; *provided* that for so long as any of the notes are outstanding, the aggregate amount of all Investments made pursuant to this clause (2) shall not exceed the greater of (A) 20% of the Consolidated Net Tangible Assets of TWI as of the last day of the most recently ended fiscal quarter which internal financial statements are available and (B) $20.0 million.

(3) any Investment in Cash Equivalents;

(4) any Investment by TWI, the Issuers or any of their respective Restricted Subsidiaries in a Person, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of the Person making such Investment; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, TWI, any Issuer or any of their Restricted Subsidiaries; *provided* that in no event shall any Subsidiary Guarantor be merged with or into, or transfer or convey all or substantially all its assets, or be liquidated into a Foreign Restricted Subsidiary in reliance on this clause (4)(b);

(5) any Investment by any Foreign Restricted Subsidiary in any other Foreign Restricted Subsidiary;

(6) any Investment funded with cash proceeds from an indemnity claim under the merger agreement relating to the acquisition of Tempur World, Inc. in the Foreign Restricted Subsidiary (either directly or through one or more capital contributions) that incurred the obligation or liability with respect to which such indemnity payment is being made;

(7) any capital contribution by the First Tier Parent Guarantor to one or more of its Foreign Restricted Subsidiaries, so long as the proceeds are applied within two weeks after the date of such capital contribution to repay intercompany payables owed by a Foreign Restricted Subsidiary to the Issuers or a Guarantor;

(8) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales;"

(9) any acquisition of assets or Investment solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of TWI or the Issuers or made with the proceeds of a substantially concurrent sale of such Equity Interests (other than Disqualified Stock) made for such purpose;

(10) any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer;

(11) Hedging Obligations;

(12) guarantees that constitute Permitted Indebtedness;

(13) advances, loans or extensions of credit to suppliers in the ordinary course of business by any Parent Guarantor or any Restricted Subsidiary; and

(14) other Investments in any Person having an aggregate fair market value (measured on the date each such investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (11) that are at the time outstanding, not to exceed $20.0 million.

"*Permitted Junior Securities*" means:

(1) Equity Interests in any Issuer or any Guarantor; or

(2) debt securities that are subordinated to all Senior Debt and any debt securities issued in exchange for Senior Debt to substantially the same extent as, or to a greater extent than, the notes and the Guarantees are subordinated to Senior Debt under the indenture.

"*Permitted Liens*" means:

(1) Liens on assets (including Capital Stock) of TWI, the Issuers and their respective Subsidiaries securing Senior Debt or Indebtedness under Credit Facilities that was permitted by the terms of the indenture to be incurred;

(2) Liens in favor of TWI or the Issuers or any Guarantor;

(3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with TWI, the Issuers or any their respective Restricted Subsidiaries; *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with TWI, the Issuers or any of their respective Restricted Subsidiaries;

(4) Liens on property existing at the time of acquisition of the property by TWI, the Issuers or any their respective Restricted Subsidiaries, *provided* that such Liens were in existence prior to the contemplation of such acquisition;

(5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;

(6) pledges or deposits of money securing statutory obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation (excluding Liens under ERISA);

(7) pledges or deposits of money securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which TWI, the Issuers or any of their Restricted Subsidiaries is a party as lessee, made in the ordinary course of business;

(8) inchoate and unperfected workers', mechanics' or similar Liens arising in the ordinary course of business, so long as such Liens attach only to equipment, fixtures and/or real estate;

(9) carriers', warehousemen's, suppliers' or other similar possessory Liens arising in the ordinary course of business and securing past due liabilities in an outstanding aggregate amount not in excess of $50,000 at any time, so long as such Liens attach only to inventory;

(10) any attachment or judgment Lien in respect of a judgment being contested by the Company and not constituting an Event of Default;

(11) zoning restrictions, easements, licenses, or other restrictions on the use of any real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value or marketability of such real property;

(12) Liens arising from precautionary UCC-1 financing statement filings regarding operating leases entered into by TWI, the Issuers or any of their Restricted Subsidiaries in the ordinary course of business;

(13) Liens arising from subleases or leases entered into the ordinary course of business by TWI, the Issuers or their respective Restricted Subsidiaries as lessor with respect to excess or unused real property owned or leased by TWI, the Issuers or their respective Restricted Subsidiaries;

(14) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled "—Material Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock" covering only the assets acquired with such Indebtedness;

(15) Liens existing on the issue date;

(16) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor; and

(17) Liens incurred in the ordinary course of business TWI, the Issuers or any their respective Restricted Subsidiaries with respect to obligations that do not exceed $15.0 million at any one time outstanding.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of TWI, the Issuers or any of their respective Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness (other than intercompany Indebtedness) of TWI, the Issuers or any of their respective Restricted Subsidiaries; *provided* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2) in the case of Indebtedness other than Senior Debt, such Permitted Refinancing Indebtedness has a final maturity date the same as or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the notes on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(4) such Indebtedness is incurred either by TWI or by the Issuer or Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Principals*" means each of TA Associates, Inc. and Friedman Fleischer & Lowe and their respective Affiliates.

"*Qualified IPO*" means a bona fide, firm commitment underwritten public offering of the common stock of TWI Holdings Inc. (or any other indirect ultimate Parent Guarantor) pursuant to an effective registration statement under the Securities Act generating gross proceeds to such issuer in an amount equal to at least $75.0 million (based upon the price to the public in the public offering).

"*Reference Treasury Dealer*" means Lehman Brothers Inc. or any other investment banking firm of national reputation and their respective successors; *provided, however,* that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), TWI will substitute therefor another Primary Treasury Dealer.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

"*Related Party*" means:

(1) any controlling equityholder, 80% (or more) owned Subsidiary, or immediate family member (in the case of an individual) of any Principal; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of any one or more Principals and/or such other Persons referred to in the immediately preceding clause (1).

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"*SEC*" means the Securities and Exchange Commission.

"*Senior Debt*" means:

(1) all Indebtedness of the Guarantors or the Issuers outstanding from time to time under Credit Facilities and all Hedging Obligations with respect thereto;

(2) any other Indebtedness of TWI, the Issuers or any Subsidiary Guarantor to the extent permitted to be incurred under indenture, unless the instrument under which such Indebtedness is incurred expressly provides that it is on a parity with or subordinated in right of payment to the notes or any Guarantee thereof; and

(3) all Obligations with respect to the items listed in the preceding clauses (1) and (2).

Notwithstanding anything to the contrary in the preceding sentence, Senior Debt will not include:

(4) any liability for federal, state, local or other taxes owed or owing by TWI, the Issuers or their respective Restricted Subsidiaries;

(5) any Indebtedness owed by a Person to any Subsidiary or other Affiliate of such Person other than senior subordinated notes in an amount not to exceed $35.0 million issued or guaranteed by the Guarantors or the Issuers pursuant to that certain Subordinated Note Purchase Agreement, dated as of November 1, 2002;

(6) any trade payables; or

(7) the portion of any Indebtedness that is incurred in violation of the indenture.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Obligation*" means, with respect to any Person, any Indebtedness of such Person, whether outstanding on the issue date or thereafter incurred, that is subordinate or junior in right of payment to the notes or a Guarantee, as applicable, pursuant to a written agreement to such effect.

"*Subsidiary*" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"*Subsidiary Guarantee*" means the Guarantee of the notes by each of the Subsidiary Guarantors pursuant to the indenture and in the form of the Guarantee endorsed on the form of note attached to the indenture and any additional Guarantee of the notes to be executed by any Subsidiary of the Company pursuant to the covenant described above under the caption "—Additional Subsidiary Guarantees."

"*Subsidiary Guarantors*" means, collectively, all Subsidiaries that execute a Subsidiary Guarantee in accordance with the provisions of the indenture and their respective successors and assigns; each such Subsidiary being a "Subsidiary Guarantor."

"*Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the yield to maturity of the Comparable Treasury Issue, compounded semi-annually, assuming a price for such Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price.

"*Unrestricted Subsidiary*" means any Subsidiary of TWI (other than the Issuers), or any successor to any of them, that is designated by the Board of Directors of TWI as an Unrestricted Subsidiary pursuant to a Board Resolution in accordance with the covenant described under the caption "—Material Covenants—Designation of Restricted and Unrestricted Subsidiaries."

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Wholly Owned Subsidiary*" means, as to any Person, a Subsidiary of such Person of which 100% of the Voting Stock is owned beneficially by the referent Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

BOOK-ENTRY; DELIVERY AND FORM

The exchange notes will be issued in the form of one or more fully registered notes in global form. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC or its nominee is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the exchange notes. No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the indenture.

Payments of the principal of, and interest on, a global note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of the Issuers, the Guarantors, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

We expect that DTC will take any action permitted to be taken by a holder of exchange notes (including the presentation of exchange notes for exchange as described below) only at the direction of one or more participants to whose account DTC interests in a global note is credited and only in respect of such portion of the aggregate principal amount of exchange notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the notes, DTC will exchange the applicable global note for certificated notes, which it will distribute to its participants.

We understand that DTC is:

- a limited purpose trust company organized under the laws of the State of New York;
- a "banking organization" within the meaning of New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Indirect access to the DTC system is

available to others such as banks, brokers, dealers and trust companies and certain other organizations that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Although DTC is expected to follow the foregoing procedures in order to facilitate transfers of interests in a global note among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuers, the Guarantors or the Trustee will have any responsibility for the performance by DTC or its respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the global notes and a successor depositary is not appointed by us within 90 days, we will issue certificated notes in exchange for the global notes. Holders of an interest in a global note may receive certificated notes in accordance with DTC's rules and procedures in addition to those provided for under the indenture.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a summary of the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes by U.S. and non-U.S. noteholders (as defined below). This discussion is based on current provisions of the Internal Revenue Code of 1986 (which we refer to as the Code), currently applicable Treasury regulations, and judicial and administrative rulings and decisions. Legislative, judicial or administrative changes could alter or modify the statements and conclusions in this discussion. Any legislative, judicial or administrative changes or new interpretations may be retroactive and could affect tax consequences to noteholders. In addition, we have not obtained, nor do we intend to obtain, a ruling from the IRS or an opinion of counsel with respect to any tax consequences of purchasing, owning or disposing of the notes. Thus, we cannot assure you that the IRS would not successfully challenge one or more of the tax consequences or matters described here.

This discussion applies to noteholders who acquire the notes for cash at original issue for their "issue price" and hold the notes as capital assets. For this purpose, issue price is the first price at which a substantial amount of the notes are sold to the public for money, excluding sales to bond houses, brokers or similar persons acting in the capacity of underwriters, placement agents or wholesalers. This discussion does not address all of the tax consequences relevant to a particular noteholder in light of that noteholder's circumstances, and some noteholders may be subject to special tax rules and limitations not discussed below (e.g., insurance companies, tax exempt organizations, private foundations, financial institutions, dealers in securities, regulated investment companies, S corporations, taxpayers subject to the alternative minimum tax provisions of the Code, nonresident aliens subject to tax on expatriates under Section 877 of the Code, broker-dealers, persons that have a "functional currency" other than the U.S. dollar, and persons who hold the notes as part of a hedge, straddle, "synthetic security," or other integrated investment, risk reduction or constructive sale transaction). This discussion also does not address the tax consequences to nonresident aliens, foreign corporations, foreign partnerships or foreign trusts that are subject to U.S. federal income tax on a net basis on income with respect to a note because that income is effectively connected with the conduct of a U.S. trade or business. Those holders generally are taxed in a manner similar to U.S. noteholders; however, special rules (including additional taxes) not applicable to U.S. noteholders may apply. In addition, this discussion does not address any tax consequences under state, local or foreign tax laws, or under U.S. estate and gift tax law. **Consequently, prospective investors are urged to consult their tax advisers to determine the federal, state, local and foreign income and any other tax consequences of the purchase, ownership and disposition of the notes, including the consequences of any applicable tax treaties.**

The tax consequences to a partner in a partnership that owns the notes depend in part on the status of the partner and the activities of the partnership. Such persons should consult their tax advisers regarding the consequences of the purchase, ownership and disposition of the notes.

We use the term "U.S. noteholder" to mean a "U.S. Person" that is the beneficial owner of a note. All noteholders that are beneficial owners of notes and that are not "U.S. noteholders" are herein referred to as "non-U.S. noteholders." A "U.S. Person" is:

- a citizen or resident of the United States, as determined for U.S. federal income tax purposes;
- a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States, or under the laws of the United States or of any state (including the District of Columbia);
- an estate the income of which is includable in gross income for U.S. federal income tax purposes, regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust.

Taxation of U.S. Noteholders

***Payments of Interest*.** Stated interest on the notes will be taxable as ordinary interest income when received or accrued by U.S. noteholders under their method of accounting. In certain circumstances (see "Description of the Notes—Optional Redemption," "Description of the Notes—Repurchase at the Option of Holders—Change of Control" and "Description of the Notes—Registration Rights; Additional Interest"), the Issuers may be obligated to pay amounts in excess of stated interest or principal on the notes. According to Treasury regulations, the possibility that any such payments in excess of stated interest or principal will be made will not affect the amount or timing of interest income a U.S. noteholder recognizes if there is only a remote chance as of the date the notes were issued that such payments will be made. The Issuers believe that the likelihood that they will be obligated to make any such payments is remote. Therefore, the Issuers do not intend to treat the potential payment of these amounts as part of the yield to maturity of the notes (for purposes of the original issue discount provisions of the Code). The Issuers' determination that these contingencies are remote is binding on a U.S. noteholder unless such holder discloses its contrary position in the manner required by applicable Treasury regulations. The Issuers' determination is not, however, binding on the IRS, and if the IRS were to challenge this determination, a U.S. noteholder might be required to accrue income on its notes in excess of stated interest, and might be required to treat any income realized on the taxable disposition of a note before the resolution of the contingencies as ordinary income rather than capital gain. In the event a contingency occurs, it would affect the amount and timing of the income recognized by a U.S. noteholder. If any Additional Interest is in fact paid, U.S. noteholders will be required to recognize such amounts as interest income.

***Original Issue Discount*.** It is expected that, and this discussion assumes that, any original issue discount on the notes (i.e., any excess of the stated redemption price at maturity of the note over its issue price) will be less than a statutory *de minimis* amount (equal to 0.25% of its stated redemption price at maturity multiplied by the number of complete years to maturity) as provided in the Treasury's original issue discount regulations. Accordingly, the noteholders will not be subject to the original issue discount rules under the Code and the Treasury regulations.

***Sale or Other Taxable Disposition of Notes*.** Unless a non-recognition provision applies, if there is a sale, exchange (other than an exchange of your notes in connection with our registration of the notes, as discussed below), redemption, retirement or other taxable disposition of a note, a U.S. noteholder generally will recognize gain or loss equal to the difference between (a) the amount of cash and the fair market value of any other property received (other than amounts attributable to accrued stated interest, which will be taxable as ordinary interest income) and (b) the U.S. noteholder's adjusted tax basis in the note. The adjusted tax basis in a note generally will equal its cost (net of accrued interest). Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

***Exchange Offer*.** The exchange of the notes for otherwise identical debt securities registered under the Securities Act pursuant to the exchange offer will not constitute a taxable exchange for U.S. federal income tax purposes. See "Description of the Notes—Registration Rights; Additional Interest." As a result, (1) a U.S. noteholder will not recognize a taxable gain or loss as a result of exchanging such holder's notes; (2) the holding period of the exchange notes will include the holding period of the notes exchanged therefor; (3) the adjusted tax basis of the exchange notes will be the same as the adjusted tax basis of the notes exchanged therefor immediately before the exchange; and (4) a U.S. noteholder will continue to take into account income in respect of an exchange note in the same manner as before the exchange.

Additional Matters Relating to Taxation of Non-U.S. Noteholders

***Payments of Interest*.** Subject to the discussion below concerning backup withholding, a non-U.S. noteholder will not be subject to U.S. federal income or withholding tax on interest (including Additional

Interest, if any) on a note if such interest qualifies as portfolio interest. Generally, interest on a note will qualify for portfolio interest if the interest is not effectively connected with the conduct of a trade or business in the U.S. by the non-U.S. noteholder, the certification described below is given by the non-U.S. noteholder and the non-U.S. noteholder is not:

- a controlled foreign corporation that is related to us through stock ownership or is otherwise related as determined by Internal Revenue Code Section 864(d) of the Code;
- a bank that receives interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; or
- an owner, actually or constructively, of 10% or more of the voting power of our stock.

In order for interest payments to qualify for the exemption from U.S. taxation described above, the last person or entity in the United States in the chain of interest payments to the non-U.S. noteholder (the "Withholding Agent") must have received (prior to a payment of interest or principal) a certification that complies with IRS informational requirements and:

- is signed by the non-U.S. noteholder under penalty of perjury;
- certifies that the non-U.S. noteholder is not a U.S. Person; and
- provides the name and address of the non-U.S. noteholder.

The certification may be made on an IRS Form W-8BEN, and the non-U.S. noteholder must inform the Withholding Agent of any change in the information on the certification within 30 days of the change. If a note is held through a securities clearing organization or other financial institution, the organization or institution may provide a signed statement to the Withholding Agent certifying under penalty of perjury that the IRS Form W-8BEN has been received by it from the noteholder or from another qualifying financial institution. However, in that case, the signed statement must be accompanied by a copy of the IRS Form W-8BEN provided to the organization or institution holding the note on behalf of the non-U.S. noteholder. Also, special procedures are provided under applicable Treasury regulations for payments through qualified intermediaries.

The gross amount of payments of interest that do not qualify for the exemption from U.S. taxation described above will be subject to U.S. withholding tax at a rate of 30% unless a tax treaty applies to reduce or eliminate the U.S. withholding. To claim a reduction in or an exemption from U.S. withholding tax on interest under a tax treaty between the United States and the non-U.S. noteholder's country of residence, a non-U.S. noteholder must generally complete an IRS Form W-8BEN and certify to its right to a reduction or exemption on the form. If interest on the notes is effectively connected to a U.S. trade or business of a non-U.S. noteholder, the 30% withholding tax will not apply to interest paid on the notes if the non-U.S. noteholder furnishes a properly completed IRS Form W-8ECI prior to payment.

The IRS Forms described above must be periodically updated. In addition, a non-U.S. noteholder who is claiming the benefits of a treaty will be required to obtain and to provide a U.S. taxpayer identification number unless, in certain circumstances, the non-U.S. noteholder provides certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Sale, Exchange or Disposition of the Notes. Subject to the discussion below concerning backup withholding, generally, any gain realized by a non-U.S. noteholder from the sale, exchange (other than the exchange of your notes in connection with our registration of the notes, as discussed above), redemption, retirement or other disposition of a note (other than gain attributable to accrued interest) will not result in U.S. federal income tax or withholding tax liability, unless (i) the noteholder is an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met or (ii) such gain is treated as effectively connected with a U.S. trade or business of the non-U.S. noteholder.

Backup Withholding and Information Reporting

Certain noteholders may be subject to backup withholding and information reporting on payments of principal and interest on a note and proceeds received from the disposition of a note. The backup withholding rate is 28%. Generally, in the case of a U.S. noteholder, backup withholding will apply only if (i) the U.S. noteholder fails to furnish its Taxpayer Identification Number (TIN) to the payor, (ii) the IRS notifies the payor that the U.S. noteholder has furnished an incorrect TIN, (iii) the IRS notifies the payor that the U.S. noteholder has failed to properly report payments of interest or dividends, or (iv) under certain circumstances, the U.S. noteholder fails to certify, under penalty of perjury, that it has both furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest or dividend payments.

Some U.S. noteholders (including, among others, corporations, financial institutions and some tax exempt organizations) generally are not subject to backup withholding or information reporting.

Backup withholding tax will not apply to payments of principal and interest to non-U.S. noteholders if the statement described above in "Non-U.S. Noteholders—Payments of Interest" is provided to the Withholding Agent, or the non-U.S. noteholder otherwise establishes an exemption, *provided* that the Withholding Agent does not have actual knowledge or reason to know that the payee is a U.S. Person or that the conditions of any other exemption are not, in fact, satisfied. The Withholding Agent will be required to report annually to the IRS and to each non-U.S. noteholder the amount of interest paid to, and the tax withheld, if any, for each non-U.S. noteholder. Copies of these information returns also may be made available under the provisions of a specific treaty or other agreement to the tax authorities of the country in which the non-U.S. noteholder resides.

If a sale of notes is effected at an office of a broker outside the United States through an offshore account, the proceeds of that sale will not be subject to backup withholding (absent the broker's actual knowledge that the payee is a U.S. Person). Information reporting (but not backup withholding) will apply, however, to a sale of notes effected at an office of a broker outside the United States if that broker:

- is a U.S. Person;
- is a controlled foreign corporation for U.S. federal income tax purposes;
- is a foreign partnership, if at any time during its tax year, one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interest in the partnership or if, at any time during its tax year, the foreign partnership is engaged in a U.S. trade or business; or
- derives 50% or more of its gross income from the conduct of a U.S. trade or business for a specified three-year period,

unless the broker has in its records documentary evidence that the noteholder is a non-U.S. noteholder and other conditions are met (including that the broker has no actual knowledge that the noteholder is a U.S. noteholder) or the noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a noteholder would be allowed as a refund or a credit against that noteholder's U.S. federal income tax, *provided* that the required information is timely furnished to the IRS.

THE FOREGOING SUMMARY OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR AS TO PARTICULAR TAX CONSEQUENCES TO HIM, HER OR IT OF PURCHASING, OWNING AND DISPOSING OF NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAW.

PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for old notes where such old notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 90 days after the expiration date, we will make this prospectus, as amended or supplemented, available to any broker-dealer which requests it in the letter of transmittal, for use in any such resale. In addition, until , 2003, all dealers effecting transactions in the exchange notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such exchange notes.

Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such exchange notes may be deemed to be an “underwriter” within the meaning of the Securities Act and any profit on any such resale of exchange notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver, and by delivering, a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act.

The Issuers have agreed to pay expenses incident to the exchange offer other than commissions or concessions of any brokers or dealers. The Issuers and each Guarantor will, jointly and severally, indemnify the holders of the old notes (including any broker-dealers) against certain types of liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Bingham McCutchen LLP, Boston, Massachusetts.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 as set forth in their reports. We’ve included our consolidated financial statements and schedules as of and for the two-month period ended December 31, 2002 and the consolidated financial statements and schedules of our Predecessor as of and for the ten-month period ended October 31, 2002 in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP’s reports, given on their authority as experts in accounting and auditing.

Arthur Andersen LLP, independent auditors, have audited the consolidated financial statements of our Predecessor at December 31, 2001 and 2000, and for each of the two years in the period ended December 31, 2001, as set forth in their report. We’ve included these consolidated financial statements of our Predecessor in this prospectus and elsewhere in the registration statement in reliance on Arthur Andersen LLP’s report, given on their authority as experts in accounting and auditing.

In June 2002, Arthur Andersen LLP was convicted of federal obstruction of justice charges. As a result of its conviction, Arthur Andersen has ceased operations and is no longer in a position to reissue its audit reports or to provide consent to include financial statements reported on by it in this prospectus. Because Arthur Andersen has not reissued its reports and because we are not able to obtain a consent from Arthur Andersen, you will be unable to sue Arthur Andersen for material misstatements or omissions, if any, in this prospectus, including the financial statements covered by its previously issued reports. Even if you have a basis for asserting a remedy against, or seeking recovery from, Arthur Andersen, we believe that it is unlikely that you would be able to recover damages from Arthur Andersen.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-4 with respect to the securities we are offering. This prospectus does not contain all the information contained in the registration statement, including its exhibits and schedules. You should refer to the registration statement, including the exhibits and schedules, for further information about us and the securities we are offering. Statements we make in this prospectus about certain contracts or other documents are not necessarily complete. When we make such statements, we refer you to the copies of the contracts or documents that are filed as exhibits to the registration statement because those statements are qualified in all respects by reference to those exhibits. The registration statement, including exhibits and schedules, is on file at the offices of the SEC and may be inspected without charge.

Under the terms of the indenture that governs the notes, we have agreed that, whether or not required by the rules and regulations of the SEC, so long as any old notes or exchange notes are outstanding, the Issuers will furnish to the trustee or the holders of the old notes or exchange notes (i) all quarterly and annual financial and other information that would be required to be filed with the SEC on Forms 10-Q and 10-K, if we were required to file such forms, including a “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and, with respect to the annual information only, a report on the annual financial statements by the Companies’ certified independent accountants; and (ii) all current reports that would be required to be filed with the SEC on Form 8-K if we were required to file such reports. In addition, whether or not required by the rules and regulations of the SEC, we will file a copy of all such information and reports with the SEC for public availability (unless the SEC will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, we have agreed that, for so long as any old notes or exchange notes remain outstanding, we will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Upon effectiveness of the registration statement of which this prospectus is a part, we will become subject to the periodic reporting and to the informational requirements of the Exchange Act and will file information with the SEC, including annual, quarterly and special reports. You may read and copy any document we file with the SEC at the public reference room maintained by the SEC at 450 Fifth Street NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings are also available at the SEC’s web site at *http://www.sec.gov*.

You can obtain a copy of any of our filings, at no cost, by writing to or telephoning us at:

Tempur World, Inc.
1713 Jaggie Fox Way
Lexington, Kentucky 40511
Attention: Robert B. Trussell, Jr.
800-878-8889

INDEX TO HISTORICAL FINANCIAL STATEMENTS

Interim Unaudited Financial Statements

Consolidated Condensed Interim Financial Statements of TWI Holdings, Inc. (the Successor to Tempur World, Inc.) as of June 30, 2003 (unaudited) and for the six months ended June 30, 2003 (unaudited) and Consolidated Condensed Interim Financial Statements of Tempur World, Inc. (the Predecessor to TWI Holdings, Inc.) for the six months ended June 30, 2002 (unaudited) F-2

TWI Holdings, Inc.

TWI Holdings, Inc. and Subsidiaries—Consolidated Financial Statements as of December 31, 2002 and for the two months ended December 31, 2002 and Report of Independent Auditors F-23

Tempur World, Inc. (the Predecessor)

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TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
As of June 30, 2003

	Successor June 30, 2003
	(Unaudited)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 7,983,531
Accounts receivable, net of allowance for doubtful accounts of $3,075,633	49,038,913
Inventories	54,449,320
Prepaid expenses and other current assets	5,062,328
Deferred income taxes	5,182,068
Total current assets	121,716,160
Property, plant and equipment, net	92,047,191
Goodwill	205,075,941
Other intangible assets, net of amortization of $1,595,315 as of June 30, 2003	82,789,568
Deferred financing costs and other non-current assets, net	8,969,568
Total Assets	$ 510,598,428
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 23,457,588
Accrued expenses	32,752,825
Income taxes payable	12,927,181
Value added taxes payable	1,250,500
Accrued earn-out payable	40,000,000
Current portion—long-term debt	13,709,778
Current portion—capital lease obligations and other	671,426
Total current liabilities	124,769,298
Long-term debt	161,685,971
Capital lease obligations	12,875
Deferred income taxes	41,668,303
Other long-term liabilities	1,885,945
Total liabilities	330,022,392
Commitments and contingencies	
Stockholders' Equity:	
Series A Convertible Preferred Stock, $.01 par value, 180,000 shares authorized, 146,463.65 shares issued and outstanding	154,232,245
Class A Common Stock, $.01 par value, 25,000 shares authorized, 14,006 shares issued and outstanding	140
Class B-1 Common Stock, $.01 par value, 300,000 shares authorized, 878.64 shares issued and outstanding	9
Additional paid in capital	4,864,496
Class B-1 Common Stock Warrants	2,347,788
Notes receivable	(100,000)
Deferred stock compensation, net of amortization of $14,339	(129,044)
Retained earnings	16,124,256
Accumulated other comprehensive income	3,236,146
Total stockholders' equity	180,576,036
Total liabilities and stockholders' equity	$ 510,598,428

The accompanying notes to consolidated condensed interim financial statements are an integral part of this statement.

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2002

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2003

	Predecessor	Successor
	Six Months Ended	
	June 30, 2002	June 30, 2003
	(Unaudited)	(Unaudited)
Net sales	$ 129,808,671	$ 218,803,941
Cost of sales	61,893,654	98,635,412
Gross profit	67,915,017	120,168,529
Selling expenses	33,300,054	49,350,947
General and administrative expenses	14,923,374	19,252,160
Research and development expenses	604,241	413,503
Operating income	19,087,348	51,151,919
Other income (expense), net:		
Interest income	187,266	291,495
Interest expense	(3,866,990)	(8,452,766)
Foreign currency exchange losses	(325,551)	(1,936,177)
Other income, net	141,938	1,431,558
Total other expense	(3,863,337)	(8,665,890)
Income before income taxes	15,224,011	42,486,029
Income tax provision	7,273,958	15,738,963
Net income	7,950,053	26,747,066
Preferred stock dividends	718,219	5,810,394
Net income available to common shareholders	$ 7,231,834	$ 20,936,672

The accompanying notes to consolidated condensed interim financial statements are an integral part of these statements.

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2002

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2003

	Six Months Ended	
	June 30, 2002	June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,950,053	$ 26,747,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,975,598	8,233,333
Amortization of deferred financing costs	663,005	1,197,625
Amortization of original issue discount	—	326,039
Allowance for doubtful accounts	1,422,453	1,465,963
Deferred income taxes	(2,007,453)	(521,665)
Foreign currency adjustments	(2,996,026)	(3,321,604)
(Gain)/Loss on sale of equipment	532,979	(205,545)
Changes in operating assets and liabilities:		
Accounts receivable—trade	(4,141,268)	(5,519,907)
Inventories	(5,530,999)	(16,207,700)
Prepaid expenses and other current assets	862,499	(1,382,703)
Accounts payable	1,989,986	4,233,667
Accrued expenses and other	1,905,291	2,786,709
Value added taxes payable and other	(1,229,039)	(3,176,599)
Income taxes payable	4,626,833	8,304,607
Net cash provided by operating activities	10,023,912	22,959,286
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired	(647,407)	—
Purchases of property, plant and equipment	(4,835,277)	(6,744,067)
Proceeds from sales of property, plant and equipment	5,143,789	656,372
Net cash used by investing activities	(338,895)	(6,087,695)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	5,330,006	6,847,718
Proceeds from issuance of long-term debt—related party	18,798	—
Proceeds from issuance of notes payable-line of credit	2,903,421	477,550
Repayments of long-term debt	(19,926,444)	(29,259,028)
Repayments of long-term debt—related party	(945,921)	—
Repayments of notes payable—line of credit	(2,799,242)	—
Repayments of capital lease obligations	(135,920)	(15,148)
Payments of deferred financing costs	(122,195)	—
Proceeds from issuance of preferred stock	2,500,000	—
Purchases of treasury stock	(546,040)	—
Net cash used by financing activities	(13,723,537)	(21,948,908)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH:	(344,347)	406,673
Decrease in cash and cash equivalents	(4,382,867)	(4,670,644)
CASH AND CASH EQUIVALENTS, beginning of period	7,538,178	12,654,175
CASH AND CASH EQUIVALENTS, end of period	$ 3,155,311	$ 7,983,531

The accompanying notes to consolidated condensed interim financial statements are an integral part of these statements.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

(1) The Company

On November 1, 2002, TWI Holdings, Inc. (the Successor to Tempur World, Inc.) acquired (the Tempur Acquisition) Tempur World, Inc. (the Predecessor to TWI Holdings, Inc.). The total acquisition price of Tempur World, Inc. (collectively with its subsidiaries, Tempur World) was approximately $268,483,800. The Tempur Acquisition was financed with approximately $146,638,700 in cash proceeds of newly issued Series A Convertible Preferred Stock and Class A Common Stock and $107,679,400 of incremental senior and mezzanine debt borrowings, net of approximately $5,751,900 of Tempur World's cash.

The Tempur Acquisition was accounted for using the purchase method of accounting (see Note 2, Business Combinations). As a result of purchase accounting adjustments to the carrying value of the assets and liabilities, the financial position and results of operations for periods subsequent to the Tempur Acquisition are not comparable to those of Tempur World (the Predecessor of TWI Holdings). The accompanying financial statements present financial information for TWI Holdings (the Successor to Tempur World) and Tempur World (the Predecessor to TWI Holdings) and throughout these Consolidated Condensed Interim Financial Statements a distinction is made between Successor and Predecessor financial information.

Consistent with the terms and conditions of the Tempur Acquisition, TWI Holdings, Inc. (collectively with its subsidiaries, TWI Holdings or the Company) is required to pay a maximum of $40,000,000 to the former shareholders of Tempur World as a deferred payment if TWI Holdings meets certain EBITDA and revenue targets for the fiscal year ending December 31, 2003. The Company has accrued this amount in the accompanying Consolidated Condensed Interim Balance Sheet.

TWI Holdings, Inc. is a US-based multinational corporation incorporated in Delaware. The Company manufactures, markets and sells advanced visco-elastic foam products including pillows, mattresses and other related products. The Company manufactures essentially all of its products at Dan Foam ApS, located in Denmark and Tempur Production USA, Inc. in the United States. The Company has sales and distribution companies operating in the US, Europe, Japan, South Africa and Singapore. In addition, the Company has third party distributor arrangements in Eastern Europe, Asia/Pacific, the Middle East, Central and South America and Canada and Mexico. The Company sells its products in over 50 countries and primarily extends credit based on the creditworthiness of its customers. The majority of the Company's revenues are derived from sales to retailers and to retail consumers through its direct response business.

These Consolidated Condensed Interim Financial Statements (the Statements) include both Successor and Predecessor financial information.

The accompanying Statements, prepared in accordance with the instructions to Form 10-Q and article 10 of Regulation S-X, are unaudited and do not include all the information and disclosures required by generally accepted accounting principles in the United States for complete financial statements. Accordingly, for further information refer to the consolidated financial statements of TWI Holdings, Inc. and related footnotes for the two months ended December 31, 2002.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. In the opinion of management, all significant intercompany balances and transactions have been eliminated in consolidation and all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM
FINANCIAL STATEMENTS (Unaudited)—(Continued)

(2) Business Combination

The Tempur Acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" (SFAS 141), and TWI Holdings (the Successor to Tempur World) has allocated the purchase price of Tempur World (the Predecessor to TWI Holdings) based upon the fair values of the net assets acquired and liabilities assumed. The allocation of the purchase price has not yet been finalized and is subject to adjustment over the allocation period for most items and longer for income tax matters. The changes in the carrying amount of goodwill for the six months ended June 30, 2003 approximated:

	Successor
Balance as of December 31, 2002	$ 165,803,200
Foreign currency translation adjustments	(184,700)
Purchase accounting adjustments	39,457,400
Balance as of June 30, 2003	$ 205,075,900

The goodwill has been preliminarily allocated to the Domestic and International segments as follows:

Domestic	$ 88,844,800
International	$ 116,231,100

(3) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*—The Statements include the accounts of TWI Holdings (the Successor to Tempur World) and its subsidiaries and Tempur World (Predecessor to TWI Holdings) and its subsidiaries. All subsidiaries, directly or indirectly, are wholly-owned. All material intercompany balances and transactions have been eliminated.

(b) *Management's Use of Estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, management makes its best estimate to accrue for certain costs incurred in connection with business activities such as warranty claims and sales returns, but the estimates of these costs could change materially.

(c) *Foreign Currency Translation*—Assets and liabilities of non-United States subsidiaries, whose functional currency is the local currency, are translated at period-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the period. The adjustment resulting from translating the financial statements of such foreign subsidiaries is reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are reported in results of operations.

(d) *Financial Instruments and Hedging*—Derivative financial instruments are used within the normal course of business principally to manage the exposure to changes in the value of certain foreign currency denominated

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

assets and liabilities of its Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged.

A variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date are used in determining the fair value of financial instruments. For the majority of the financial instruments, including derivatives and long-term debt, standard market conventions and techniques including available market data and discounted cash flow analysis are used to determine fair value. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value because of the short-term maturity of those instruments. The carrying amounts of long-term debt approximate the fair market value for instruments with similar terms.

(e) *Revenue Recognition*—In accordance with SEC Staff Accounting Bulletin 101, sales of products are recognized when the products are shipped to customers and the risks and rewards of ownership are transferred. No collateral is required on sales made in the normal course of business. Deposits made by customers are recorded as a liability and recognized as a sale when product is shipped. TWI Holdings (the Successor to Tempur World) had approximately $5,188,700 of deferred revenue included in Accrued expenses as of June 30, 2003.

TWI Holdings (the Successor to Tempur World) reflects all amounts billed to customers for shipping in Net sales and the costs incurred from shipping product in Cost of sales. Amounts included in Net sales for shipping and handling are approximately $8,878,300 for the six months ended June 30, 2003. Amounts included in Cost of sales for shipping and handling are approximately $19,704,200 for the six months ended June 30, 2003.

Tempur World (the Predecessor to TWI Holdings) reflects all amounts billed to customers for shipping in Net sales and the costs incurred from shipping product in Cost of sales. Amounts included in Net sales for shipping and handling are approximately $5,470,900 for the six months ended June 30, 2002. Amounts included in Cost of sales for shipping and handling are approximately $11,230,900 for the six months ended June 30, 2002.

(f) *Accrued Sales Returns*—Estimated sales returns are provided at the time of sale based on historical sales returns. TWI Holdings (the Successor to Tempur World) allows product returns ranging from 90 to 120 days following a sale. Accrued sales returns are included in Accrued expenses in the accompanying Consolidated Condensed Interim Balance Sheets. TWI Holdings (the Successor to Tempur World) had the following activity for sales returns for the six months ended June 30, 2003 (approximated):

	Successor
Balance as of December 1, 2002	$ 4,072,000
Amounts accrued	3,727,800
Returns charged to accrual	(3,131,800)
Balance as of June 30, 2003	$ 4,668,000

(g) *Advertising Costs*—TWI Holdings (the Successor to Tempur World) expenses all advertising costs as incurred except for production costs and advance payments, which are deferred and expensed when

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

advertisements run for the first time. Advertising costs charged to expense were approximately $30,715,100 for the six months ended June 30, 2003.

Tempur World (the Predecessor to TWI Holdings) expenses all advertising costs as incurred except for production costs and advance payments, which are deferred and expensed when advertisements run for the first time. Advertising costs charged to expense were approximately $20,803,100 for the six months ended June 30, 2002.

Advertising costs are deferred on television and radio advertising where payment is made in advance of the advertising. These costs are expensed the first time the media is run. In addition, direct response prepayments are deferred and are amortized over approximately four months.

The amounts of advertising costs deferred and included in the TWI Holdings (the Successor to Tempur World) Consolidated Condensed Interim Balance Sheet as of June 30, 2003 is approximately $2,575,600.

(h) *Cash and Cash Equivalents*—Cash and cash equivalents consist of all liquid investments with initial maturities of three months or less.

(i) *Inventories*—Inventories are stated at the lower of cost or market, determined by the first-in, first-out method and consisted of the following (approximated):

	Successor
	June 30, 2003
Finished goods	$ 34,537,800
Work-in-process	7,241,500
Raw materials and supplies	12,670,000
	$ 54,449,300

(j) Property, *Plant and Equipment*—Property, plant and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Life
Buildings	25-30 years
Computer equipment	3-5 years
Leasehold improvements	4-7 years
Equipment	3-7 years
Office furniture and fixtures	5-7 years
Autos	3-5 years

Leasehold improvements are amortized over the shorter of the life of the lease or seven years. Depreciation expense relating to TWI Holdings (the Successor to Tempur World) was approximately $7,024,900 for the six months ended June 30, 2003.

Depreciation expense relating to Tempur World (the Predecessor to TWI Holdings) was approximately $5,560,800 for the six months ended June 30, 2002.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

Equipment held under capital leases is recorded at the fair market value of the equipment at the inception of the leases. Equipment held under capital leases are amortized over the shorter of their estimated useful lives or the terms of the respective leases.

(k) Goodwill *and Other Intangible Assets*—The Company follows SFAS 141, “Business Combinations,” and SFAS 142, “Goodwill and Other Intangible Assets” (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations. SFAS 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144).

The following table summarizes information about the preliminary allocation of other intangible assets for TWI Holdings (the Successor to Tempur World) (approximated):

	As of June 30, 2003	
	Successor	Successor
	Gross Carrying Amount	Accumulated Amortization
Unamortized indefinite life intangible assets:		
Trademarks, patents and technology	$ 74,800,000	$ —
Foam formula	3,000,000	—
Other	84,678	—
Total	$ 77,884,678	$ —
Amortized intangible assets:		
Customer database	$ 4,200,000	$ 420,000
Non-competition agreements and other	2,300,205	1,175,315
Total	$ 84,384,883	$ 1,595,315

TWI Holdings (the Successor to Tempur World) amortizes the non-competition agreements over their life of 1.5 years and the customer database over its estimated useful life of five years. Amortization expense for other intangibles was approximately $1.0 million for the six months ended June 30, 2003.

Based on identified intangible assets recorded as of June 30, 2003, the annual amortization expense is expected to be as follows (approximated):

Twelve Months Ending June 30,	
2004	$ 1,780,450
2005	880,450
2006	849,800
2007	840,000
2008	420,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM
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(l) *Software*—Preliminary project stage costs incurred are expensed and, thereafter, capitalized as costs are incurred in the developing or obtaining of internal use software. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of not more than five years and are subject to impairment evaluation in accordance with SFAS 144. Amounts capitalized for software are included in Machinery and equipment on the Consolidated Condensed Interim Balance Sheet as of June 30, 2003.

(m) *Warranties*—A 20-year warranty for US sales and a 15-year warranty for non-US sales on mattresses is provided, each prorated for the last 10 years. In addition, a 2-year to 3-year warranty is provided on pillows. Estimated future obligations related to these products are provided by charges to operations in the period in which the related revenue is recognized. Warranties are included in accrued expenses in the accompanying Consolidated Condensed Interim Balance Sheet. TWI Holdings (the successor to Tempur World) had the following activity for warranties for the six months ended June 30, 2003 (approximated):

	Successor
Balance as of December 31, 2002	$2,881,100
Amounts accrued	1,356,300
Warranty charged to accrual	(955,500)
Balance as of June 30, 2003	$3,281,900

(n) *Income Taxes*—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

In conjunction with the acquisition of Tempur World on November 1, 2002, TWI Holdings (the Successor to Tempur World) repatriated approximately $44,200,000 from one of its foreign entities in the form of a loan that under applicable US tax principles is treated as a taxable dividend. In addition, TWI Holdings (the Successor to Tempur World) has provided for the remaining undistributed earnings as of November 1, 2002 of $10,123,400. Provisions have not been made for United States income taxes or foreign withholding taxes on undistributed earnings of foreign subsidiaries since the Tempur Acquisition, as these earnings are considered indefinitely reinvested.

Undistributed foreign earnings as of June 30, 2003 were approximately $49,141,000. These earnings could become subject to United States income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to the United States parent company or a United States subsidiary, or if the Company should sell its stock in the subsidiaries.

(o) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred.

(p) *Stock-Based Compensation*—The Company has adopted SFAS 123, “Accounting for Stock Based Compensation” (SFAS 123). In accordance with SFAS 123, the Company has elected to account for employee

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stock and option issuances under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25 no compensation expense is recognized in the statements of income for stock granted to employees and non-employee directors, if the exercise price at least equals the fair value of the underlying stock on the date of grant.

Stock options are granted under various stock compensation programs to employees. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Pro forma information in accordance with SFAS 123 is as follows:

Six Months Ended June 30,	Predecessor 2002	Successor 2003
Net income (as reported)	$ 7,950,000	$ 26,747,000
Less: additional stock-based employee compensation, net of tax	235,000	29,000
Pro forma net income	$ 7,715,000	$ 26,718,000

(4) New Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" (FIN 46). FIN No. 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this Interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. The adoption of Fin No. 46 did not have an impact on the Company's financial statements.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). SFAS 145 was effective January 1, 2003. SFAS 145 eliminates the required classification of gain or loss on extinguishment of debt as an extraordinary item of income and states that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board Opinion No. 30, "Reporting Results of Operations" (APB 30). SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, and makes various other technical corrections to existing pronouncements.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This statement nullifies Emerging Issues Task Force Issue 94-3 (Issue 94-3), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS 146 had no impact on the Company's condensed financial statements during the second quarter of 2003. However, future periods could be impacted by qualifying activities.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement 123" (SFAS 148), which was effective on December 31,

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2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method on reported results. The provisions regarding alternative methods of transition do not apply to the Company, which accounts for stock-based compensation using the intrinsic value method.

In April 2003, the FASB issued SFAS 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The guidance is to be applied prospectively. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new guidance requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Application of SFAS 150 to financial instruments that exist on the date of adoption should be reported through a cumulative effect of a change in an accounting principle by measuring those instruments at fair value or as otherwise required by the SFAS 150. The adoption of SFAS 150 did not have a significant impact on our consolidated financial statements.

(5) Supplemental Cash Flow Information

Cash payments for interest and net cash payments for income taxes are as follows (approximated):

	Six Months Ended June 30,	
	Predecessor 2002	Successor 2003
Interest	$ 4,148,500	$ 6,148,500
Income taxes, net of refunds	$ 7,110,000	$ 6,825,400

(6) Long-term Debt

(a) *Secured Debt Financing*—On November 1, 2002, in connection with the Tempur Acquisition, TWI Holdings (the Successor to Tempur World) obtained from a syndicate of lenders a total of $170,000,000 of senior secured debt financing (the “Senior Debt Financing”) under United States and European term loans and long-term revolving credit facilities. The facilities consisted of (i) a $30,000,000 United States revolving loan facility; (ii) a $65,000,000 United States term loan facility (the United States revolving loan and the United States term loan are collectively referred to herein as the “US Facility”); (iii) a $20,000,000 European revolving loan facility; and (iv) a $55,000,000 European term loan facility (the European revolving loan and the European term loan are collectively referred to herein as the “European Facility”).

Borrowing availability under the United States and European revolving credit facilities is subject to a US Borrowing Base and European Borrowing Base, each as defined in the Loan Agreement. At June 30, 2003, TWI

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Holdings (the Successor to Tempur World) had unused availability under the Senior Debt Financing of approximately $20,373,500 and $17,784,600, respectively.

The aggregate amount of letters of credit outstanding under the US Facility is approximately $100,000 as of June 30, 2003. The aggregate amount of letters of credit outstanding under the European Facility is approximately $5,064,200 as of June 30, 2003.

The Loan Agreement for the debt makes TWI Holdings (the Successor to Tempur World) subject to certain financial covenants, including: minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; maximum senior leverage ratio; and a limitation on capital expenditures, in each case as defined. TWI Holdings (the Successor to Tempur World) was in compliance with its covenants as of June 30, 2003.

(b) *Senior Subordinated Debt*—On November 1, 2002, in connection with the Tempur Acquisition, TWI Holdings (the Successor to Tempur World) obtained a total of $50,000,000 of 12.5% senior subordinated unsecured debt financing (the “Sub Debt”).

The Loan Agreement for the Sub Debt makes TWI Holdings (the Successor to Tempur World) subject to certain financial covenants, including: minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; and a limitation on capital expenditures, in each case as defined. TWI Holdings (the Successor to Tempur World) was in compliance with its covenants as of June 30, 2003.

(c) *Long-term Debt*—Long-term debt for TWI Holdings (the Successor to Tempur World) at June 30, 2003 consisted of the following (approximated):

	Successor
	June 30, 2003
United States Term Loan payable to a lender, interest at the IBOR plus margin (5.1% as of June 30, 2003), principal payments due quarterly through September 2007	$ 61,400,000
European Term Loan payable to a lender, interest at IBOR plus margin (5.1% as of June 30, 2003), principal payments due quarterly through September 2007	52,000,000
United States Long-Term Revolving Credit Facility payable to a lender, interest at IBOR and index Rate plus margin (5.028% as of June 30, 2003), commitment through and due September 2007	9,626,500
European Long-Term Revolving Credit Facility payable to a lender, interest at IBOR plus margin (4.86% as of June 30, 2003), commitment through September 2007	2,215,400
United States Subordinated Debt payable to lenders, interest at 12.5%, commitment through and due November 1, 2009	37,500,000
European Subordinated Debt payable to lenders, interest at 12.5%, commitment through and due November 1, 2009	12,500,000
Mortgages payable to a bank, secured by certain property, plant and equipment and other assets, bearing fixed interest at 4.4% to 5.1%	2,175,600
	177,417,500
Less: Current portion	13,709,800
Long-term debt before deduction of original issue discount	163,707,700
Less: Original issue discount	2,021,800
Long-term debt	$ 161,685,900

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The long-term debt of TWI Holdings (Successor to Tempur World) is scheduled to mature as follows (approximated):

12 Months Ending June 30,	
2004	$ 13,709,800
2005	15,749,900
2006	17,899,100
2007	22,286,500
2008	29,424,300
Thereafter	78,347,900
Total	$ 177,417,500

(7) Comprehensive Income

Comprehensive income for TWI Holdings (the Successor to Tempur World) was approximately $28.6 million for the six months ended June 30, 2003.

Comprehensive income for Tempur World (the Predecessor to TWI Holdings) was approximately $12.7 million for the six months ended June 30, 2002.

(8) Commitments and Contingencies

(a) *Lease Commitments*—Certain property, plant and equipment are leased under noncancellable capital lease agreements expiring at various dates through 2005. Such leases also contain renewal and purchase options. TWI Holdings (the Successor to Tempur World) leases space for its corporate headquarters and a retail outlet under operating leases that calls for annual rental payments due in equal monthly installments. Operating lease expenses were approximately $1,443,000 for the six months ended June 30, 2003 for TWI Holdings (the Successor to Tempur World).

Operating lease expenses were approximately $947,300 for the six months ended June 31, 2002 for Tempur World (the Predecessor to TWI Holdings).

(b) *Litigation*—The Company is party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings is not presently determinable, management does not believe that adverse determinations in any or all of such proceedings will have a material adverse effect upon the financial condition liquidity or results of operations of the Company.

(9) Derivative Financial Instruments

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company has entered into forward foreign exchange contracts. Gains and losses on these contracts generally offset losses and gains on the relevant subsidiary's foreign currency receivables and foreign currency debt.

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The Company does not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor does it hedge exposure related to anticipated transactions.

The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings (both in Other income, net).

The foreign currency forward contracts held by the Company are denominated in United States dollars, British Pound Sterling and Japanese Yen each against the Danish Krone.

A sensitivity analysis indicates that if United States dollar to foreign currency exchange rates at June 30, 2003 increased 10%, the Company would incur losses of approximately $2,300,400 on foreign currency forward contracts outstanding at June 30, 2003. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged.

The Company had derivative financial instruments with a notional value of approximately $8,067,000 and an initial value in excess of fair value of approximately $444,200 included in Foreign exchange receivable on the Consolidated Condensed Interim Balance Sheet as of June 30, 2003. TWI Holdings (the Successor to Tempur World) incurred foreign exchange losses on derivative financial instruments of approximately $3,470,000 for the six months ended June 30, 2003, which are included in the Consolidated Condensed Interim Statement of Operations.

Tempur World (the Predecessor to TWI Holdings) incurred foreign exchange losses on derivative financial instruments of approximately $711,300 for the six months ended June 30, 2002, which are included in the accompanying Consolidated Condensed Interim Statement of Operations.

During January 2003, TWI Holdings (the Successor Tempur World) purchased two three-year interest rate caps (“interest rate caps”) for the purpose of protecting $60,000,000 of the variable interest rate debt outstanding, at any given time, against IBOR rates rising above 5%. Under the terms of the interest rate caps, the Company has paid a premium to receive payments based on the difference between 3-month IBOR and 5% during any period in which the 3-month IBOR rate exceeds 5%. The interest rate caps settle on the last day of March, June, September, and December until expiration. The fair value of the interest rate caps as of June 30, 2003 of approximately $133,800 is included in the accompanying Consolidated Condensed Interim Balance Sheet.

(10) Income Taxes

The effective tax rate for Tempur World (the Predecessor to TWI Holdings) for the six months ended June 30, 2002 was 47.8%. Reconciling items between the federal statutory income tax rate of 35% and the effective tax rate include state income taxes, subpart F income net of foreign tax credits, valuation allowances attributable to foreign net operating losses, differences in United States statutory rates and foreign tax rates, and certain other permanent differences.

The effective tax rate for TWI Holdings (the Successor to Tempur World) for the six months ended June 30, 2003 was 37.0%. Reconciling items between the federal statutory income tax rate of 35% and the effective tax

rate include state income taxes, subpart F income net of foreign tax credits, valuation allowances attributable to foreign net operating losses, differences in United States statutory rates and foreign taxes rates, and certain other permanent differences.

(11) Major Customers

The five largest customers by net sales accounted for approximately 22.5% of net sales for the six months ended June 30, 2003, one of which accounted for approximately 7.8% of net sales, all of which was in the Domestic segment. These same customers also accounted for approximately 17.8% of accounts receivable as of June 30, 2003. The loss of one or more of these customers could have a material adverse effect on TWI Holdings (the Successor to Tempur World).

(12) Business Segment Information

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and assessing performance. The Company operates in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations.

Beginning in 2002, following the opening of the Company's United States manufacturing facility, the Company changed the reporting structure from a single segment to Domestic and International operating segments. This change was consistent with the Company's ability to monitor and report operating results in these segments. The Domestic segment consists of the United States manufacturing facility whose customers include the United States distribution subsidiary and certain North American third party distributors. The International segment consists of the manufacturing facility in Denmark whose customers include all of the distribution subsidiaries and third party distributors outside the Domestic segment. The Company evaluates segment performance based on Operating income.

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The following table summarizes segment information (approximated):

	For the Six Months Ended	
	Predecessor 2002	Successor 2003
Net sales to external customers:		
Corporate	$ —	$ —
Domestic	71,824,000	124,229,000
International	57,984,000	94,575,000
	$ 129,808,000	$ 218,804,000
Intercompany sales:		
Corporate	$ —	$ —
Domestic	—	—
International	8,822,600	22,148,000
Intercompany eliminations	(8,822,600)	(22,148,000)
	$ —	$ —
Operating income:		
Corporate	$ (2,598,000)	$ (2,887,000)
Domestic	12,663,000	27,014,000
International	9,022,000	27,025,000
	$ 19,087,000	$ 51,152,000

The following table sets forth net sales by significant product group:

	Six Months ended June 30,	
	2002	2003
Mattressess	70,468,000	118,384,000
Pillows	38,471,000	66,244,000
All other	20,869,000	34,176,000
	129,808,000	218,804,000

The domestic segment purchases certain products produced by the Danish manufacturing facility included in the International segment and sells those products to Domestic segment customers. Although these transactions are reported in the domestic segment, the profit from these sales remain in the international segment for statutory purposes. These profits amounting to approximately $1,687,800 for Tempur World (the Predecessor to TWI Holdings) for the six months ended June 30, 2002 are allocated to operating income in the Domestic segment. These profits amounting to approximately $6,023,500 for TWI Holdings (the Successor to Tempur World) for the six months ended June 30, 2003 are allocated to operating income in the Domestic segment.

As the Company operated in one segment prior to the start up of the United States manufacturing operation, the Company has not restated prior year segment information to reflect the new reporting structure. The consolidated financial statements herein present all of the required disclosures for a single segment.

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(13) Condensed Consolidating Financial Information

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the "Issuers") issued $150 million of 10.25% Senior Subordinated Notes due 2010 (the "Senior Subordinated Notes"). The Senior Subordinated Notes are unsecured senior subordinated indebtedness of the Issuers and are fully and unconditionally and joint and severally guaranteed on an unsecured senior subordinated basis by the Issuers' ultimate parent, TWI Holdings, Inc., and two intermediate parent corporations (referred to as the "Combined Guarantor Parents" in the accompanying financial information) and all of TWI Holdings' current and future domestic subsidiaries (referred to collectively as the "Issuers and their Subsidiary Guarantors" in the accompanying financial information), other than the Issuers. The Issuers and subsidiary guarantors are indirectly wholly owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are wholly owned subsidiaries of the Issuers. The foreign subsidiaries (referred to as "Combined Non-Guarantor Subsidiaries" in the accompanying financial information) represent the foreign operations of the Company and will not guarantee this debt. The following financial information presents condensed consolidating balance sheets, statements of operations and statements of cash flows for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

TWI Holdings (The Successor to Tempur World)
Condensed Consolidating Balance Sheet
As of June 30, 2003

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets	$ 79,829,000	$ 5,498,000	$ 107,522,000	$ (71,133,000)	$ 121,716,000
Property, plant and equipment, net	38,092,000	275,000	53,680,000	—	92,047,000
Other noncurrent assets	223,931,000	38,997,000	165,225,000	(131,318,000)	296,835,000
Total assets	$ 341,852,000	$ 44,770,000	$ 326,427,000	$ (202,451,000)	$ 510,598,000
Current liabilities	$ 81,107,000	$ 66,286,000	$ 48,534,000	$ (71,158,000)	$ 124,769,000
Noncurrent liabilities	120,795,000	97,636,000	81,598,000	(94,776,000)	205,253,000
Equity (deficit)	139,950,000	(119,152,000)	196,295,000	(36,517,000)	180,576,000
Total liabilities and equity (deficit)	$ 341,852,000	$ 44,770,000	$ 326,427,000	$ (202,451,000)	$ 510,598,000

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TWI Holdings (The Successor to Tempur World)
Condensed Consolidating Statements of Operations
For the Six Months Ended June 30, 2003

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 124,229,000	$ —	$ 116,723,000	$ (22,148,000)	$ 218,804,000
Cost of goods sold	65,033,000	(268,000)	56,018,000	(22,148,000)	98,635,000
Gross profit	59,196,000	268,000	60,705,000	—	120,169,000
Operating expenses	38,206,000	3,155,000	27,656,000	—	69,017,000
Operating income	20,990,000	(2,887,000)	33,049,000	—	51,152,000
Interest income (expense), net	(1,188,000)	(5,235,000)	(1,738,000)	—	(8,161,000)
Other income (loss)	38,000	(709,000)	166,000	—	(505,000)
Income taxes	7,786,000	(3,190,000)	11,143,000	—	15,739,000
Net income (loss)	$ 12,054,000	$ (5,641,000)	$ 20,334,000	$ —	$ 26,747,000

TWI Holdings (The Successor to Tempur World)
Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2003

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ 12,054,000	$ (5,641,000)	$ 20,334,000	$ —	$ 26,747,000
Non-cash expenses	2,946,000	(1,949,000)	6,178,000	—	7,175,000
Changes in working capital	(2,142,000)	7,615,000	(16,435,000)		(10,962,000)
Net cash provided by operating activities	12,858,000	25,000	10,077,000	—	22,960,000
Net cash used for investing activities	(4,663,000)	(49,000)	(1,376,000)	—	(6,088,000)
Net cash provided by financing activities	(8,811,000)	404,000	(13,542,000)	—	(21,949,000)
Effect on exchange rate	—	—	407,000	—	407,000
Net increase (decrease) in cash and cash equivalents	(616,000)	380,000	(4,434,000)	—	(4,670,000)
Cash and cash equivalents at beginning of the year	654,000	609,000	11,391,000	—	12,654,000
Cash and cash equivalents at end of period	$ 38,000	$ 989,000	$ 6,957,000	$ —	$ 7,984,000

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For the Six Months Ended June 30, 2002

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 71,825,000	$ —	$ 66,807,000	$ (8,823,000)	$ 129,809,000
Cost of goods sold	35,245,000	(160,000)	35,632,000	(8,823,000)	61,894,000
Gross profit	36,580,000	160,000	31,175,000	—	67,915,000
Operating expenses	25,605,000	2,758,000	20,465,000	—	48,828,000
Operating income	10,975,000	(2,598,000)	10,710,000	—	19,087,000
Interest income (expense), net	(1,623,000)	(920,000)	(1,136,000)	—	(3,679,000)
Other income (loss)	39,000	—	(223,000)	—	(184,000)
Income taxes	3,590,000	150,000	3,534,000	—	7,274,000
Net income (loss)	$ 5,801,000	$ (3,668,000)	$ 5,817,000	$ —	$ 7,950,000

Tempur World (The Predecessor to TWI Holdings)
Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2002

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ 5,801,000	$ (3,668,000)	$ 5,817,000	$ —	$ 7,950,000
Non-cash expenses	3,542,000	1,965,000	(1,917,000)	—	3,590,000
Changes in working capital	(2,554,000)	(12,000)	1,050,000	—	(1,516,000)
Net cash provided by operating activities	6,789,000	(1,715,000)	4,950,000	—	10,024,000
Net cash used for investing activities	(2,167,000)	(39,000)	1,867,000	—	(339,000)
Net cash provided by financing activities	(6,800,000)	1,831,000	(8,755,000)	—	(13,724,000)
Effect on exchange rate changes on cash	—	—	(344,000)	—	(344,000)
Net increase (decrease) in cash and cash equivalents	(2,178,000)	77,000	(2,282,000)	—	(4,383,000)
Cash and cash equivalents at beginning of the year	2,037,000	7,000	5,494,000	—	7,538,000
Cash and cash equivalents at end of period	$ (141,000)	$ 84,000	$ 3,212,000	$ —	$ 3,155,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

(14) Subsequent Event

On July 29, 2003, the Company was served with a Civil Investigative Demand from the office of the Attorney General of the State of Texas in connection with that office's investigation into "the possibility of price fixing in the mattress industry." In connection with the investigation, the Company has been asked to produce certain documents that may be relevant to the investigation and to respond to written interrogatories. The demand seeks, among other things, documents relating to the retail pricing of our products, including retail pricing policies and correspondence with retail accounts. The Company is unable to predict the scope or possible outcome of the investigation or to quantify its potential impact on our business or operations.

During July 2003, the Company's Board of Directors issued a consent to accelerate the vesting of options granted to certain employees under the Company's 2002 Stock Option Plan (Option Plan). This acceleration resulted in the immediate vesting of options granted to certain employees that would otherwise have vested within the next year. Under the original terms of the Option Plan, invested options are forfeited upon separation of employment. In accordance with APB 25, the Company will recognize compensation expense based on its estimate of the numbers of options that the holders ultimately will retain that otherwise would have been forfeited, absent the notification.

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the "Issuers") issued $150 million of 10.25% Senior Subordinated Notes due 2010 (the "Senior Subordinated Notes"). The Senior Subordinated Notes were sold in a private placement to "qualified institutional buyers" under Rule 144A, non-U.S. persons under Regulation S and certain institutional accredited investors within the meaning of Rule 501(a)(1), (2), (3) or (7). The Issuers will file, on or before November 15, 2003, a registration statement to register the Senior Subordinated Notes with the Securities and Exchange Commission.

The Senior Subordinated Notes are unsecured senior subordinated indebtedness of the Issuers and are guaranteed on an unsecured senior subordinated basis by the Issuers' ultimate parent, TWI Holdings, Inc., and all of TWI Holdings' current and future domestic restricted subsidiaries (as defined in the indenture dated as of August 15, 2003, among the Issuers, the guarantors named therein and Wells Fargo Bank Minnesota, National Association, as trustee (the "Indenture")), other than the Issuers. The Senior Subordinated Notes are effectively junior to the liabilities of TWI Holdings' non-guarantor subsidiaries. The Senior Subordinated Notes have no mandatory redemption or sinking fund requirements; however, they do provide for partial redemption at the Issuers' option under certain circumstances prior to August 15, 2006 and full redemption at the Issuers' option on or after August 15, 2007.

The Senior Subordinated Notes contain certain covenants that restrict, among other things, the ability of the Issuers, TWI Holdings and their restricted subsidiaries (as defined in the Indenture) to incur additional indebtedness and issue preferred stock; pay dividends or make other distributions other than the recapitalization dividend. Interest on the Senior Subordinated Notes is payable on February 15 and August 15 of each year, beginning February 15, 2004.

In conjunction with the issuance of the Senior Subordinated Notes, TWI Holdings amended and restated its senior secured credit facility (as so amended and restated, the "Senior Facility"), with a syndicate of United States ("U.S.") and European lenders. The Senior Facility was increased from $170,000,000 to a total of $270,000,000 of senior secured U.S. and European term loans and revolving credit facilities. The Senior Facility consists of a (i) $20,000,000 U.S. revolver; (ii) $30,000,000 U.S. term loan A; (iii) $135,000,000 U.S. term loan

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

TWI HOLDINGS, INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

B (the U.S. revolver, term loan A and term loan B are collectively referred to as the “US Facility”); (iv) $20,000,000 European revolver; and (v) $65,000,000 European term loan A (the European revolver and term loan A are collectively referred to as the “European Facility”). The U.S. and European revolvers provide for the issuance of letters of credit to support local operations.

On August 15, 2003, loans outstanding under the Senior Facility totaled $230,000,000, comprised of $30,000,000 of U.S. term loans A, $135,000,000 of U.S. term loans B and $65,000,000 of European term loans A.

The revolving loans and the term loans A mature on November 1, 2008 and the new term loan B matures on June 30, 2009. The Senior Facilities bear interest, at the option of the borrowers, as follows: (a) a base rate plus an applicable margin for each of the US Facility or (b) a Eurodollar rate plus an applicable margin for the US Facility and the European Facility.

Drawings under the U.S. revolver are subject to a borrowing base based on, among other things, the levels of eligible accounts receivable and eligible inventory of the U.S. borrowers. Drawings under the European revolver are subject to a borrowing base based on, among other things, the levels of eligible accounts receivable and eligible inventory of European borrowers and their subsidiaries.

The US Facility and the European Facility are guaranteed by TWI Holdings and each of its direct and indirect U.S. subsidiaries. The US Facility and the European Facility are secured by (i) a first priority lien on substantially all of the U.S. assets of TWI Holdings and each of its direct and indirect U.S. subsidiaries and (ii) a pledge of all of the capital stock of each of TWI Holdings’ direct and indirect U.S. subsidiaries and 65% of the capital stock of TWI Holdings’ first tier foreign subsidiaries. In addition, the European Facility is guaranteed by certain of TWI Holdings’ foreign subsidiaries and is secured by (i) a lien on certain of the assets of TWI Holdings’ foreign subsidiaries and (ii) a pledge of substantially all of the capital stock of certain of TWI Holdings’ foreign subsidiaries.

The Senior Facility is subject to warrants and negative covenants, including but not limited to, financial covenants relating to minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; maximum senior leverage ratio; and maximum capital expenditures.

Proceeds from the Senior Facility were used to simultaneously repay all outstanding indebtedness in an aggregate principal amount of $50,000,000, and all interest and prepayment premiums thereon, evidenced by the Senior Subordinated Loan Agreement, dated as of November 1, 2002, among the lenders, TWI Holdings, and certain of TWI Holdings’ direct and indirect U.S. and European subsidiaries. Upon such repayment, the Senior Subordinated Loan Agreement was terminated.

Subsequent to August 15, 2003, proceeds from the issuance of the notes, along with drawings under the Senior Facility, were used (a) to prepay an earn-out payment of approximately $40,000,000 to the former stockholders of Tempur World, Inc., pursuant to the Agreement and Plan of Merger, dated as of October 4, 2002, among TWI Holdings, Tempur World and certain other persons party thereto, and the Contribution Agreement, dated as of October 4, 2002, among TWI Holdings and certain other persons party thereto, and (b) to pay a special dividend of approximately $160,000,000 in cash on shares of Class B-1 Voting Common Stock of TWI Holdings (on an as-converted basis) to stockholders and warrant holders of record as of August 21, 2003.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
TWI Holdings, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of TWI Holdings, Inc. and Subsidiaries (the Company) as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the two months ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TWI Holdings, Inc. and Subsidiaries as of December 31, 2002, and the consolidated results of their operations and their cash flows for the two months ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Louisville, Kentucky
June 20, 2003

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TWI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
As of December 31, 2002

	Notes	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	*6*	$ 12,654,175
Accounts receivable, net of allowance for doubtful accounts of $2,518,485	*13*	43,798,953
Inventories	*3i*	36,630,241
Prepaid expenses and other current assets		3,148,073
Deferred income taxes	*12*	5,050,840
Total current assets		101,282,282
Land and buildings		45,519,224
Machinery and equipment		43,798,251
Construction in progress		1,078,595
		90,396,070
Less: Accumulated depreciation		(2,110,058)
Property, plant and equipment, net	*3j*	88,286,012
Goodwill	*2, 3k*	165,803,236
Other intangible assets, net of amortization of $553,649	*2, 3k*	83,807,012
Deferred financing costs and other non-current assets, net	*2*	9,315,530
Total assets		$ 448,494,072
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable		$ 17,674,899
Accrued expenses		30,974,643
Income taxes payable	*12*	3,578,922
Value added taxes payable		1,979,043
Foreign exchange payable		1,964,301
Current portion—long-term debt	*7c*	13,565,359
Current portion—capital lease obligations and other	*9a*	204,777
Total current liabilities		69,941,944
Long-term debt	*7c*	182,292,388
Capital lease obligations	*9a*	25,993
Deferred income taxes	*12*	42,007,920
Other long-term liabilities		2,226,541
Total liabilities		296,494,786
Commitments and contingencies	*9*	
Stockholders' Equity:		
Series A Convertible Preferred Sock, $.01 par value, 180,000 shares authorized, 146,463.65 shares issued and outstanding	*11a*	148,421,852
Class A Common Stock, $.01 par value, 25,000 shares authorized, 14,006 shares issued and outstanding	*2*	140
Class B-1 Common Stock, $.01 par value, 300,000 shares authorized, 878.64 shares issued and outstanding		9
Additional paid in capital		4,864,496
Class B-1 Common Stock Warrants	*11b*	2,347,788
Notes receivable	*2*	(100,000)
Deferred stock compensation, net of amortization of $2,390		(140,993)
Retained deficit		(4,812,417)
Accumulated other comprehensive income		1,418,411
Total stockholders' equity		151,999,286
Total liabilities and stockholders' equity		$ 448,494,072

The accompanying notes to consolidated financial statements are an integral part of this statement.

TWI Holdings, Inc. and Subsidiaries

Consolidated Statement of Operations
For the Two Months Ended December 31, 2002

	Notes	
Net sales	*3e, 3f*	$ 60,643,855
Cost of sales	*3i*	37,811,437
Gross profit		22,832,418
Selling expenses	*3g*	15,322,108
General and administrative expenses		7,688,487
Research and development expenses	*3o*	163,024
Operating loss		(341,201)
Other income (expense), net:		
Interest income		91,424
Interest expense		(3,046,460)
Foreign currency exchange gains	*3d, 10*	783,682
Other income, net		547,150
Total other expense		(1,624,204)
Loss before income taxes		(1,965,405)
Income tax provision	*12*	888,813
Net loss		(2,854,218)
Preferred stock dividends		1,958,199
Net loss attributable to common stockholders		$ (4,812,417)

The accompanying notes to consolidated financial statements are an integral part of this statement.

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TEMPUR WORLD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Two Months Ended December 31, 2002

	Convertible Preferred Stock—Series A		Common Stock—Class A		Common Stock—Class B-1		Additional Paid in Capital	Class B-1 Common Stock Warrants	Notes Receivable	Deferred Stock Compensation	Retained Deficit	Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance, November 1, 2002	146,463.65	$ 146,463,653	14,006	$ 140	878.64	$ 9	$ 4,864,496	$ 2,347,788	$ (100,000)	$ (143,383)	$ —	$ —	$ 153,432,703
Net loss plus changes in accumulated comprehensive income:													
Net Loss		—		—		—	—	—	—	—	(2,854,218)	—	(2,854,218)
Foreign currency translation adjustments, net of tax		—		—		—	—	—	—	—	—	1,418,411	1,418,411
Net loss plus changes in accumulated comprehensive income		—		—		—	—	—	—	—	(2,854,218)	1,418,411	(1,435,807)
Dividends on Preferred Stock		1,958,199		—		—	—	—	—	—	(1,958,199)	—	—
Amortization of deferred stock compensation		—		—		—	—	—	—	2,390	—	—	2,390
Balance, December 31, 2002	146,463.65	$ 148,421,852	14,006	$ 140	878.64	$ 9	$ 4,864,496	$ 2,347,788	$ (100,000)	$ (140,993)	$ (4,812,417)	$ 1,418,411	$ 151,999,286

The accompanying notes to consolidated financial statements are an integral part of this statement.

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TWI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Two Months Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (2,854,218)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	2,663,707
Amortization of deferred financing costs	286,796
Amortization of original issue discount	84,173
Allowance for doubtful accounts	500,531
Deferred income taxes	(2,234,341)
Foreign currency adjustments	(2,649,201)
Loss on sale of equipment	232,613
Changes in operating assets and liabilities:	
Accounts receivable—trade	430,369
Inventories	11,472,359
Prepaid expenses and other current assets	(486,142)
Accounts payable	29,763
Accrued expenses and other	2,916,816
Foreign exchange payable	1,802,473
Value added taxes payable	(637,741)
Income taxes payable	827,293
Net cash provided by operating activities	12,385,250
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(1,960,749)
Proceeds from sales of property, plant and equipment	101,986
Net cash used for investing activities	(1,858,763)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of notes payable-line of credit	449,817
Repayments of long-term debt	(4,500,059)
Repayments of capital lease obligations	(170,370)
Net cash used by financing activities	(4,220,612)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH:	596,443
Increase in cash and cash equivalents	6,902,318
CASH AND CASH EQUIVALENTS, beginning of period	5,751,857
CASH AND CASH EQUIVALENTS, end of period	$ 12,654,175

The accompanying notes to consolidated financial statements are an integral part of this statement.

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company

TWI Holdings, Inc. (collectively with its subsidiaries, TWI Holdings or the Company), is a United States based multinational corporation incorporated in Delaware. It was formed to acquire all of the operations of Tempur World, Inc., a Delaware corporation (collectively with its subsidiaries, "Tempur World" or "TWI"). The Company manufactures, markets and sells advanced visco-elastic foam products including pillows, mattresses and other related products. The Company manufactures essentially all of its products at Dan Foam ApS, located in Denmark and Tempur Production USA, Inc. in the United States. The Company has sales and distribution companies operating in the U.S., Europe, Brazil, Japan, South Africa and Singapore. In addition, the Company has third party distributor arrangements in Eastern Europe, Asia/Pacific, the Middle East, and Central and South America and Canada and Mexico. The Company sells its products in over 50 countries and primarily extends credit based on the creditworthiness of its customers. The majority of the Company's revenues are derived from sales to retailers and to retail consumers through its direct response business.

(2) Business Combination

Pursuant to the Agreement and Plan of Merger dated as of October 4, 2002 (the Merger Agreement), on November 1, 2002, TWI Holdings, Inc. acquired Tempur World, Inc. (the Tempur Acquisition).

The total acquisition price of Tempur World as of the closing date of the Tempur Acquisition was approximately $268,483,800, including $14,165,800 of transaction fees and expenses. The Tempur Acquisition was financed with approximately $146,638,700 in cash proceeds of newly issued Series A Convertible Preferred Stock and Class A Common Stock, $107,679,400 of incremental senior and mezzanine debt borrowings (see Note (7)), net of approximately $5,751,900 of Tempur World's cash. The Company also refinanced approximately $88,816,500 of existing debt obligations of Tempur World. In addition, certain of the former shareholders of Tempur World contributed their shares of common stock of Tempur World to the Company immediately prior to the Tempur Acquisition in exchange for shares of Class A Common Stock of the Company. The Company has applied the provisions of Emerging Issues Task Force 88-16, "Basis in Leveraged Buyout Transactions," whereby, the carryover equity interests of certain management stockholders from Tempur World were recorded at their historical basis. The application of these provisions reduced Additional paid in capital and Goodwill by $9,384,700. Additionally, certain management employees of Tempur World also purchased shares of Class B-1 Common Stock of the Company in exchange for promissory notes in the aggregate principal amount of $100,000, which is reflected as a reduction of Stockholders' equity.

Pursuant to the Merger Agreement, a total of $30,100,000 (the Escrowed Funds) of the aggregate merger consideration otherwise payable to the former shareholders of Tempur World was deposited in escrow to secure obligations of the former shareholders of Tempur World with respect to the net working capital adjustment and indemnification claims under the Merger Agreement.

Pursuant to the Merger Agreement, the Company is required to pay a maximum of $40,000,000 to the former shareholders of Tempur World as a deferred payment if Tempur World meets certain EBITDA and revenue targets for the fiscal year ending December 31, 2003. As these contingencies have not been met or resolved as of December 31, 2002, this amount is not recorded.

The Tempur Acquisition was accounted for as a purchase in accordance with the recently issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" (SFAS 141), and the Company has allocated the purchase price of Tempur World based upon the fair values of the net assets acquired and liabilities assumed. The allocation of the purchase price has not yet been finalized and is subject to adjustment over the next twelve months for most items and longer for income tax matters. Portions of the net assets acquired and

liabilities assumed were valued by utilizing customary valuation procedures and techniques. Indefinite lived intangibles and goodwill are not being amortized in accordance with SFAS 142, "Goodwill and Other Intangible Assets" (SFAS 142).

The following table summarizes the estimated aggregate fair values of the assets acquired and liabilities assumed at the date of acquisition (approximated):

Accounts receivable	$ 43,661,700
Inventories	46,666,000
Other current assets	4,290,200
Property, plant and equipment	86,277,200
Identifiable intangible assets	84,360,700
Other assets	9,245,300
Accounts payable	(17,069,900)
Accrued expenses	(27,515,400)
Deferred taxes	(40,682,100)
Other current liabilities	(4,812,400)
Long term debt	(88,816,500)
Other non-current liabilities and other	(2,215,300)
	93,389,500
Adjustment for carryover basis of continuing stockholders	9,384,700
Goodwill	165,709,600
Aggregate purchase price	$ 268,483,800

The goodwill and identifiable intangible assets recorded as a result of the Tempur Acquisition are not deductible for tax purposes.

(3) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries. All subsidiaries, directly or indirectly, are wholly-owned. All material intercompany balances and transactions have been eliminated.

(b) *Management's Use of Estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, management makes its best estimate to accrue for certain costs incurred in connection with business activities such as warranty claims and sales returns, but the Company's estimates of these costs could change materially.

(c) *Foreign Currency Translation*—Assets and liabilities of non-United States subsidiaries, whose functional currency is the local currency, are translated at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries is reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are reported in results of operations.

(d) *Financial Instruments and Hedging*—Within the normal course of business, the Company uses derivative financial instruments principally to manage the exposure to changes in the value of certain foreign

currency denominated assets and liabilities of its Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged.

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of the financial instruments, including derivatives and long-term debt, standard market conventions and techniques including available market data and discounted cash flow analysis are used to determine fair value.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value because of the short-term maturity of those instruments. The carrying amounts of preferred stock and long-term debt approximate the fair market value for instruments with similar terms as of December 31, 2002.

(e) *Revenue Recognition*—In accordance with SEC Staff Accounting Bulletin 101, the Company recognizes sales of its products when the products are shipped to customers and the risks and rewards of ownership are transferred. The Company does not require collateral on sales made in the normal course of business. Deposits made by customers are recorded as a liability and recognized as a sale when product is shipped. The Company had approximately $4,201,500 of deferred revenue included in Accrued expenses as of December 31, 2002.

The Company reflects all amounts billed to customers for shipping in Net sales and the costs incurred from shipping product in Cost of sales. Amounts included in Net sales for shipping and handling are approximately $2,027,600 in the two months ended December 31, 2002. Amounts included in Cost of sales for shipping and handling are approximately $5,135,300 in the two months ended December 31, 2002.

(f) *Accrued Sales Returns*—Estimated sales returns are provided at the time of sale based on historical sales returns. The Company allows product returns ranging from 90 to 120 days following a sale. Accrued sales returns are included in Accrued expenses in the *accompanying* Consolidated Balance Sheet. The Company had the following activity for sales returns for the two months ended December 31, 2002 (approximated):

Balance as of November 1, 2002	$ 3,637,200
Amounts accrued	1,896,400
Returns charged to accrual	(1,461,500)
Balance as of December 31, 2002	$ 4,072,100

(g) *Advertising Costs*—The Company expenses all advertising costs as incurred except for production costs and advance payments which are deferred and expensed when advertisements run for the first time. Advertising costs charged to expense were approximately $8,936,500 during the two months ended December 31, 2002.

The Company defers advertising costs on media advertising purchases where the Company is required to prepay for the advertising in advance. These costs are expensed the first time the media is run. In addition, the Company defers the prepayment of costs for direct response advertising. The Company amortizes the costs over approximately four months.

The amounts of advertising costs deferred and included in the Consolidated Balance Sheet as of December 31, 2002 was approximately $1,094,300.

(h) *Cash and Cash Equivalents*—Cash and cash equivalents consist of all liquid investments with initial maturities of three months or less.

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(i) *Inventories*— Inventories at November 1, 2002 are stated at fair market value. Newly manufactured inventories are stated at the lower of cost or market, determined by the first-in, first-out method and consisted of the following (approximated):

	December 31, 2002
Finished goods	$ 21,353,300
Work-in-process	5,198,300
Raw materials and supplies	10,078,600
	$ 36,630,200

Of the amounts included in Inventory as of November 1, 2002, approximately $9,780,000 represents the value of the manufacturing profit earned by Tempur World prior to the Tempur Acquisition and is reflected in Cost of sales for the two months ended December 31, 2002.

(j) *Property, Plant and Equipment*—Property, plant and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Life
Buildings	25-30 years
Computer equipment	3-5 years
Leasehold improvements	4-7 years
Equipment	3-7 years
Office furniture and fixtures	5-7 years
Autos	3-5 years

Maintenance and repair costs are expensed as incurred, and expenditures for improvements are capitalized.

Leasehold improvements are amortized over the shorter of the life of the lease or seven years. Depreciation expense was approximately $2,110,100 for the two months ended December 31, 2002.

Equipment held under capital leases is recorded at the fair market value of the equipment at the inception of the leases. Equipment held under capital leases are amortized over the shorter of their estimated useful lives or the term of the respective leases.

(k) *Goodwill and Other Intangible Assets*—The Company follows SFAS 141, “Business Combinations,” and SFAS 142, “Goodwill and Other Intangible Assets” (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations. SFAS 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported *separately* from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144).

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The following table summarizes information about the Company's preliminary allocation of other intangible assets (approximated):

	As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
Unamortized indefinite life intangible assets:		
Trademarks, patents and technology	$ 74,800,000	$ —
Customer database	4,200,000	—
Foam formula	3,000,000	—
Other	217,700	—
Total	$ 82,217,700	$ —
Amortized intangible assets:		
Sales backlog	$ 317,000	$ 317,000
Non-competition agreements and other	1,826,000	236,700
Total	$ 84,360,700	$ 553,700

The Company amortizes the non-competition agreements over their life of 1.5 years. Amortization expense for other intangibles was approximately $553,700 for the two months ended December 31, 2002. Estimated future amortization expense is $1,318,700 and $271,300 for the years ending December 31, 2003 and 2004, respectively.

The changes in the carrying amount of goodwill for the two months ended December 31, 2002 was (approximated):

Balance as of November 1, 2002	$ 165,709,600
Foreign currency translation adjustments	93,600
Balance as of December 31, 2002	$ 165,803,200

(l) *Software*—The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in the developing or obtaining of internal use software. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized *costs* are amortized over a period of not more than five years and are subject to impairment evaluation in accordance with SFAS 144. Amounts capitalized for software are included in Machinery and equipment on the Consolidated Balance Sheet as of December 31, 2002.

(m) *Warranties*—The Company provides a 20-year warranty for United States sales and a 15-year warranty for non-United States sales on mattresses, each prorated for the last 10 years. The Company also provides 2-year to 3-year warranties on pillows. Estimated future obligations related to these products are provided by charges to operations in the period in which the related revenue is recognized. *Warranties* are included in Accrued expenses in the accompanying Consolidated Balance Sheet. The Company had the following activity for warranties for the two months ended December 31, 2002 (approximated):

Balance as of November 1, 2002	$2,875,700
Amounts accrued	256,100
Warranty charged to accrual	(250,700)
Balance as of December 31, 2002	$2,881,100

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(n) *Income Taxes*—The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

In conjunction with the acquisition of Tempur World on November 1, 2002, the Company repatriated approximately $44,200,000 from one of its foreign entities in the form of a loan that under applicable United States tax principles is treated as a taxable dividend. In addition, the Company expects to repatriate the remaining undistributed earnings as of November 1, 2002 of $10,123,400 during 2003. Accordingly, the Company has provided for the additional taxes that it expects will be incurred.

Provisions have not been made for US income taxes or foreign withholding taxes on undistributed earnings of foreign subsidiaries since the acquisition, as these earnings are considered indefinitely reinvested. Undistributed foreign earnings during the two months ended December 31, 2002 were approximately $10,061,200. These earnings could become subject to United States income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to the United States parent company or a United States subsidiary, or if the Company should sell its stock in the subsidiaries.

(o) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred.

(p) *Stock-Based Compensation*—The Company has adopted SFAS 123, “Accounting for Stock Based Compensation” (SFAS 123). In accordance with SFAS 123, the Company has elected to account for employee stock and option issuances under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). Under APB 25 no compensation expense is recognized in the statements of income for stock granted to employees and non-employee directors, if the exercise price at least equals the fair value of the underlying stock on the date of grant.

Stock options are granted under various stock compensation programs to employees (see Note (11)(d)). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options’ vesting period.

The Company’s pro forma information in accordance with SFAS 123 is as follows:

	Two months ended December 31, 2002
Net loss (as reported)	$ (2,854,200)
Add: additional stock-based employee compensation, net of tax	(200)
Pro forma net loss	$ (2,854,400)

(4) New Accounting Standards

In April 2002, the FASB issued SFAS 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections” (SFAS 145). SFAS 145 was effective January 1, 2003. SFAS 145 eliminates the required classification of gain or loss on extinguishment of debt as an extraordinary item of income and states that such gain or loss be evaluated for extraordinary classification under the criteria of

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Principles Board Opinion No. 30, "Reporting Results of Operations" (APB 30). SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, and makes various other technical corrections to existing pronouncements. The Company is evaluating the impact of SFAS 145 on the financial statements.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This statement nullifies Emerging Issues Task Force Issue 94-3 (Issue 94-3), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement 123" (SFAS 148), which was effective on December 31, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method on reported results. The provisions regarding alternative methods of transition do not apply to the Company, which accounts for stock-based compensation using the intrinsic value method. The disclosure provisions have been adopted. See Note (11)(d), "TWI Holdings 2002 Stock Option Plan."

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new guidance requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Application of SFAS 150 to financial instruments that exist on the date of adoption should be reported through a cumulative effect of a change in an accounting principle by measuring those instruments at fair value or as otherwise required by the SFAS 150. The adoption of SFAS 150 did not have a significant impact on our consolidated financial statements.

(5) Restructurings and Disposals

In connection with the Tempur Acquisition the Company performed a strategic review of its subsidiary operations. The strategic review triggered an impairment review of long-lived assets of certain subsidiaries of

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Tempur World that were expected to be disposed. As a result of this review the Company set forth a plan for the closure of Kruse Manufacturing, the German manufacturing subsidiary ("Kruse"). Approximately 27 job positions and related office staff reductions will be lost in connection with closing this operation. As of December 31, 2002, of the job position reductions, 2 have been eliminated. In addition, the Company will incur ongoing costs after the facility is closed and until they are fully disposed of. These costs primarily consist of lease payment obligations and legal costs. Consistent with SFAS 144, the Company evaluated long-lived assets for impairment and assessed their recoverability based upon anticipated undiscounted future cash flows. In recording the purchase of Tempur World, the Company recorded non-cash impairment charges and wrote down the value of the assets by approximately $2,285,100. Sales and Net loss for Kruse for the two months ended December 31, 2002 were approximately $305,300 and $268,500, respectively.

In November 2002, the Company communicated a plan to dispose the Tempur Brazil operations to a third party. As a result of the disposal of this operation, the Company incurred a loss of $489,400 in the two months ended December 31, 2002 consisting primarily of write-offs of inventory and accounts receivable.

(6) Supplemental Cash Flow Information

Cash payments for interest and net cash payments for income taxes are as follows (approximated):

	Two months ended December 31, 2002
Interest	$ 551,300
Income taxes, net of refunds	$ 1,842,600

Non-cash investing and financing activities have been excluded as non-cash items from the consolidated statement of cash flows for the two months ended December 31, 2002.

(7) Long-term Debt

(a) *Secured Debt Financing*—On November 1, 2002, in connection with the Tempur Acquisition, the Company obtained from a syndicate of lenders a total of $170,000,000 of senior secured debt financing (the "Senior Debt Facilities") under United States and European term loans and long-term revolving credit facilities. The facilities consisted of (i) a $30,000,000 United States revolving loan facility; (ii) a $65,000,000 United States term loan facility (the United States revolving loan and the United States term loan are collectively referred to herein as the "United States Facility"); (iii) a $20,000,000 European revolving loan facility; and (iv) a $55,000,000 European term loan facility (the European revolving loan and the European term loan are collectively referred to herein as the "European Facility"). Approximately $150,000,000 was drawn upon at the inception of the debt facility to fund a portion of the various payments required in connection with the Tempur Acquisition. Following the closing date of the Senior Debt Facilities, borrowings were used for ordinary working capital and general corporate needs. Loans outstanding under the United States Facility totaled $81,350,000 at date of inception comprised of $16,350,000 of revolving loans and $65,000,000 of term loans. Loans outstanding under the European Facility totaled $68,650,000 at date of inception comprised of $13,650,000 of revolving loans and $55,000,000 of term loans.

Including certain fees and expenses paid directly by the Company in connection with the Senior Debt Facilities, a total of $7,391,200 are reflected as deferred financing costs and are included in Deferred financing and other non-current assets, net on the Consolidated Balance Sheets as of December 31, 2002. These costs are being amortized to interest expense over the life of the Debt using the effective interest method. The Senior Debt Facilities (along with the Sub Debt (as hereinafter defined)) refinanced substantially all of the Company's

previously outstanding foreign and domestic debt facilities. The refinancing contains installment mortgages for the manufacturing facilities as well as long-term revolving debt facilities to support continuing operations.

Borrowing availability under the United States revolving credit facility is subject to a United States Borrowing Base, as defined in the loan agreement, and is based on, among other things, the levels of Eligible Accounts Receivable and Eligible Inventory of the United States Borrowers, in each case as defined in the loan agreement. Borrowing availability under the European revolving credit facility is subject to a European Borrowing Base, as defined in the loan agreement, and is based on, among other things, the levels of Eligible Accounts Receivable and Eligible Inventory of European Credit Parties. Each of the United States and European revolving facilities also provide for the issuance of letters of credit to support local operations. Allocations of the United States and European revolving facilities to such letters of credit reduce the amounts available to be borrowed under their respective facilities. The letter of credit sub-limit under the United States revolving facility is $2,500,000. The letter of credit sub-limit under the European revolving facility is $7,500,000. The aggregate amount of letters of credit outstanding under the United States Facility is approximately $50,000 as of December 31, 2002. The aggregate amount of letters of credit outstanding under the European Facility is approximately $2,213,200 as of December 31, 2002. The United States Facility and the European Facility are guaranteed by the Company and each of its direct and indirect United States subsidiaries. The United States Facility and the European Facility are secured by (i) a first priority lien on substantially all of the United States assets of TWI Holdings, Inc. and each of its direct and indirect United States subsidiaries and (ii) a pledge of all of the capital stock of each of TWI Holdings, Inc.'s direct and indirect United States subsidiaries and a portion of the capital stock of certain foreign subsidiaries. In addition to the foregoing, the European Facility is guaranteed by certain of TWI Holdings, Inc.'s foreign subsidiaries and is secured by (i) a lien on certain of the assets of the Company's foreign subsidiaries and (ii) a pledge of substantially all of the capital stock of certain of the Company's foreign subsidiaries.

The loan agreement for the Senior Debt Facilities makes the Company subject to certain financial covenants: minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; maximum senior leverage ratio; and a limitation on capital expenditures, in each case as defined. The Company and the other Tempur entities are also subject to certain additional covenants customary for transactions of this type. The Company was out of compliance with certain non-financial covenants as of December 31, 2002, but has obtained waivers from the lenders.

(b) *Senior Subordinated Debt*—On November 1, 2002, in connection with the Tempur Acquisition, the Company obtained a total of $50,000,000 of 12.5% senior subordinated unsecured debt financing (the "Sub Debt") under United States and European term loans all of which was drawn upon at the inception of the Sub Debt facility to fund a portion of the various payments required in connection with the Tempur Acquisition. The facilities consisted of (i) a $37,500,000 United States term loan and (ii) a $12,500,000 European term loan. The net proceeds from the Sub Debt approximated $48,739,000 after deducting fees and expenses of approximately $1,261,000 excluding the value of warrants and rights issued. Including certain fees and expenses paid directly by the Company in connection with debt refinancing, a total of $1,408,700 are reflected as deferred financing costs and are included in Other assets on the Consolidated Balance Sheet as of December 31, 2002. These costs are being amortized to interest expense over the life of the Sub Debt using the effective interest method.

Certain prepayment penalties exist for the early prepayment of the Sub Debt during the first four years of the Sub Debt as set forth in the Sub Debt loan agreement. The prepayment penalties are reduced to 101% of the then outstanding principal balance if the repayment is in connection with an initial public offering. The purchasers of the Sub Debt also have the right to require repayment of the Sub Debt at a price of 101% of the then outstanding principal balance of the loans plus accrued and unpaid interest then outstanding, in the event

(i) of the occurrence of an initial public offering of the Company or (ii) the institutional investors in the Company cease to own 90% of the shares of the Company owned by either or both of them on November 1, 2002.

The loan agreement for the Sub Debt makes the Company subject to certain financial covenants: minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; and a limitation on capital expenditures, in each case as defined. The Company and the other Tempur World entities are also subject to certain additional covenants customary for transactions of this type. The Company was out of compliance with certain non-financial covenants as of March 31, 2003 and December 31, 2002, but has obtained waivers from the lenders.

The Sub Debt is an unsecured obligation, subordinate to all Senior Debt (as defined in the Sub Debt loan agreement) on the terms set forth in a subordination and intercreditor agreement. Both the United States and European portions of the Sub Debt are guaranteed by TWI Holdings, Inc. and each of its direct and indirect United States subsidiaries. In addition, the European portion of the Sub Debt is guaranteed by certain of TWI Holdings, Inc.'s foreign subsidiaries.

The Company issued warrants to purchase the Company's Class B-1 Common Stock exercisable for 4.5% of the fully-diluted common stock of the Company to purchasers of the Sub Debt. Holders of the warrants will also be entitled to receive an amount equal to 4.5% of (i) the amount of any dividends paid on the Company's Series A Preferred Stock upon a liquidation of the Company or a redemption of the Series A Preferred Stock and (ii) the aggregate amount to be paid on the Company's Class A Common Stock upon a liquidation of the Company or redemption of the Class A Common Stock (other than by conversion into Class B-1 Common Stock). The warrants have a nominal exercise price and may be exercised at any time prior to the tenth anniversary of the date of issuance. The number of shares of Class B-1 Common Stock issuable upon exercise of the warrants will be adjusted for certain stock splits, stock dividends and similar recapitalizations, as well as upon the issuance of certain equity securities at less than fair market value. Prior to an initial public offering, holders of warrants will have the right to receive certain financial information regarding the Company and certain inspection rights, and will be entitled to a non-voting representative to attend Company board meetings.

The fair value of warrants and rights issued, totaling approximately $2,347,800 is included as "Class B-1 Common Stock Warrants" in the accompanying Consolidated Statements of Stockholders' Equity with an offset against Long-term debt for the warrants and rights issued to Sub Debt holders in the accompanying Consolidated Balance Sheets. The discount of the Sub Debt and the debt issuance costs are being amortized using the effective interest method over the life of the Sub Debt.

The Company, its shareholders and the warrant holders are parties to a Stockholder Agreement which, among other things, provides for certain restrictions on transfer of shares, certain voting agreements with respect to the election of directors, "tag-along" rights in connection with certain transfers of shares, "drag-along" rights in connection with certain sales or mergers of the Company and rights of first refusal in connection with certain issuances of shares of capital stock by the Company. The Company, its shareholders and the warrant holders are also parties to a Registration Rights Agreement, which provides for certain rights of holders of shares of the Company's common stock to require registration of such shares under the Securities Act of 1933, as amended.

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(c) *Long-term Debt*—Long-term debt (see also Note (2)) for the Company at December 31, 2002 consisted of the following (approximated):

	December 31, 2002
United States Term Loan payable to a lender, interest at the IBOR plus margin (5.62% as of December 31, 2002), principal payments due quarterly through September 2007	$ 65,000,000
European Term Loan payable to a lender, interest at IBOR plus margin (5.42% as of December 31, 2002), principal payments due quarterly through September 2007	55,000,000
United States Long-Term Revolving Credit Facility payable to a lender, interest at IBOR and index Rate plus margin (5.37% as of December 31, 2002), commitment through and due September 2007	16,350,000
European Long-Term Revolving Credit Facility payable to a lender, interest at IBOR plus margin (5.17% as of December 31, 2002), commitment through September 2007	9,650,000
United States Subordinated Debt payable to lenders, interest at 12.5%, commitment through and due November 1, 2009	37,500,000
European Subordinated Debt payable to lenders, interest at 12.5%, commitment through and due November 1, 2009	12,500,000
Mortgages payable to a bank, secured by certain property, plant and equipment and other assets, bearing fixed interest at 4.0% to 5.1%	2,121,400
	198,121,400
Less: Current portion	13,565,400
Long-term debt before deduction of original issue discount	184,556,000
Less: Original issue discount	2,263,600
Long-term debt	$ 182,292,400

The Company’s long-term debt is scheduled to mature as follows (approximately):

Year Ending December 31,	
2003	$ 13,565,400
2004	13,569,700
2005	17,898,900
2006	17,869,200
2007	26,659,000
Thereafter	108,559,200
Total	$ 198,121,400

(8) Consumer Credit Arrangements

The Company refers customers seeking extended financing, to certain third party financiers (the Card Servicers). The Card Servicers, if credit is granted, establish the interest rates, fees and all other terms and conditions of the customer accounts based on their evaluation of the credit worthiness of the customers. As the receivables are owned by the Card Servicers, at no time are the receivables purchased or acquired from the Company. In connection with customer purchases financed under these arrangements, the Card Servicer pays the

Company an amount equal to the total amount of such purchases, net of a non-refundable financing fee as well as an interest bearing holdback of 20% (to be released upon ultimate collection) of certain amounts financed with recourse under the program. The total amounts financed and uncollected under the program is approximately $257,900 included in Accounts receivable, as of December 31, 2002.

(9) Commitments and Contingencies

(a) *Lease Commitments*—The Company's subsidiaries lease certain property, plant and equipment under noncancellable capital lease agreements expiring at various dates through 2005. Such leases also contain renewal and purchase options. The Company leases space for its corporate headquarters and a retail outlet under operating leases which calls for annual rental payments due in equal monthly installments. Operating lease expenses were approximately $315,800 for the two months ended December 31, 2002.

Future minimum lease payments at December 31, 2002 under these non-cancelable leases are as follows (approximated):

	Capital Leases	Operating Leases
Year Ended December 31:		
2003	$32,400	$ 2,404,200
2004	29,900	1,876,100
2005	3,500	1,555,000
2006	—	1,234,100
2007	—	1,152,300
Thereafter	—	1,661,100
	65,800	$ 9,882,800
Less amount representing interest	(7,400)	
Present value of minimum lease payments	$58,400	

(b) *Litigation*—The Company is party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings is not presently determinable, management does not believe that adverse determinations in any or all of such proceedings will have a material adverse effect upon the financial condition, liquidity or results of operations of the Company.

(10) Derivative Financial Instruments

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company has entered into forward foreign exchange contracts. Gains and losses on these contracts generally offset losses and gains on the applicable subsidiary's foreign currency receivables and foreign currency debt.

The Company does not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor does it hedge exposure related to anticipated transactions.

The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through earnings at the same time that the exposed assets and liabilities are remeasured

through earnings (both in Other income, net). The contracts held by the Company are denominated in United States dollars, British Pound Sterling and Japanese Yen each against the Danish Krone.

The Company had derivative financial instruments with a notional value of approximately $39,721,800 and an initial value in excess of fair value of approximately $1,964,300 included in Foreign exchange payable on the Consolidated Balance Sheets as of December 31, 2002. The foreign exchange loss on derivative financial instruments for the two month period ended December 31, 2002 of approximately $1,802,500 is included in the consolidated statement of operations.

A sensitivity analysis indicates that if United States dollar to foreign currency exchange rates at December 31, 2002 increased 10%, the Company would incur losses of approximately $5,789,100 on foreign currency forward contracts outstanding at December 31, 2002. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged.

(11) Stockholders' Equity and Stock-Based Compensation Plan

(a) *Equity Transaction*—In connection with the Tempur Acquisition, TWI Holdings was formed. The authorized capital stock of TWI Holdings, Inc. consists of 250,000 shares of Preferred Stock, $0.01 par value per share, of which 180,000 shares are further designated as Series A Convertible Preferred Stock (the "Series A Preferred Stock"), 25,000 shares of Class A Common Stock, $0.01 par value per share (the "Class A Common Stock"), 300,000 shares of Class B-1 Voting Common Stock, $0.01 par value per share (the "Class B-1 Common Stock"), and 25,000 shares of Class B-2 Non-Voting Common Stock, $0.01 par value per share (the "Class B-2 Common Stock").

Series A Preferred Stock—Upon the liquidation or dissolution of the Company, the holders of Series A Preferred Stock will be entitled to the payment in cash of the purchase price of the Series A Preferred Stock, plus accrued dividends, before any distributions are made to holders of Class A Common Stock, Class B-1 Common Stock or Class B-2 Common Stock. Dividends on the shares of the Series A Preferred Stock are cumulative and accrue at an annual rate equal to 8% compounded quarterly. Dividends are payable only upon a liquidation of the Company or upon the occurrence of certain Disposition Events (as defined in the Certificate of Incorporation). Holders of Series A Preferred Stock have the right to one vote for each share of Class B-1 Common Stock into which the Series A Preferred Stock is convertible. Each share of Series A Preferred Stock is convertible at the option of the holder thereof at any time into shares of Class B-1 Common Stock at a conversion rate of one share of Class B-1 Common Stock for each share of Series A Preferred Stock, subject to adjustment under certain conditions. In the event of the conversion of any shares of Series A Preferred Stock, all accrued and unpaid dividends on such converted shares will be cancelled.

Class A Common Stock—Upon the liquidation or dissolution of the Company, the holders of Class A Common Stock will be entitled, subject to the rights of holders of the Series A Preferred Stock, to the payment in cash of the liquidation value of the Class A Common Stock plus accrued dividends before any distributions are made to holders of Class B-1 Common Stock or Class B-2 Common Stock. Holders of Class A Common Stock have the right to one vote for each share of Class B-1 Common Stock into which the shares of Class A Common Stock are convertible. Each share of the Class A Common Stock is convertible at the option of the holder thereof at any time into shares of Class B-1 Common Stock at a conversion rate of one share of Class B-1 Common Stock for each share of Class A Common Stock, subject to adjustment under certain circumstances.

Class B-1 Common Stock—Upon the liquidation or dissolution of the Company, the Class B-1 Common Stock will rank junior to the Series A Preferred Stock and Class A Common Stock and on an equal ranking with

the Class B-2 Common Stock. Dividends may be paid on the Class B-1 Common Stock as long as an equivalent dividend is paid on the Series A Preferred Stock, the Class A Common Stock and the Class B-2 Common Stock. Holders of Class B-1 Common Stock have the right to one vote for each share held.

Class B-2 Common Stock—Upon the liquidation or dissolution of the Company, the Class B-2 Common Stock will rank junior to the Series A Preferred Stock and Class A Common Stock and on an equal ranking with the Class B-1 Common Stock. Except as otherwise required by law, the holders of Class B-2 Common Stock are not entitled to vote. There are no shares of Class B-2 Common Stock issued or outstanding as of December 31, 2002.

Equity Agreements—The Company and its shareholders and warrant holders are parties to a Stockholder Agreement which, among other things, provides for certain restrictions on transfer of shares, certain voting agreements with respect to the election of directors, “tag-along” rights in connection with certain transfers of shares, “drag-along” rights in connection with certain sales or mergers of the Company and rights of first refusal in connection with certain issuances of shares of capital stock by the Company. The Company and certain holders of the Series A Preferred Stock are also parties to a Series A Preferred Stock Stockholder Agreement, which, among other things, provides for certain restrictions on transfer of shares, certain voting agreements with respect to the election of directors and certain consent requirements in connection with certain transactions. The Company and its shareholders and warrant holders are also parties to a Registration Rights Agreement, which provides for certain rights of holders of shares of the Company’s common stock to require registration of such shares under the Securities Act of 1933, as amended.

(b) *Warrants and Preferred Dividend Rights*—On November 1, 2002, the Company issued warrants to purchase Class B-1 Common Stock exercisable for 4.5% of the fully-diluted common stock of the Company to lenders under the Sub Debt. Holders of the warrants will also be entitled to receive an amount equal to 4.5% of (i) the amount of any dividends paid on the Series A Preferred Stock upon a liquidation of the Company or a redemption of the Series A Preferred Stock and (ii) the aggregate amount to be paid on the Class A Common Stock upon a liquidation of the Company or redemption of the Class A Common Stock (other than by conversion into Class B-1 Common Stock). The warrants have a nominal exercise price and may be exercised at any time prior to the tenth anniversary of the date of issuance. The number of shares of Class B-1 Common Stock issuable upon exercise of the warrants will be adjusted for certain stock splits, stock dividends and similar recapitalizations, as well as upon the issuance of certain equity securities at less than fair market value. Prior to an initial public offering, holders of warrants will have the right to receive certain financial information regarding the Company and certain inspection rights, and will be entitled to a non-voting representative to attend Company board meetings.

(c) *Stockholder Notes*—In connection with the organization of the Company, on November 1, 2002, the Company issued an aggregate of 878.64 shares of Class B-1 Common Stock to certain management employees in exchange for Stockholder Notes (the “Notes”) from such management employees payable to the Company in the aggregate principal amount of $100,000. The Notes bear interest at a rate of 5% per annum, have a maturity date of 10 years, and are secured by a pledge of the purchased shares. The Notes will become due prior to maturity upon certain events of default, the occurrence of a Disposition Event (as defined in the Certificate of Incorporation) or the termination of the employee’s employment with the Company for cause or by reason of the employee’s resignation under certain circumstances.

(d) *TWI Holdings 2002 Stock Option Plan*—In connection with the Tempur Acquisition, on November 1, 2002, the Company adopted the TWI Holdings, Inc. 2002 Stock Option Plan (the “Stock Option Plan”) to provide for grants of options to purchase shares of Class B-1 Common Stock to employees and directors of the

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company. Options granted under the Stock Option Plan which qualify as incentive stock options, as defined by the Internal Revenue Code, must have an exercise price of not less than the fair market value of the Company's Class B-1 Common Stock at the date of grant. The determination of the exercise price is made by the Board of Directors of the Company. Options granted under the Stock Option Plan may provide for vesting terms as determined by the Board of Directors at the time of grant. Options may be exercised up to ten years from the grant date and up to five years from the date of grant for any shareholders who own 10% or more of the total combined voting power of all shares of stock of the Company. As of December 31, 2002, 112 options were exercisable. The total number of shares of Class B-1 Common Stock subject to issuance under the Stock Option Plan may not exceed 18,871 shares, subject to certain adjustment provisions. The following table summarizes information about stock options outstanding as of December 31, 2002:

	Shares	Weighted Average Exercise Price
November 1, 2002	11,530	$ 802
Granted	—	—
Exercised	—	—
Terminated	—	—
December 31, 2002	11,530	$ 802

Options outstanding at December 31, 2002 had exercise prices ranging from $800 – $1,000 per share and expire on November 1, 2012. The weighted average fair value at date of grant for options granted during 2002 was $2. The weighted-average remaining contractual life is 10 years.

(e) *Stock Based Compensation*—Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its stock options granted subsequent to November 1, 2002 under the fair value method of SFAS 123 (see Note (3)(p)), "Accounting Policies—Stock-Based Compensation"). The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2002
Expected life of option, in years	5
Risk-free interest rate	3%
Expected volatility of stock	25%
Expected dividend yield on stock	0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's options have characteristics significantly different from those of similar traded options, and changes in the subjective input can materially affect the fair value estimate.

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(12) Income Taxes

The provision for income taxes for the two months ended December 31, 2002 consisted of the following (approximated):

	Two months ended December 31, 2002
Current provision	
Federal	$ 1,464,800
State	232,400
Foreign	1,425,900
Total current	3,123,100
Deferred benefit	
Federal	(1,718,800)
State	(309,400)
Foreign	(206,100)
Total deferred	(2,234,300)
Total provision for income taxes	$ 888,800

The provision for income taxes includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws.

The Company has established a valuation allowance for net operating loss carryforwards (NOLs) and certain other timing differences related to some of its foreign operations . The Company's foreign NOLs were approximately $21,173,000 at December 31, 2002. These NOLs expire at various dates through 2012. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of these NOLs and certain other timing differences related to some of its foreign operations. The Company believes that it is more likely than not that its tax assets (other than those related to some of its foreign operations) are realizable based on the level of future reversing taxable temporary differences and on historically profitable operations which the Company believes are more likely than not to continue into the future to the extent necessary to assure realization of recorded deferred tax assets. However, there can be no assurance that such assets will be realized if circumstances change.

The effective income tax provision differs from the amount calculated using the statutory United States federal income tax rate, principally due to the following (approximated):

	Two months ended December 31, 2002	
	Amount	Percentage of Income Before Taxes
Statutory United States federal income tax	$ (680,100)	35.0%
State income taxes, net of federal benefit	(29,500)	1.5
Foreign tax differential	(35,000)	1.8
Change in valuation allowance	2,077,500	(106.9)
Foreign tax credit, net of Section 78 gross up	(112,300)	5.8
Subpart F income	163,200	(8.4)
Permanent and other	(495,000)	28.0
Effective income tax provision	$ 888,800	(43.2%)

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Subpart F income represents interest and royalties earned by a foreign subsidiary. Under the Internal Revenue Code, such income is taxable to TWI Holdings, Inc. as if, in effect, earned directly by TWI Holdings, Inc.

The net deferred tax asset and liability recognized in the consolidated balance sheets as of December 31, 2002, consists of the following (approximated):

	December 31, 2002
Deferred tax assets:	
Start up costs	$ 44,000
Inventories	2,909,100
Net operating losses	6,539,300
Foreign tax credit carryover	
Land and buildings	994,600
Accrued expenses and other	2,141,700
Total deferred tax assets	12,628,700
Valuation allowances	(9,202,400)
Net deferred tax assets	3,426,300
Deferred tax liabilities:	
Land and buildings	(605,400)
Original issue discount	(651,600)
Depreciation	(7,217,400)
Intangible assets	(31,909,000)
Total deferred tax liabilities	(40,383,400)
Net deferred tax liability	$ (36,957,100)

(13) Major Customers

Five customers accounted for approximately 23% of sales for the two months ended December 31, 2002, one of which accounted for approximately 11% of sales, all of which was sold to the Domestic segment. These same customers also accounted for approximately 24% of accounts receivable as of December 31, 2002. The loss of one or more of these customers could have a material adverse effect on the Company.

(14) Benefit Plan

A subsidiary of the Company has a defined contribution plan whereby eligible employees may contribute up to 15% of their pay each year to the plan subject to certain limitations as defined by the Plan. Employees are eligible to receive matching contributions at the start of employment with the Company. The Plan provides a 100% match of the first 3% and 50% of the next 2% on eligible employee contributions and eliminated the vesting period such that matching contributions vest immediately. The Company incurred approximately $26,600 of expenses associated with the defined contribution plan for the two months ended December 31, 2002.

(15) Business Segment Information

SFAS No. 131, “Disclosure about Segments of an Enterprise and Related Information,” established standards for reporting information about operating segments in financial statements. Operating segments are

defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and assessing performance. The Company operates in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations.

Beginning in 2002, following the opening of the Company's United States manufacturing facility, the Company changed the reporting structure from a single segment to Domestic and International operating segments. This change was consistent with the Company's ability to monitor and report operating results in these segments. The Domestic segment consists of the United States manufacturing facility whose customers include the United States distribution subsidiary and certain North American third party distributors. The International segment consists of the manufacturing facility in Denmark whose customers include all of the distribution subsidiaries and third party distributors outside the Domestic segment. The Company evaluates segment performance based on Operating income.

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TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes segment information:

	Two Months Ended December 31, 2002
Revenues from external customers:	
Corporate	$ —
Domestic	33,860,000
International	26,784,000
	$ 60,644,000
Segment sales:	
Corporate	$ —
Domestic	—
International	(2,226,000)
Intercompany eliminations	2,226,000
	$ —
Operating income (loss):	
Corporate	$ (1,136,000)
Domestic	2,504,000
International	(1,709,000)
	$ (341,000)
Depreciation and amortization:	
Corporate	$ 597,000
Domestic	954,000
International	1,112,000
	$ 2,663,000
Total assets:	
Corporate	$ 91,380,000
Domestic	297,764,000
International	327,720,000
Intercompany eliminations	(268,370,000)
	$ 448,494,000
Capital expenditures:	
Corporate	$ 7,000
Domestic	353,000
International	1,601,000
	$ 1,961,000

The following table sets forth net sales by significant product group:

	Two Months Ended December 31, 2002
Mattresses	$ 31,286,000
Pillows	18,816,000
All other	10,542,000
	$ 60,644,000

TWI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Domestic segment purchases certain products produced by the Danish manufacturing facility included in the International segment and sells those products to Domestic segment customers. These profits, from these sales, amounting to approximately $651,000 for the two months ended December 31, 2002, are allocated to operating income in the Domestic segment. Although these transactions are reported in the Domestic segment, the profit from these sales remain in the International segment for statutory purposes.

As the Company operated in one segment prior to the start up of the United States manufacturing operation, the Company has not restated prior year segment information to reflect the new reporting structure. The consolidated financial statements herein present all of the required disclosures for a single segment.

(16) Condensed Consolidating Financial Information

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the "Issuers") issued $150 million of 10.25% Senior Subordinated Notes due 2010 (the "Senior Subordinated Notes"). The Senior Subordinated Notes are unsecured senior subordinated indebtedness of the Issuers and are fully and unconditionally and joint and severally guaranteed on an unsecured senior subordinated basis by the Issuers' ultimate parent, TWI Holdings, Inc., and two intermediate parent corporations (referred to as the "Combined Guarantor Parents" in the accompanying financial information) and all of TWI Holdings' current and future domestic subsidiaries (referred to collectively as the "Issuers and their Subsidiary Guarantors" in the accompanying financial information), other than the Issuers. The Issuers and subsidiary guarantors are indirectly wholly owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are wholly owned subsidiaries of the Issuers. The foreign subsidiaries (referred to as "Combined Non-Guarantor Subsidiaries" in the accompanying financial information) represent the foreign operations of the Company and will not guarantee this debt. The following financial information presents condensed consolidating balance sheets, statements of operations and statements of cash flows for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet
As of December 31, 2002

	Issuer and its Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets	$ 52,510,000	$ 2,883,000	$ 85,688,000	$ (39,799,000)	$ 101,282,000
Property, plant and equipment, net	35,015,000	199,000	53,072,000	—	88,286,000
Other noncurrent assets	210,239,000	88,298,000	188,960,000	(228,571,000)	258,926,000
Total assets	$ 297,764,000	$ 91,380,000	$ 327,720,000	$ (268,370,000)	$ 448,494,000
Current liabilities	$ 51,409,000	$ 21,075,000	$ 37,108,000	$ (39,650,000)	$ 69,942,000
Noncurrent liabilities	132,411,000	147,459,000	96,184,000	(149,501,000)	226,553,000
Equity (deficit)	113,944,000	(77,154,000)	194,428,000	(79,219,000)	151,999,000
Total liabilities and equity (deficit)	$ 297,764,000	$ 91,380,000	$ 327,720,000	$ (268,370,000)	$ 448,494,000

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Condensed Consolidating Statement of Operations
For the Two Months Ended December 31, 2002

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net Sales	$ 33,860,000	$ —	$ 29,010,000	$ (2,226,000)	$ 60,644,000
Cost of goods sold	20,522,000	(73,000)	19,588,000	(2,226,000)	37,811,000
Gross profit	13,338,000	73,000	9,422,000	—	22,833,000
Operating expenses	11,485,000	1,208,000	10,481,000	—	23,174,000
Operating income	1,853,000	(1,135,000)	(1,059,000)	—	(341,000)
Interest income (expense), net	(664,000)	(1,944,000)	(347,000)	—	(2,955,000)
Other income (loss)	283,000	420,000	628,000	—	1,331,000
Income taxes	584,000	(875,000)	1,180,000	—	889,000
Net income (loss)	$ 888,000	$ (1,784,000)	$ (1,958,000)	$ —	$ (2,854,000)

Condensed Consolidating Statements of Cash Flows
For the Two Months Ended December 31, 2002

	Issuers and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ 888,000	$ (1,784,000)	$ (1,958,000)	$ —	$ (2,854,000)
Non-cash expenses	(155,000)	(8,299,000)	7,338,000	—	(1,116,000)
Changes in working capital	(7,805,000)	12,556,000	11,605,000	—	16,356,000
Net cash provided by operating activities	(7,072,000)	2,473,000	16,985,000	—	12,386,000
Net cash used for investing activities	(353,000)	(7,000)	(1,499,000)	—	(1,859,000)
Net cash provided by financing activities	9,012,000	(2,264,000)	(10,969,000)	—	(4,221,000)
Effect on exchange rate changes on cash	—	—	596,000	—	596,000
Net increase (decrease) in cash and cash equivalents	1,587,000	202,000	5,113,000	—	6,902,000
Cash and cash equivalents at beginning of the year	(932,000)	407,000	6,277,000	—	5,752,000
Cash and cash equivalents at end of period	$ 655,000	$ 609,000	$ 11,390,000	$ —	$ 12,654,000

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REPORT OF INDEPENDENT AUDITORS

To the Stockholder of
Tempur World, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Tempur World, Inc. and Subsidiaries (the Company), Predecessor to TWI Holdings, Inc., as of October 31, 2002, and the related consolidated statements of income, stockholders' equity and cash flows for the ten months ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company as of December 31, 2001 and 2000 and for the years then ended were audited by other auditors who have ceased operations and whose report dated March 8, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tempur World, Inc. and Subsidiaries as of October 31, 2002, and the consolidated results of their operations and their cash flows for the ten months ended October 31, 2002 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3(k), in the accompanying consolidated financial statements the Company changed its method of accounting for goodwill.

As discussed above, the consolidated financial statements of the Company as of December 31, 2001 and 2000 and for the years then ended were audited by other auditors who have ceased operations. As discussed in Note 18 to the December 31, 2001 and 2000 consolidated financial statements, those consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards (Statement) No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 18 in the December 31, 2001 and 2000 financial statements, included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income. In our opinion, the disclosures for 2001 and 2000 in Note 18 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such adjustments related to Note 18 to the December 31, 2001 and 2000 financial statements, and accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

ERNST & YOUNG LLP

Louisville, Kentucky
June 20, 2003

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED BALANCE SHEET
As of October 31, 2002

	October 31, 2002
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 6,380,111
Accounts receivable, net of allowance for doubtful accounts of $2,076,972 as of October 31, 2002	43,265,575
Accounts receivable—related parties	143,064
Notes receivable—related parties	37,051
Inventories	37,482,475
Prepaid expenses and other current assets	2,333,029
Deferred income taxes	6,584,215
Total current assets	96,225,520
Land and buildings	44,508,777
Machinery and equipment	54,845,447
Construction in progress	2,779,515
	102,133,739
Less: Accumulated depreciation	(26,467,118)
Property, plant and equipment, net	75,666,621
Goodwill, net of amortization of $2,449,924 as of October 31, 2002	16,166,722
Other intangible assets, net of amortization of $2,049,616 as of October 31, 2002	3,358,014
Deferred financing and other non-current assets, net	8,223,853
Total assets	$ 199,640,730
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 17,021,048
Accounts payable—related parties	166,899
Accrued expenses	25,699,534
Income taxes payable	2,373,701
Value added taxes payable	2,495,353
Current portion—long-term debt	10,758,161
Current portion—capital lease obligations	197,334
Total current liabilities	58,712,030
Long-term debt	78,058,324
Capital lease obligations	36,248
Deferred income taxes	5,437,017
Other long-term liabilities	2,171,240
Total liabilities	144,414,859
Commitments and contingencies (see Note 9)	
Preferred stock, Series A, $1 par value, 1,100,000 shares authorized and 734,214 outstanding	15,331,032
Stockholders' Equity:	
Common stock, $.01 par value, 11,000,000 shares authorized, 9,000,034 shares issued and 7,383,082 shares outstanding as of October 31, 2002	90,000
Additional paid in capital	14,352,488
Retained earnings	54,624,879
Accumulated other comprehensive income	3,476,325
Less: Cost of 1,616,952 treasury shares at October 31, 2002	(32,648,853)
Total stockholders' equity	39,894,839
Total liabilities and stockholders' equity	$ 199,640,730

The accompanying notes to consolidated financial statements are an integral part of this statement.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENT OF INCOME
For the Ten Months Ended October 31, 2002

Net sales	$ 237,314,237
Cost of sales	110,228,149
Gross profit	127,086,088
Selling expenses	59,572,111
General and administrative expenses	26,135,602
Research and development expenses	985,615
Operating income	40,392,760
Other income (expense), net:	
Interest income	291,003
Interest expense	(6,583,184)
Related party interest income (expense), net	(106)
Foreign currency exchange losses	(669,673)
Other expense, net	(1,053,774)
Total other expense	(8,015,734)
Income before income taxes	32,377,026
Income tax provision	12,435,997
Net income	$ 19,941,029

The accompanying notes to consolidated financial statements are an integral part of this statement.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Ten Months October 31, 2002

	Common Stock						
	Shares	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income**	**Total**
Balance, December 31, 2001	7,501,503	$ 90,000	$ 14,352,488	$ 35,921,593	$ (30,313,848)	$ (3,355,855)	$ 16,694,378
Net income plus other comprehensive income:							
Net income				19,941,029			19,941,029
Foreign currency translation adjustments, net of tax						6,832,180	6,832,180
Net income plus changes in accumulated comprehensive income				19,941,029		6,832,180	26,773,209
Dividends on Preferred Stock				(1,237,743)			(1,237,743)
Purchases of Treasury Stock	(118,421)				(2,335,005)		(2,335,005)
Balance, October 31, 2002	7,383,082	$ 90,000	$ 14,352,488	$ 54,624,879	$ (32,648,853)	$ 3,476,325	$ 39,894,839

The accompanying notes to consolidated financial statements are an integral part of this statement.

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Ten Months Ended October 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 19,941,029
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	10,383,221
Amortization of deferred financing costs	1,115,608
Allowance for doubtful accounts	2,776,105
Deferred income taxes	(1,138,451)
Foreign currency adjustments	(3,886,896)
(Gain) loss on sale of equipment	267,992
Loss on asset impairment charge	1,621,345
Changes in operating assets and liabilities:	
Accounts receivable—trade	(11,876,210)
Accounts receivable—related parties	212,090
Notes receivable—related parties	497,685
Inventories	(5,925,790)
Prepaid expenses and other current assets	653,784
Accounts payable—trade	2,989,560
Accounts payable—related parties	(200,469)
Accrued expenses and other	6,005,765
Value added taxes payable	116,070
Income taxes payable/receivable	(846,692)
Net cash provided by operating activities	22,705,746
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of businesses	(709,650)
Purchases of property, plant and equipment	(9,175,336)
Proceeds from sales of property, plant and equipment	5,238,632
Net cash used for investing activities	(4,646,354)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of long-term debt	17,124,123
Proceeds from issuance of long-term debt—related party	413,764
Proceeds from issuance of notes payable—line of credit	2,903,421
Repayments of long-term debt	(33,045,949)
Repayments of long-term debt—related party	(1,714,806)
Repayments of notes payable—line of credit	(3,183,430)
Repayments of capital lease obligations	(310,410)
Payments of deferred financing costs	(2,054,203)
Proceeds from issuance of preferred stock, net	2,500,000
Purchases of treasury stock	(2,335,005)
Net cash used by financing activities	(19,702,495)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH:	485,048
Decrease in cash and cash equivalents	(1,158,055)
CASH AND CASH EQUIVALENTS, beginning of period	7,538,166
CASH AND CASH EQUIVALENTS, end of period	$ 6,380,111

The accompanying notes to consolidated financial statements are an integral part of this statement.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Ten Months Ended October 31, 2002

(1) The Company

Tempur World, Inc. and Subsidiaries (Tempur World or the Company), a United States based multinational corporation incorporated in Delaware, is a majority owned subsidiary of Fagerdala Industri AB, a Swedish corporation. Fagerdala Industri AB is a majority-owned subsidiary of Fagerdala World Foams AB (Fagerdala), also a Swedish corporation. Tempur World manufactures, markets and sells advanced visco-elastic foam products including pillows, mattresses and other related products. The Company manufactures essentially all of its products at Dan Foam A/S, located in Denmark and Tempur Production USA, Inc., a new plant located in the United States. The Company sells its products in markets throughout the United States, Europe, Asia and other countries around the world and primarily extends credit based on the creditworthiness of its customers. The majority of the Company's revenues are derived from sales to retailers and to retail consumers through its direct response business.

(2) Business Combination

Pursuant to the Agreement and Plan of Merger dated as of October 4, 2002 (the Merger Agreement), on November 1, 2002, TWI Holdings, Inc. acquired Tempur World, Inc. The total acquisition price of Tempur World as of the closing date of the acquisition of Tempur World, Inc. (the "Tempur Acquisition") was approximately $268,483,800, including $14,165,800 of transaction fees and expenses. The Tempur Acquisition was financed with approximately $146,638,700 in cash proceeds of newly issued Series A Convertible Preferred Stock and Class A Common Stock, $107,679,400 of incremental senior and mezzanine debt borrowings, net of approximately $5,751,900 of Tempur World's cash. The Company also refinanced the $88,816,500 of existing debt obligations of Tempur World.

None of these effects have been reflected in the consolidated financial statements for the ten months ended October 31, 2002 as this transaction occurred subsequent to the date of these consolidated financial statements. This is the final consolidated financial statement of Tempur World, as the predecessor of TWI Holdings, Inc.

(3) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries. All subsidiaries, directly or indirectly, are wholly-owned. All material intercompany balances and transactions have been eliminated.

(b) *Management's Use of Estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, management makes its best estimate to accrue for certain costs incurred in connection with business activities such as warranty claims and sales returns, but the Company's estimates of these costs could change materially.

(c) *Foreign Currency Translation*—Assets and liabilities of non-United States subsidiaries, whose functional currency is the local currency, are translated at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries is reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are reported in results of operations.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(d) *Financial Instruments and Hedging*—Within the normal course of business, the Company uses derivative financial instruments principally to manage the exposure to changes in the value of certain foreign currency denominated assets and liabilities of its Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged.

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of the financial instruments, including derivatives and long-term debt, standard market conventions and techniques including available market data and discounted cash flow analysis are used to determine fair value.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value because of the short-term maturity of those instruments. The carrying amounts of preferred stock and long-term debt approximate the fair market value for instruments with similar terms as of October 31, 2002.

(e) *Revenue Recognition*—In accordance with SEC Staff Accounting Bulletin 101, the Company recognizes sales of its products when the products are shipped to customers and the risks and rewards of ownership are transferred. The Company does not require collateral on sales made in the normal course of business. Deposits made by customers are recorded as a liability and recognized as a sale when product is shipped. The Company had approximately $3,674,800 of deferred revenue included in Accrued expenses as of October 31, 2002.

The Company reflects all amounts billed to customers for shipping in Net sales and the costs incurred from shipping product in Cost of sales. Amounts included in Net sales for shipping and handling are approximately $9,552,900 in the ten months ended October 31, 2002. Amounts included in Cost of sales for shipping and handling are approximately $20,096,300 in the ten months ended October 31, 2002.

(f) *Accrued Sales Returns*—Estimated sales returns are provided at the time of sale based on historical sales returns. The Company allows product returns ranging from 90 to 120 days following a sale. Accrued sales returns are included in Accrued expenses in the accompanying Consolidated Balance Sheet. The Company had the following activity for sales returns for the ten months ended October 31, 2002 (approximated):

Balance as of December 31, 2001	$ 1,918,400
Amounts accrued	3,055,300
Returns charged to accrual	(1,338,700)
Balance as of October 31, 2002	$ 3,635,000

(g) *Advertising Costs*—The Company expenses all advertising costs as incurred except for production costs and advance payments which are deferred and expensed when advertisements run for the first time. Advertising costs charged to expense were approximately $37,003,000 during the ten months ended October 31, 2002.

The Company defers advertising costs on media advertising purchases where the Company is required to prepay for the advertising in advance. These costs are expensed the first time the media is run. In addition, the Company defers the prepayment of costs for direct response advertising. The Company amortizes the costs over approximately four months.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The amounts of advertising costs deferred and included in the Consolidated Balance Sheets as of October 31, 2002 were approximately $1,112,500.

(h) *Cash and Cash Equivalents*—Cash and cash equivalents consist of all liquid investments with initial maturities of three months or less.

(i) *Inventories*— Inventories are stated at the lower of cost or market, determined by the first-in, first-out method and consisted of the following (approximated):

	October 31, 2002
Finished goods	$ 20,731,700
Work-in-process	4,599,400
Raw materials and supplies	12,151,400
	$ 37,482,500

(j) *Property, Plant and Equipment*—Property, plant and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Useful Life
Buildings	25-30 years
Computer equipment	3-5 years
Leasehold improvements	4-7 years
Equipment	3-7 years
Office furniture and fixtures	5-7 years
Autos	3-5 years

Maintenance and repair costs are expensed as incurred, and expenditures for improvements are capitalized.

Leasehold improvements are amortized over the shorter of the life of the lease or seven years. Depreciation expense was approximately $9,691,900 for the ten months ended October 31, 2002.

Equipment held under capital leases is recorded at the fair market value of the equipment at the inception of the leases. Equipment held under capital leases are amortized over the shorter of their estimated useful lives or the term of the respective leases.

As of January 1, 2002, the Company adopted SFAS 142. Pursuant to the provisions of SFAS 142 the Company stopped amortizing goodwill as of January 1, 2002. During the second quarter of 2002, the Company completed the transitional impairment test required under SFAS 142. The initial step of the impairment test was to identify potential goodwill impairment by comparing the fair value of the Company's reporting units to their carrying values including the applicable goodwill. These fair values were determined by calculating the discounted free cash flow expected to be generated by each reporting unit taking into account what the Company considers to be the appropriate industry and market rate assumptions. If the carrying value exceeded the fair value, then a second step was performed, which compared the implied fair value of the applicable reporting unit's goodwill with the carrying amount of that goodwill, to measure the amount of goodwill impairment, if any. As a result of the initial transitional impairment test, the Company determined that no goodwill impairment existed at January 1, 2002.

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In addition to performing the required transitional impairment test on the Company's goodwill, SFAS 142 required the Company to reassess the expected useful lives of existing intangible assets for which the useful life is determinable. The Company incurred no impairment charges as a result of SFAS 142 for intangibles with determinable useful lives, which are subject to amortization.

The following table summarizes information about the Company's allocation of other intangible assets (approximated):

	As of October 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
Unamortized indefinite life intangible assets:		
Bed Ex	$ 60,000	$ —
Trademark and Other	96,600	—
Total	$ 156,600	$ —

	As of October 31, 2002		
	Life	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:			
Tempur-Pedic Name	10	$ 1,722,000	$ 487,900
Customer List	10	861,000	244,000
Key Employees	3	746,200	704,700
Distribution Network	10	861,000	244,000
Nettway Fees, Other Trademarks and Misc	10	1,060,800	369,000
Total		$ 5,251,000	$ 2,049,600

Amortization expense for other intangibles was approximately $691,300 for the ten months ended October 31, 2002.

The changes in the carrying amount of goodwill for the ten months ended October 31, 2002 were (approximated):

Balance as of December 31, 2001	$ 15,357,000
Nettway Acquisition	721,300
Foreign currency translation adjustments	88,400
Balance as of October 31, 2002	$ 16,166,700

The goodwill has been allocated to the Domestic and International segments as follows:

Domestic	$ 7,003,900
International	$ 9,162,800

(l) *Software*—The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in the developing or obtaining of internal use software. Certain costs, such as

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maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of not more than five years and are subject to impairment evaluation in accordance with SFAS 144. Amounts capitalized for software are included in Machinery and equipment on the Consolidated Balance Sheet as of October 31, 2002.

(m) *Warranties*—The Company provides a 20-year warranty for United States sales and a 15-year warranty for non-United States sales on mattresses, each prorated for the last 10 years. The Company also provides 2-year to 3-year warranties on pillows. Estimated future obligations related to these products are provided by charges to operations in the period in which the related revenue is recognized. The Company has accrued the amounts below as of October 31, 2002 related to warranty costs and is included within Accrued expenses on the accompanying Consolidated Balance Sheet (approximated):

Balance as of December 31, 2001	$ 3,323,900
Amounts accrued	2,646,200
Warranty charged to accrual	(3,090,000)
Balance as of October 31, 2002	$ 2,880,100

(n) *Income Taxes*—The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

In conjunction with the acquisition of Tempur World on November 1, 2002, TWI Holdings, Inc. repatriated approximately $44,200,000 from one of its foreign entities in the form of a loan that under applicable US tax principles is treated as a taxable dividend. In conjunction with the acquisition of Tempur World, Inc., TWI Holdings, Inc. has provided for the remaining undistributed earnings amounting to $9,961,900 as of October 31, 2002.

(o) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred.

(p) *Stock-Based Compensation*—The Company has adopted SFAS 123, “Accounting for Stock Based Compensation” (SFAS 123). In accordance with SFAS 123, the Company has elected to account for employee stock and option issuances under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). Under APB 25 no compensation expense is recognized in the statements of income for stock granted to employees and non-employee directors, if the exercise price at least equals the fair value of the *underlying* stock on the date of grant. The effects on net income of applying SFAS 123 for providing pro forma disclosure are not representative of the future effects on net income.

Stock options are granted under various stock compensation programs to employees (see Note (11)(a)). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options’ vesting period.

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The Company's pro forma information in accordance with SFAS 123 is as follows:

	Ten months ended October 31, 2002
Net income (as reported)	$ 19,941,000
Less: additional stock-based employee compensation, net of tax	399,900
Pro forma net income	$ 19,541,100

(q) *Preferred Stock*—The Company's Preferred Stock has a maturity date of September 2011. Dividends on the shares of the Preferred Stock are cumulative and are accrued each month at an annual rate equal to 10% compounded quarterly. Each share of the Preferred Stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Preferred Stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Preferred Stock, all accrued and unpaid dividends on such converted shares will be cancelled. The Preferred Stock also has voting rights equal to the number of "as converted" Common Stock as defined. As discussed in Note (9)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

As of October 31, 2002, no shares of Series B preferred stock have been issued. The Series B preferred stock has a maturity date of September 12, 2009. Dividends on any issued and outstanding shares of the Series B stock are cumulative and accrued each month at an annual rate equal to 15%. Par value of Series B preferred stock is $1 per share. Each share of the Series B preferred stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Series B preferred stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Series B preferred stock, all accrued and unpaid dividends on such converted shares will be canceled. The Series B shares also have voting rights equal to the number of "as converted" Common Stock, as defined. As discussed in Note (9)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

As of October 31, 2002, no shares of Series C preferred stock have been issued. The Series C preferred stock has a maturity date of September 12, 2009. Dividends on any issued and outstanding shares of the Series C stock are cumulative and accrued each month at an annual rate equal to 15%. Par value of Series C preferred stock is $1 per share. Each share of the Series C preferred stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Series C preferred stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Series C preferred stock, all accrued and unpaid dividends on such converted shares will be cancelled. The Series C shares also have voting rights equal to the number of "as converted" Common Stock, as defined. As discussed in Note (9)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

(4) New Accounting Standards

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145). SFAS 145 was effective January 1, 2003. SFAS 145 eliminates the required classification of gain or loss on extinguishment of debt as an extraordinary item of income and states that such gain or loss be evaluated for extraordinary classification under the criteria of

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Accounting Principles Board Opinion No. 30, “Reporting Results of Operations” (APB 30). SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, and makes various other technical corrections to existing pronouncements. The Company is evaluating the impact of SFAS 145 on the financial statements.

In June 2002, the FASB issued SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities” (SFAS 146). This statement nullifies Emerging Issues Task Force Issue 94-3 (Issue 94-3), “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity’s commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material impact on the Company’s financial position or results of operations.

In December 2002, the FASB issued SFAS 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement 123” (SFAS 148), which was effective on December 31, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method on reported results. The provisions regarding alternative methods of transition do not apply to the Company, which accounts for stock-based compensation using the intrinsic value method. The disclosure provisions have been adopted. See Note (11).

In April 2003, the FASB issued SFAS 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The guidance is to be applied prospectively. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new guidance requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Application of SFAS 150 to financial instruments that exist on the date of adoption should be reported through a cumulative effect of a change in an accounting principle by measuring those instruments at fair value or as otherwise required by the SFAS 150. The adoption of SFAS 150 did not have a significant impact on our consolidated financial statements.

(5) Restructurings and Disposals

As a result of a strategic review, the Company set forth a plan for the closure of Kruse Manufacturing, the German manufacturing subsidiary (“Kruse”). Approximately 27 job positions and related office staff reductions will be lost in connection with closing this operation. Consistent with SFAS 144, the Company evaluated long-

lived assets for impairment and assessed their recoverability based upon anticipated undiscounted future cash flows. For the ten months ended October 31, 2002, the Company recorded non-cash impairment charges and wrote down the value of the long-lived assets by approximately $461,400. Net sales and Net loss for Kruse for the ten months ended October 31, 2002 were approximately $248,000 and $1,082,800, respectively.

(6) Supplemental Cash Flow Information

Cash payments for interest and net cash payments for income taxes are as follows (approximated):

	Ten months ended October 31, 2002
Interest	$ 5,381,700
Income taxes, net of refunds	$ 13,768,500

Non-cash investing and financing activities have been excluded as non-cash items from the consolidated statement of cash flows for the ten months ended October 31, 2002.

(7) Long-term Debt

In September 2001, the Company obtained a total of $115,000,000 of secured debt financing (the “Debt”) under US and European term loans and long-term revolving credit facilities of which approximately $86,581,200 was drawn upon as of October 31, 2002. The secured debt financing under the United States facilities totaled $52,338,300 as of October 31, 2002 with a maximum borrowing of $15,000,000 on the revolver and $50,000,000 on the term loan. The secured debt financing under the European facilities totaled $34,242,900 as of October 31, 2002 with maximum borrowings of $15,000,000 on the revolver and $35,000,000 on the term loan. The Debt has a six-year maturity, bears interest at IBOR plus a specified margin ranging from 2.25% to 3.75% per annum with principal and interest payable quarterly. The United States Debt is secured by a first lien on substantially all of the Company’s United States assets and the European Debt is secured by a first lien on substantially all of the Company’s European assets. Certain fees and expenses paid directly by the Company in connection with the Debt refinancing are reflected as deferred financing costs and are included in Other assets in the Consolidated Balance Sheet as of October 31, 2002. These costs are being amortized to interest expense over the life of the Debt using the effective interest method. The refinancing contains installment mortgages for the manufacturing facilities as well as long-term revolving debt facilities to support continuing operations. The Debt is subject to certain financial covenants consisting primarily of minimum EBITDA (earnings before interest, taxes, depreciation and amortization, as defined) levels, interest coverage ratios, maximum leverage ratios and a limitation on capital expenditures, as defined. The Company was out of compliance with certain non-financial covenants as of October 31, 2002, but has obtained waivers from the lenders.

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Long-term debt at October 31, 2002, consisted of the following :

	October 31, 2002
United States Term Loan payable to a lender, secured by substantially all company US assets, interest at LIBOR plus margin (5.57% as of October 31, 2002), principal and interest payments due quarterly through September 2007	$ 45,000,000
European Term Loan payable to a lender, secured by substantially all company European assets, interest at IBOR plus margin (5.57% as of October 31, 2002), principal and interest payments due quarterly through September 2007	30,141,000
United States Long-Term Revolving Credit Facility payable to a lender, secured by substantially all company US assets, interest at LIBOR plus margin (5.57% as of October 31, 2002), commitment through and due September 2007	7,338,300
European Long-Term Revolving Credit Facility payable to a lender, secured by substantially all company European assets, interest at IBOR plus margin (5.57% as of October 31, 2002), commitment through September 2007	4,101,900
Mortgages payable to a bank, secured by certain property, plant and equipment and other assets, bearing fixed interest at 4.0% to 5.1%	2,235,300
	88,816,500
Less: Current portion	10,758,200
Long-term debt	$ 78,058,300

The Company's long-term debt, including subsidiary debt, is scheduled to mature as follows:

Year Ending December 31,	
2002	$ 2,519,500
2003	9,922,400
2004	14,159,600
2005	17,280,600
2006	18,315,200
2007	14,807,700
Thereafter	11,811,500
Total	$ 88,816,500

At October 31, 2002 the Company had outstanding letters of credit of $2,280,411. The letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions.

(8) Consumer Credit Arrangements

The Company refers customers seeking extended financing, to certain third party financiers (the Card Servicers). The Card Servicers, if credit is granted, establish the interest rates, fees and all other terms and conditions of the customer accounts based on their evaluation of the credit worthiness. As the receivables are owned by the Card Servicers, at no time are the receivables purchased or acquired from the Company. In connection with customer purchases financed under these arrangements, the Card Servicer pays the Company an amount equal to the total amount of such purchases, net of a non-refundable financing fee as well as an interest bearing holdback of 20% (to be released upon ultimate collection) of certain amounts financed with recourse

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under the program. The amounts financed and uncollected with recourse to the Company is approximately $233,700 included in Accounts receivable, as of October 31, 2002.

(9) Commitments and Contingencies

(a) *Lease Commitments*—The Company's subsidiaries lease certain property, plant and equipment under noncancellable capital lease agreements expiring at various dates through 2005. Such leases also contain renewal and purchase options. The Company leases space for its corporate headquarters and a retail outlet under operating leases which calls for annual rental payments due in equal monthly installments. Operating lease expenses were approximately $1,578,800 for the ten months ended October 31, 2002.

Future minimum lease payments at October 31, 2002 under these non-cancelable leases are as follows:

	Capital Leases	Operating Leases
Year Ended December 31:		
2002	$ 4,700	$ 315,800
2003	30,300	2,293,600
2004	28,000	1,777,800
2005	3,200	1,449,400
2006		1,154,900
Thereafter		2,776,900
	66,200	$ 9,768,400
Less amount representing interest	—	
Present value of minimum lease payments	$ 66,200	

(b) *Minority Shareholder Put Right*—Under the terms of the Preferred Stock transaction certain minority shareholders owning common stock of the Company may exercise put rights, subject to Board of Director approval, as provided for in the Securities Purchase Agreement after April 1, 2004 for a period of 30 days as defined in the agreement. Except for certain provisional changes, within 60 days of notice, the Company is required to purchase all shares subject to the put from the shareholders. The purchase price is calculated based on the relative ownership interests of the exercising shareholders and a determination of the fair market value, as defined, of the Company at that time. The purchase price is required to be paid in cash unless prohibited by restriction from the debt and equity agreements in which case it will be paid in additional shares of preferred stock. The exercise of these put rights are subordinate to the Preferred Shareholders put rights (Note 9(c)).

In addition, any holder of preferred stock may redeem held shares of Preferred Stock if there is a change of control, as defined in the agreement, at a purchase price which is the higher of the purchase price under the put or the price to be received due to a change of control, assuming the conversion of all convertible securities into shares of Company common stock.

(c) *Preferred Stockholder Put Right*—Under the terms of the Amended and Restated Stockholders Agreement, certain Preferred Stockholders of the Company may exercise put rights as provided for in the agreement after April 1, 2004 for a period of 30 days or upon certain Events of Default as defined in the Securities Purchase Agreement period. Except for certain provisional changes, within 60 days of notice, the Company is required to purchase all shares subject to the put from the shareholders. The purchase price is

calculated based on the greater of i) the liquidation value of such preferred shares plus all accrued and unpaid dividends, and ii) the aggregate common share put price assuming conversion to common stock in accordance with the amended Certificate of Incorporation of the Company. The purchase price is required to be paid in cash unless it is prohibited by restriction from the Company's agreements with its lenders in which case it will be paid in additional shares of preferred stock.

If any portion of the repurchase price is not paid in cash, then, each month after the closing of the put right, the Company is required to issue to certain preferred shareholders Common Stock Purchase Warrants equal to one percent of the aggregate number of shares of common stock (assuming the conversion of all convertible securities) times the ratio of the aggregate repurchase price not paid in cash to the total repurchase price.

In addition, any holder of Preferred Stock may require the Company to redeem all shares of Preferred Stock if there is a change of control, as defined, at a purchase price that is the higher of the purchase price under the put right or the price to be received due to a change of control, assuming the conversion of all convertible securities into shares of Company common stock.

(d) *Stock Buy-Backs*—The Company, certain redeeming common stock shareholders of the Company and certain investors in Preferred Stock of the Company have entered into a Stock Redemption Agreement which provides for the sale and purchase, as the case may be, by the redeeming shareholders and the investors at a nominal price, of sufficient Preferred Stock which will cause the Internal Rate of Return, as defined, of such shares to be within a range as specified in the agreement.

Such sales and purchases are permitted upon the sale or transfer by certain investors of more than 50% of the securities such investors purchased under the Securities Purchase Agreement, the exercise by such investors of a put right, a liquidation, dissolution, merger, consolidation or sale of all or substantially all assets or stock of the Company to a third party, the first public sale of securities by such investor, or the first anniversary of the termination of any applicable restrictive "lock-up" period as defined in the agreement.

Upon such an event, Fagerdala Industri AB (Note (1)), has the right to purchase from the Company a number of common shares in the same proportion to the proportion of shares being repurchased by each redeeming shareholder to the shares each such redeeming shareholder owned prior to redemption.

(e) *Litigation*—The Company is party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings is not presently determinable, management does not believe that adverse determinations in any or all of such proceedings will have a material adverse effect upon the financial condition of the Company or results of operations at TWI Holdings, Inc.

(10) Derivative Financial Instruments

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company has entered into forward foreign exchange contracts. Gains and losses on these contracts generally offset losses and gains on the applicable Subsidiary's foreign currency receivables and foreign currency debt.

The Company does not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor does it hedge exposure related to anticipated transactions.

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The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings (both in Other income, net). The contracts held by the Company are denominated in US dollars, British Pound Sterling and Japanese Yen each against the Danish Krone.

The Company had derivative financial instruments with a notional value of approximately $11,059,400 and an initial value in excess of fair value of approximately $22,300 included in Foreign exchange payable on the Consolidated Balance Sheet as of October 31, 2002. The foreign exchange loss on derivative financial instruments for the ten month period ended October 31, 2002 of approximately $784,100 is included in the consolidated statement of income.

A sensitivity analysis indicates that a 10% adverse movement in the United States dollar to Danish Krone exchange rates at October 31, 2002 would incur losses for the Company of approximately $714,200 on foreign currency forward contracts outstanding at October 31, 2002. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged.

(11) Stock-Based Compensation Plan

(a) *Stock Options*—The Company adopted the Tempur World, Incorporated 2000 Stock Option Plan (“Stock Option Plan”) to provide grants of options to purchase shares of common stock to certain key employees. Options granted under the Stock Option Plan are non-qualified and are granted with an exercise price equal to the fair market value of the Company’s common stock at the date of grant, except for a single grant issued to one individual for which compensation expense was recorded. The fair market value is based on *acceptable* valuation methodologies and is approved by Board of Directors. Options granted under the Stock Option Plan generally vest in increments of 25% per year over a four year period on the yearly anniversary date of the grant and may be exercised up to six years from the grant date and five years from the date of grant for any shareholders who own 10% or more of the shares of Company common stock outstanding. As of October 31, 2002, 207,229 options were exercisable. The total number of shares of common stock subject to issuance under the Stock Option Plan may not exceed 10% of the authorized share capital, which was 1,000,000 shares as of October 31, 2002 subject to certain adjustment provisions.

The following table summarizes information about stock options outstanding as of October 31, 2002:

	Shares	Exercise Price Weighted Average
December 31, 2001	292,848	$ 23.44
Granted	147,000	21.11
Exercised	—	—
Terminated	(20,348)	20.10
October 31, 2002	419,500	$ 23.63

Options outstanding at October 31, 2002 had exercise prices ranging from $21.11-$27.71 per share and expire between January 1, 2005 and January 1, 2008. The weighted average fair value at date of grant for options granted during 2002 was $7.05. The weighted-average remaining contractual life is 4 years.

(b) *Stock Based Compensation*—Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted

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for its stock options granted under the fair value method of SFAS 123 (see Note (3)(p)), “Accounting Policies—Stock-Based Compensation”). The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2002
Expected life of option, in years	5-6 years
Risk-free interest rate	4.34%
Expected volatility of stock	25%
Expected dividend yield on stock	0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company’s options have characteristics significantly different from those of similar traded options, and changes in the subjective input can materially affect the fair value estimate.

(12) Income Taxes

The provision for income taxes for the ten months ended October 31, 2002 consisted of the following (approximated):

	Ten months ended October 31, 2002
Current provision	
Federal	$ 2,399,700
State	1,026,800
Foreign	9,709,300
Total current	13,135,800
Deferred benefit	
Federal	(169,200)
State	(16,700)
Foreign	(513,900)
Total deferred	(699,800)
Total provision for income taxes	$ 12,436,000

The provision for income taxes includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws.

The Company has established a valuation allowance for net operating loss carryforwards (NOLs), certain contribution carryovers relates to United States charitable donations and certain other timing differences related to some of its foreign operations. The Company’s foreign NOLs were approximately $14,490,500 at October 31, 2002 that expire at various dates through 2012. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of these NOLs and certain

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other timing differences related to some of its foreign operations. The Company believes that it is more likely than not that its tax assets (other than those related to some of its foreign operations) are realizable based on the level of future reversing taxable temporary differences and on historically profitable operations, which the Company believes are more likely than not to continue into the future to the extent necessary to assure realization of recorded deferred tax assets. However, there can be no assurance that such assets will be realized if circumstances change.

The effective income tax provision differs from the amount calculated using the statutory United State federal income tax rate, principally due to the following:

	Ten months ended October 31, 2002	
	Amount	Percentage of Income Before Taxes
Statutory United States federal income tax	$ 11,325,800	35.0%
State income taxes, net of federal benefit	717,800	2.2
Foreign tax differential	(941,300)	(2.9)
Change in valuation allowance	2,846,100	8.8
Foreign tax credit	(1,560,900)	(4.8)
Subpart F income	243,600	0.8
Permanent and other	(195,100)	(0.6)
Effective income tax provision	$ 12,436,000	38.5%

Subpart F income represents interest and royalties earned by a foreign subsidiary. Under the Internal Revenue Code, such income is taxable to Tempur World, Inc. as if, in effect, earned directly by Tempur World, Inc.

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The net deferred tax asset and liability recognized in the consolidated balance sheet as of October 31, 2002 consists of the following:

	October 31, 2002
Deferred tax assets:	
Contribution carryover	$ 2,181,800
Foreign tax credit	1,560,900
AMT credit	91,400
Start up costs	45,900
Inventories	3,117,400
Net operating losses	3,784,800
Land and buildings	757,800
Accrued expenses and other	1,905,900
Total deferred tax assets	13,445,900
Valuation allowances	(7,125,600)
Net deferred tax assets	6,320,300
Deferred tax liabilities:	
Depreciation	(3,355,700)
Intangible assets	(1,817,500)
Total deferred tax liabilities	(5,173,200)
Net deferred tax liability	$ 1,147,100

(13) Major Customers

Five customers accounted for approximately 24% of sales for the ten months ended October 31, 2002, one of which accounted for approximately 10% of sales all of which was sold in the Domestic Segment. These same customers also accounted for approximately 16% of accounts receivable as of October 31, 2002. The loss of one or more of these customers could have a material adverse effect on the Company.

(14) Benefit Plan

A subsidiary of the Company has a defined contribution plan whereby eligible employees may contribute up to 15% of their pay each year to the plan subject to certain limitations as defined by the Plan. Employees are eligible to receive matching contributions at the start of employment with the Company. The Plan provides a 100% match of the first 3% and 50% of the next 2% on eligible employee contributions and eliminated the vesting period such that matching contributions vest immediately. The Company incurred approximately $115,900 of expenses associated with the defined contribution plan for the ten months ended October 31, 2002.

(15) Related Party Transactions

The Company has transactions with certain Fagerdala subsidiaries which are considered related parties due to common control or ownership. These agreements were necessitated by the utilization of the Fagerdala distribution network to sell the Tempur related products.

In connection with the merger, on December 31, 1999, the Company executed a binding letter of intent with Fagerdala to provide for the termination or modification of the major existing related agreements as described below:

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Consulting and Service Support Agreements—Effective January 1, 2001, Ashfield Consultancy Ltd. ("ACL"), an affiliate, will provide the following services to the Company: (i) establishing new markets for the products of the Company (ii) establishing a distribution network for the products of the Company (iii) development of new products and (iv) providing office space, office equipment and related services to accomplish the aforementioned services. In consideration of the services provided above, the Company agrees to pay ACL an annual fee of approximately $880,000 plus office costs, payable monthly at the beginning of each month. The term of this agreement is for one year and is renewable annually.

As some of the Company's operations are leasing office and warehouse space and receive some administrative services from Fagerdala personnel, the Company is in the process of finalizing a standard administrative services contract for those operations. The amounts charged for rent, use of equipment and administrative support are be based on management's estimate of prevailing arms-length pricing in the location of the operations.

Sales to and purchases from the affiliated entities are primarily for product and are priced according to pricing applicable to third-party customers. Interest income and expense are charged on outstanding note and trade accounts based on management's estimate of prevailing market rates of interest at the time of the obligations. Management fee income and expense are charged for shared services at certain of the subsidiary locations based on management's estimate of prevailing market conditions in the country of operation. The total amounts reported in the consolidated financial statements as of October 31, 2002 are approximately as follows:

As of October 31, 2002:	
Accounts receivable	$ 143,000
Accounts payable	166,900
Notes receivable, interest rate of 8%	37,000
For the Ten Months Ended October 31, 2002:	
Related party sales	$ 4,200
Related party purchases	605,000
Interest income	21,300
Interest expense	21,400
Management fee expense	127,500
Ashfield Consulting Agreement	1,183,800

(16) Segment Disclosures

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and assessing performance. The Company operates in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations.

Beginning in 2002, following the opening of the United States manufacturing facility, the Company changed the reporting structure from a single segment to Domestic and International operating segments. This change was consistent with the Company's ability to monitor and report operating results in these segments. The Domestic segment consists of the United States manufacturing facility whose customers include the United

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States distribution subsidiary and certain North American third party distributors. The International segment consists of the manufacturing facility in Denmark whose customers include all of the distribution subsidiaries and third party distributors outside the Domestic segment. The Company evaluates segment performance based on Operating income.

The following table summarizes segment information:

	Ten months ended October 31, 2002
Revenues from external customers:	
Corporate	$ —
Domestic	131,399,000
International	105,916,000
	$ 237,315,000
Intercompany sales:	
Corporate	$ —
Domestic	—
International	(16,677,000)
Intercompany eliminations	16,677,000
	$ —
Operating income:	
Corporate	$ (3,249,000)
Domestic	22,104,000
International	21,538,000
	$ 40,393,000
Depreciation and amortization:	
Corporate	$ 1,352,000
Domestic	3,444,000
International	5,587,000
	$ 10,383,000
Total assets:	
Corporate	$ 54,195,000
Domestic	123,615,000
International	137,060,000
Intercompany eliminations	(115,229,000)
	$ 199,641,000
Capital expenditures:	
Corporate	$ 120,000
Domestic	3,362,000
International	5,693,000
	$ 9,175,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth net sales by significant product group:

	Ten Months Ended October 31, 2002
Mattresses	$ 124,781,000
Pillows	72,396,000
All other	40,138,000
	$ 237,315,000

The Domestic segment purchases certain products produced by the Danish manufacturing facility included in the International segment and sells those products to Domestic segment customers. The profits from these sales amounting to approximately $3,341,000 for the ten months ended October 31, 2002, are allocated to operating income in the domestic segment. Although these transactions are reported in the Domestic segment, the profit from these sales remain in the international segment for statutory purposes.

(17) Condensed Consolidating Financial Information

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the "Issuers") issued $150 million of 10.25% Senior Subordinated Notes due 2010 (the "Senior Subordinated Notes"). The Senior Subordinated Notes are unsecured senior subordinated indebtedness of the Issuers and are fully and unconditionally and joint and severally guaranteed on an unsecured senior subordinated basis by the Issuers' ultimate parent, TWI Holdings, Inc., and two intermediate parent corporations (referred to as the "Combined Guarantor Parents" in the accompanying financial information) and all of TWI Holdings' current and future domestic subsidiaries (referred to collectively as the "Issuers and their Subsidiary Guarantors" in the accompanying financial information), other than the Issuers. The Issuers and subsidiary guarantors are indirectly wholly owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are wholly owned subsidiaries of the Issuers. The foreign subsidiaries (referred to as "Combined Non-Guarantor Subsidiaries" in the accompanying financial information) represent the foreign operations of the Company and will not guarantee this debt. The following financial information presents condensed consolidating balance sheets, statements of operations and statements of cash flows for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet
As of October 31, 2002

	Issuers and its Subsidiary Guarantor	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets	$ 49,744,000	$ 2,372,000	$ 84,507,000	$ (40,397,000)	$ 96,226,000
Property, plant and equipment, net	34,625,000	448,000	40,594,000	—	75,667,000
Other noncurrent assets	39,246,000	51,376,000	11,957,000	(74,831,000)	27,748,000
Total assets	$ 123,615,000	$ 54,196,000	$ 137,058,000	$ (115,228,000)	$ 199,641,000
Current liabilities	$ 57,879,000	$ 10,756,000	$ 30,470,000	$ (40,393,000)	$ 58,712,000
Noncurrent liabilities	49,308,000	28,197,000	35,455,000	(27,257,000)	85,703,000
Redeemable preferred stock	—	15,331,000	—	—	15,331,000
Equity (deficit)	16,428,000	(88,000)	71,133,000	(47,578,000)	39,895,000
Total liabilities and equity (deficit)	$ 123,615,000	$ 54,196,000	$ 137,058,000	$ (115,228,000)	$ 199,641,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Consolidating Statements of Operations
For the Ten Months Ended October 31, 2002

	Issuers and its Subsidiary Guarantor	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 131,399,000	$ —	$ 122,592,000	$ (16,677,000)	$ 237,314,000
Cost of goods sold	66,847,000	(293,000)	60,351,000	(16,677,000)	110,228,000
Gross profit	64,552,000	293,000	62,241,000	—	127,086,000
Operating expenses	45,789,000	3,542,000	37,363,000	—	86,694,000
Operating income	18,763,000	(3,249,000)	24,878,000	—	40,392,000
Interest income (expense), net	(2,678,000)	(1,603,000)	(2,011,000)	—	(6,292,000)
Other income (loss)	108,000	(819,000)	(1,013,000)	—	(1,724,000)
Income taxes	6,599,000	(3,359,000)	9,195,000	—	12,435,000
Net income (loss)	$ 9,594,000	$ (2,312,000)	$ 12,659,000	$ —	$ 19,941,000

Condensed Consolidating Statements of Cash Flows
For the Ten Months Ended October 31, 2002

	Issuer and their Subsidiary Guarantors	Combined Guarantor Parents	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ 9,594,000	$ (2,312,000)	$ 12,659,000	$ —	$ 19,941,000
Non-cash expenses	5,119,000	3,190,000	2,829,000	—	11,138,000
Changes in working capital	(5,486,000)	1,531,000	(4,418,000)	—	(8,373,000)
Net cash provided by operating activities	9,227,000	2,409,000	11,070,000	—	22,706,000
Net cash used for investing activities	(2,632,000)	(120,000)	(1,895,000)	—	(4,647,000)
Net cash provided by financing activities	(8,900,000)	(1,889,000)	(8,913,000)		(19,702,000)
Effect on exchange rate changes on cash	—	—	485,000	—	485,000
Net increase (decrease) in cash and cash equivalents	(2,305,000)	400,000	747,000	—	(1,158,000)
Cash and cash equivalent at beginning of the of the year	2,037,000	7,000	5,494,000	—	7,538,000
Cash and cash equivalents at end of period	$ (268,000)	$ 407,000	$ 6,241,000	$ —	$ 6,380,000

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Arthur Andersen LLP Has Not Reissued This Report As Arthur Andersen LLP Ceased Operations In August 2002.

The Following Report Is A Copy of the Previously Issued Arthur Andersen LLP Report

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Tempur World, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Tempur World, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Tempur World, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Louisville, Kentucky
March 8, 2002

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED BALANCE SHEETS
As of December 31, 2001 and 2000

	Notes	2000*	2001
ASSETS			
Current Assets:			
Cash and cash equivalents	*5h*	$ 10,572,420	$ 7,538,178
Accounts receivable, net of allowance for doubtful accounts of $817,461 and $536,715 as of December 31, 2001 and 2000, respectively	*16*	24,417,160	30,076,877
Accounts receivable—related parties	*14*	163,802	340,871
Notes receivable—related parties	*14*	123,362	549,985
Inventories	*5i*	23,690,457	29,394,130
Income taxes receivable	*12*	2,540,392	—
Prepaid expenses and other current assets		2,439,118	2,975,364
Deferred income taxes	*12*	2,836,159	2,569,123
Total current assets		66,782,870	73,444,528
Land and buildings		23,682,324	44,548,948
Machinery and equipment		26,042,537	49,710,474
Construction in progress		15,152,579	36,000
		64,877,440	94,295,422
Less: Accumulated depreciation		(9,376,801)	(16,384,103)
Property, plant and equipment, net	*5j*	55,500,639	77,911,319
Goodwill, net of amortization of $2,449,924 and $1,140,150 as of December 31, 2001 and 2000, respectively	*5k*	16,666,737	15,356,963
Other intangible assets, net of amortization of $1,358,467 and $679,233 as of December 31, 2001 and 2000, respectively	*5k*	4,371,967	3,692,733
Deferred financing costs and other non-current assets, net	*4a*	982,585	6,435,245
Total assets		$ 144,304,798	$ 176,840,788
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable		$ 14,598,199	$ 13,242,356
Accounts payable—related parties	*14*	30,428	347,286
Accrued expenses and other		15,593,249	21,211,466
Income taxes payable	*12*	160,003	2,830,572
Value added taxes payable		3,632,140	2,393,518
Notes payable—lines of credit	*8a*	34,632,601	184,109
Notes payable—related parties	*14*	3,360,661	1,286,848
Current portion—long-term debt	*8b*	8,587,005	9,207,718
Current portion—capital lease obligations	*10a*	530,618	225,300
Total current liabilities		81,124,904	50,929,173
Long-term debt	*8b*	21,646,821	94,960,088
Capital lease obligations	*10a*	316,182	159,299
Notes payable—related parties	*14*	2,089,830	—
Deferred income taxes	*12*	890,294	2,382,365
Total liabilities		106,068,031	148,430,925
Commitments and contingencies	*10*		
Preferred stock, Series A, $1 par value, 1,100,000 shares authorized and 615,792 outstanding	*4b*	—	11,715,485
Stockholders' Equity:			
Common stock, $.01 par value, 11,000,000 shares authorized, 9,000,034 shares issued and 9,000,034 and 7,501,503 shares outstanding as of December 31, 2001 and 2000, respectively		90,000	90,000
Additional paid in capital		14,352,488	14,352,488
Retained earnings		24,409,684	35,921,593
Accumulated other comprehensive income		(615,405)	(3,355,855)
Less: Cost of 1,498,531 treasury shares at December 31, 2001	*4b*	—	(30,313,848)
Total stockholders' equity		38,236,767	16,694,378
Total liabilities and stockholders' equity		$ 144,304,798	$ 176,840,788

* Reclassified to conform with 2001 presentation

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2001 and 2000

	Notes	2000*	2001
Net sales	*5e & 5f*	$ 161,969,258	$ 221,514,514
Cost of sales		89,449,925	107,569,342
Gross profit		72,519,333	113,945,172
Selling expenses	*5g*	29,596,709	52,121,943
General and administrative expenses		19,303,208	30,188,677
Research and development expenses	*5o*	1,181,824	1,263,760
Operating income		22,437,592	30,370,792
Interest income		238,934	672,923
Interest expense		(2,433,265)	(7,299,445)
Related party interest income(expense), net		(30,931)	71,453
Foreign currency exchange losses	*5d & 11*	(1,098,960)	(906,169)
Other income, net		152,079	590,157
Total other expense		(3,172,143)	(6,871,081)
Income before income taxes		19,265,449	23,499,711
Income tax provision	*12*	6,687,649	11,642,323
Net income		$ 12,577,800	$ 11,857,388

* Reclassified to conform with 2001 presentation

The accompanying notes to consolidated financial statements are an integral part of these statements.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2001 and 2000

	Common Stock						
	Shares	Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2000	9,000,034	90,000	15,545,123	12,650,475	—	—	28,285,598
Net income plus other comprehensive income:							
Net Income	—	—	—	12,577,800		—	12,577,800
Foreign currency translation adjustments, net of tax	—	—	—	—		(615,405)	(615,405)
Comprehensive income							11,962,395
Acquisition of assets and liabilities under common control	—	—	(1,192,635)	(818,591)		—	(2,011,226)
Balance, December 31, 2000	9,000,034	$ 90,000	$ 14,352,488	$ 24,409,684	—	$ (615,405)	$ 38,236,767
Net income plus other comprehensive income:							
Net Income				11,857,388			11,857,388
Foreign currency translation adjustments, net of tax						(2,740,450)	(2,740,450)
Comprehensive income							9,116,938
Dividends on preferred stock				(345,479)			(345,479)
Purchases of Treasury Stock	(1,498,531)				(30,313,848)		(30,313,848)
Balance, December 31, 2001	7,501,503	$ 90,000	$ 14,352,488	$ 35,921,593	$ (30,313,848	$ (3,355,855)	$ 16,694,378

The accompanying notes to consolidated financial statements are an integral part of these statements.

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000

	2000*	2001*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,577,800	$ 11,857,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,002,215	10,051,321
Amortization of deferred financing costs	—	322,586
Allowance for doubtful accounts	3,289,814	3,000,112
Deferred income taxes	(1,538,195)	1,692,102
Foreign currency adjustments	1,098,960	1,582,289
Loss on sale of equipment	203,497	(52,666)
Changes in operating assets and liabilities:		
Accounts receivable—trade	(15,433,753)	(9,906,051)
Accounts receivable—related parties	2,278,018	(195,929)
Notes receivable—related parties	(124,691)	(447,391)
Inventories	(6,913,361)	(7,543,032)
Prepaid expenses and other current assets	(826,691)	(644,600)
Accounts payable—trade	5,380,573	(781,699)
Accounts payable—related parties	30,761	336,080
Accrued expenses and other	171,435	6,132,600
Value added taxes payable	1,234,761	(1,095,044)
Income taxes payable/receivable	(6,305,650)	5,408,028
Net cash provided by operating activities	1,125,493	19,716,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired	310,049	—
Purchases of property, plant and equipment	(27,417,800)	(35,241,185)
Proceeds from sales of property, plant and equipment	93,450	379,448
Net cash used for investing activities	(27,014,301)	(34,861,737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	9,894,682	128,068,125
Proceeds from issuance of long-term debt—related party	1,363,005	408,146
Proceeds from issuance of notes payable	32,485,038	23,150,679
Repayments of long-term debt	(1,522,971)	(51,788,106)
Repayments of long-term debt—related party	(3,238,087)	(4,280,322)
Repayments of notes payable	(4,379,418)	(57,408,243)
Repayments of capital lease obligations	—	(462,200)
Payments of deferred financing costs	(288,254)	(6,151,573)
Proceeds from issuance of preferred stock, net	—	11,370,006
Purchases of treasury stock	—	(30,313,848)
Net cash provided by financing activities	34,313,995	12,592,664
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH:	(119,938)	(481,263)
Increase (decrease) in cash and cash equivalents	8,305,249	(3,034,242)
CASH AND CASH EQUIVALENTS, beginning of period	2,267,171	10,572,420
CASH AND CASH EQUIVALENTS, end of period	$ 10,572,420	$ 7,538,178

* Reclassified to conform with 2001 presentation

The accompanying notes to consolidated financial statements are an integral part of these statements.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company

Tempur World, Inc. and Subsidiaries ("Tempur World" or "the Company"), a US based multinational corporation incorporated in Delaware, is a majority owned subsidiary of Fagerdala Industri AB, a Swedish corporation. Fagerdala Industri AB is a majority-owned subsidiary of Fagerdala World Foams AB ("Fagerdala"), also a Swedish corporation. Tempur World manufactures, markets and sells advanced viscoelastic foam products including pillows, mattresses and other related products. The Company manufactures essentially all of its products at Dan Foam A/S, located in Denmark and Tempur Production USA, Inc., a new plant located in the United States (see Note (3)). The Company sells its products in markets throughout the United States, Europe, Asia and other countries around the world and primarily extends credit based on the creditworthiness of its customers. The majority of the Company's revenues are derived from sales to retailers and to retail consumers through its direct response business.

The structure and operations of the Company as of December 31, 2001 are described in the following table:

Name	Ownership Structure and Nature of Operations	Date Acquired/ Formed
HOLDING COMPANIES		
Tempur World, Inc.	Parent (Holding) company, US based, directly owns 100% of Tempur World Holding Company	At formation of Tempur World
Tempur World Holding Company, Inc.	Parent (Holding) company, US based, directly owns 100% of US distribution company, Tempur Production USA, Inc. and Dan Foam Holding Company A/S	July 25, 2001
Dan Foam Holding Company A/S	Holding company, Denmark based, directly owns 39.25% of Dan Foam A/S and indirectly owns 60.75% through its wholly-owned subsidiary, Dan Foam Holding AB also owns 100% of all other non-US distribution companies not directly owned by Dan Foam A/S	At formation of Tempur World
Dan Foam Holding AB	Holding company, Swedish based, directly owns 60.75% of Dan Foam A/S	At formation of Tempur World
DISTRIBUTION COMPANIES		
Tempur-Pedic, Inc.	Distribution company, US based	At formation of Tempur World
Tempur UK, Ltd.	Distribution company, UK based	At formation of Tempur World
Tempur Yugen Kaisha. ("Japan")	Distribution company, Japan based	At formation of Tempur World
Tempur do Brasil l.t.d.a. ("Brazil")	Distribution company, Brazil based	At formation of Tempur World
Tempur Suomi OY ("Finland")	Distribution company, Finland based	At formation of Tempur World

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Name	Ownership Structure and Nature of Operations	Date Acquired/ Formed
Tempur Norge AS (“Norway”)	Distribution company, Norway based	At formation of Tempur World
Tempur Sverige AB (“Sweden”)	Distribution company, Sweden based	At formation of Tempur World
Tempur Schweiz AG (“Switzerland”)	Distribution company, Switzerland based	At formation of Tempur World
Tempur Holding GmbH. (“German Holding”)	Parent (Holding) company, Germany based, directly owns 100% of Tempur Deutschland GmbH, and Kruse Polstermöbel-System GmbH, newly restructured, formerly Tempur Germany	May 1, 2000, name change to Holding as part of restructuring.
Tempur Deutschland GmbH. (“Germany”)	Distribution company, Germany based, newly restructured	May 1, 2001
Tempur France SARL (“France”)	Distribution company, France based	May 3, 2000
Tempur Pedic Espana SA (“Spain”)	Distribution company, Spain based	May 1, 2000
Tempur Singapore Pte Ltd. (“Singapore”)	Distribution company, Singapore based	October 31, 2000
Tempur Italia Srl (“Italy”)	Distribution company, Italy based	December 14, 2000
Tempur South Africa (Proprietary) Limited Private Company (“South Africa”)	Distribution company, South Africa based	June 1, 2001
Tempur Benelux B.V. (“Netherlands”)	Distribution company, Netherlands based	August 3, 2001
MANUFACTURING COMPANIES		
Dan Foam A/S	Manufacturing company, Denmark based, directly owns 100% of Tempur UK, Tempur Japan and Tempur Brazil	At formation of Tempur World
Tempur Production USA, Inc.	Manufacturing facility, US based, began operations in May 2001 (see Note (3))	April 19, 2000
Kruse Polstermöbel-System GmbH (“Kruse Manufacturing”)	Manufacturing company, Germany based, newly restructured	May 1, 2001

(2) New Company Formations and Restructurings

During 2001, the Company completed the following new company formations and restructurings:

On May 1, 2001, the Company restructured the Germany distribution and manufacturing companies under a holding company, Tempur Holding GmbH. The holding company owns 100% of Tempur Germany and Kruse Manufacturing. The holding company was the former Germany distribution company and the name was changed. A new distribution company was formed and the majority of the assets and certain liabilities from the old distribution company were transferred to the new company.

On June 1, 2001, the Company formed Tempur South Africa (Proprietary) Limited Private Company, a South Africa based distribution company and wholly-owned subsidiary of Dan Foam Holding Company A/S.

On August 3, 2001, the Company formed Tempur Benelux B.V., a Netherlands based distribution company and wholly-owned subsidiary of Dan Foam Holding Company A/S.

On July 25, 2001, the Company formed Tempur World Holding Company, Inc. as a wholly-owned subsidiary of Tempur World and acquired all of the direct and indirect subsidiary holdings of Tempur World in exchange for 100% of its stock.

(3) US Manufacturing Facility

On May 16, 2000, the Company contracted with a US-based industrial contractor for construction of a US-based manufacturing facility and contracted with the engineering and design firm responsible for the design of the Dan Foam A/S manufacturing facility to develop the plans to complete the Company's new manufacturing facility. The total cost to complete the facility was approximately $17,215,000, of which approximately $12,972,000 was incurred during 2000. The construction of the facility was completed during May 2001 and the facility was operational by June 2001. The Company financed the construction of the new facility with a combination of operating cash flows and temporary bank debt, which was financed as part of the Debt refinancing (see Note (4)(a)).

The above amounts include capitalized interest costs of $1,056,600 and $186,000 as of December 31, 2001 and 2000, respectively. These costs will be amortized on a straight-line basis over the estimated useful life of the facility. The new production equipment installed at the facility during 2001 cost approximately $18,005,000 and was financed with a combination of operating cash flows and temporary bank debt, which was financed as part of the Debt refinancing.

(4) Debt Refinancing and Equity Transactions

(a) *Debt Refinancing (see Note (8))*—In September 2001, the Company obtained a total of $115,000,000 of secured debt financing (the "Debt") under US and European term loans and long-term revolving credit facilities of which approximately $104,000,000 was drawn upon at the inception of the debt facility. The secured debt financing under the US facilities totaled $65,000,000 at date of inception with a maximum borrowing of $15,000,000 on the revolver and $50,000,000 on the term loan. The secured debt financing under the European facilities totaled $50,000,000 at date of inception with maximum borrowings of $15,000,000 on the revolver and $35,000,000 on the term loan. The Debt has a six-year maturity, bears interest at LIBOR plus a specified margin ranging from 2.25% to 3.75% per annum with principal and interest payable quarterly. The US Debt is secured by a first lien on substantially all of the Company's US assets and the European Debt is secured by a first lien on substantially all of the Company's European assets. The net proceeds from the Debt approximated $100,495,800 after deducting fees and expenses of approximately $3,598,500. Including certain fees and expenses paid directly by the Company in connection with the Debt refinancing, a total of $6,031,200 are reflected as deferred financing costs and are included in Other Assets on the Consolidated Balance Sheet as of December 31, 2001. These costs are being amortized to interest expense over the life of the Debt using the effective interest method. The Debt refinanced substantially all of the Company's previously outstanding foreign and domestic debt facilities. The refinancing contains installment mortgages for the manufacturing facilities as well as long-term revolving debt facilities to support continuing operations. A portion of the proceeds were also used to repurchase some of the Company's outstanding common stock (Note (4)(b)). The Debt is subject to certain financial covenants consisting primarily of minimum EBITDA (earnings before interest, taxes, depreciation and amortization, as defined) levels, interest coverage ratios, maximum leverage ratios and a limitation on capital expenditures, as defined. The Company was out of compliance with certain non-financial covenants as of December 31, 2001, but has obtained waivers from the lenders.

(b) *Equity Transactions*—Concurrent with the Debt refinancing, in September 2001, the Company sold a minority share of the Company through a preferred stock offering (the “Securities Purchase Agreement”). The Company’s Certificate of Incorporation was amended to authorize the 1,100,000 shares of Series A Preferred Stock, 2,200,000 shares of Series B preferred stock and 500,000 shares of Series C preferred stock. Under the terms of the transaction, the Company issued 615,792 shares of Series A Preferred Stock (the “Preferred Stock”) to the new shareholders at a price of approximately $21.11 per share for a total of $13,000,000. The net proceeds approximated $11,370,000 after deducting fees and expenses of approximately $1,630,000. In addition to the proceeds from the Preferred Stock, the Company used a portion of the proceeds from the Debt proceeds to repurchase 1,498,531 common shares at a price of approximately $21.11 per share for a total of approximately $31,635,000 from certain existing shareholders. The net repurchase approximated $30,313,900 after deducting fees and expenses of approximately $1,321,000 related to the marketing efforts for the Preferred Stock sale paid to the Company by the participating common stock shareholders. These shares were placed in Treasury Stock and are shown as a reduction of Stockholders’ Equity on the Consolidated Balance Sheet as of December 31, 2001.

The Preferred Stock has a maturity date of September 2011. Dividends on the shares of the Preferred Stock are cumulative and are accrued each month at an annual rate equal to 10% compounded quarterly. Each share of the Preferred Stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Preferred Stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Preferred Stock, all accrued and unpaid dividends on such converted shares will be cancelled. The Preferred Stock also has voting rights equal to the number of “as converted” Common Stock as defined. As discussed in Note (10)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

As of December 31, 2001, no shares of Series B preferred stock have been issued. The Series B preferred stock has a maturity date of September 12, 2009. Dividends on any issued and outstanding shares of the Series B stock are cumulative and accrued each month at an annual rate equal to 15%. Par value of Series B preferred stock is $1 per share. Each share of the Series B preferred stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Series B preferred stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Series B preferred stock, all accrued and unpaid dividends on such converted shares will be canceled. The Series B shares also have voting rights equal to the number of “as converted” Common Stock, as defined. As discussed in Note (10)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

As of December 31, 2001, no shares of Series C preferred stock have been issued. The Series C preferred stock has a maturity date of September 12, 2009. Dividends on any issued and outstanding shares of the Series C stock are cumulative and accrued each month at an annual rate equal to 15%. Par value of Series C preferred stock is $1 per share. Each share of the Series C preferred stock is convertible at the option of the holder thereof at any time into shares of Common Stock of the Company, par value $.01 per share, at a conversion price of $21.11 per share of Common Stock (equivalent to a conversion rate of approximately one share of Common Stock for each share of Series C preferred stock), subject to adjustment under certain conditions. In the event of the conversion of any shares of the Series C preferred stock, all accrued and unpaid dividends on such converted shares will be cancelled. The Series C shares also have voting rights equal to the number of “as converted” Common Stock, as defined. As discussed in Note (10)(c), the shares also contain certain put rights as provided for in the Securities Purchase Agreement.

(5) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries. All subsidiaries, directly or indirectly, are wholly-owned. All material intercompany balances and transactions have been eliminated.

(b) *Management's Use of Estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, management makes its best estimate to accrue for certain costs incurred in connection with business activities such as warranty claims and sales returns, but the Company's estimates of these costs could change materially.

(c) *Foreign Currency Translation*—Assets and liabilities of non-US subsidiaries that operate in a local currency environment are translated to US dollars at year-end exchange rates. Goods and services payable in foreign currencies are recorded at the applicable exchange rates.

(d) *Financial Instruments and Hedging*—Within the normal course of business, the Company uses derivative financial instruments principally to manage the exposure to changes in the value of foreign currency denominated assets and liabilities of its Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged.

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of the financial instruments, including derivatives and long-term debt, standard market conventions and techniques including available market data and discounted cash flow analysis are used to determine fair value.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value because of the short-term maturity of those instruments. The carrying amounts of preferred stock and long-term debt approximate the fair market value for instruments with similar terms as of December 31, 2001 and 2000.

(e) *Revenue Recognition*—The Company recognizes sales of its products when the products are shipped to customers and the risks and rewards of ownership are transferred. Deposits made by customers are recorded as a liability and recognized as a sale when product is shipped. The Company had approximately $2,643,000 and $1,653,000 of deferred revenue included in Accrued Expenses and Other as of December 31, 2001 and 2000, respectively.

In accordance with Emerging Issues Task Force (EITF) Issue 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company reflects all amounts billed to customers for shipping in Net Sales and the costs incurred from shipping product in Cost of Sales. Amounts included in Net Sales for shipping and handling are approximately $7,900,000 and $4,600,000 in 2001 and 2000, respectively. Amounts included in Cost of Sales for shipping and handling are approximately $19,600,000 and $12,500,000 in 2001 and 2000, respectively.

(f) *Accrued Sales Returns*—Estimated sales returns are provided at the time of sale based on historical sales returns. The Company allows returns for 90 to 120 days following a sale depending on the promotion. Accrued sales returns are in Accrued Expenses and Other in the accompanying Consolidated Balance Sheets. The Company had approximately $1,918,400 and $762,000 accrued as of December 31, 2001 and 2000, respectively.

(g) *Advertising Costs*—In accordance with Statement of Position No. 93-7, "Reporting on Advertising Costs", the Company expenses all advertising costs as incurred except for production costs and advance payments which are deferred and expensed when advertisements run for the first time. Advertising costs charged to expense were approximately $31,459,300 and $20,748,200 during 2001 and 2000 respectively. The amounts of advertising costs deferred and included in the consolidated balance sheets as of December 31, 2001 and 2000 were approximately $533,500 and $35,900, respectively.

(h) *Cash and Cash Equivalents*—Cash and cash equivalents consist of all liquid investments with initial maturities of three months or less.

(i) *Inventories*—Inventories are stated at the lower of cost or market, determined by the first-in, first-out method, and consisted of the following (approximated):

	2000	2001
Finished goods	$ 16,588,000	$ 18,953,400
Work-in-process	3,962,700	3,229,500
Raw materials and supplies	3,139,800	7,211,200
	$ 23,690,500	$ 29,394,100

(j) *Property, Plant and Equipment*—Property, plant and equipment, carried at cost, are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Useful Life
Buildings	25 – 30 years
Computer equipment	3 – 5 years
Leasehold improvements	4 – 7 years
Equipment	3 – 7 years
Office furniture and fixtures	5 – 7 years
Autos	3 – 5 years

Leasehold improvements are amortized over the shorter of the life of the lease or seven years. Depreciation expense relating to property, plant and equipment was approximately $8,150,900 and $4,236,200 in 2001 and 2000, respectively.

At December 31, 2001 and 2000, the Company had machinery and equipment under capital leases included in property, plant and equipment of the following (approximated):

	2000	2001
Machinery and equipment	$ 2,696,500	$ 1,189,500
Accumulated depreciation	(1,948,400)	(908,900)
	$ 748,100	$ 280,600

The Company monitors current and anticipated future operating conditions for circumstances that may indicate potential asset impairments in accordance with SFAS 121, “Accounting for the Impairment of Long- Lived Assets and Long-Lived Assets to be Disposed of”. Management has determined that there are no events or circumstances that indicated that an impairment exists as of December 31, 2001. Management continues to monitor current and anticipated future operating conditions that may trigger potential asset impairments in accordance with SFAS 121.

(k) *Goodwill and Other Intangible Assets*—The Company amortizes goodwill and other intangible assets using the straight-line method over the estimated useful lives. Goodwill is amortized over 16 years, while other intangible assets are generally amortized over 10 years. The amortization expense relating to goodwill and other intangible assets was $1,900,400 and $1,766,000 in 2001 and 2000, respectively. At December 31, 2001, no events or circumstances existed warranting revisions to the lives or impairment of intangible assets for the Company. Management continues to monitor current and anticipated future operating conditions that may trigger potential asset impairments in accordance with SFAS 121.

(l) *Software*—The Company expenses costs incurred in the preliminary project stage and, thereafter, capitalizes costs incurred in the developing or obtaining of internal use software. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of not more than five years and are subject to impairment evaluation in accordance with SFAS 121. Amounts capitalized for software are included in Machinery and Equipment on the Consolidated Balance Sheets as of December 31, 2001 and 2000.

(m) *Warranties*—The Company provides a 20-year warranty on mattresses, the last 15 of which are on a prorated basis. Estimated future obligations related to certain products are provided by charges to operations in the period in which the related revenue is recognized. The Company has accrued approximately $3,323,900 and $3,004,000 as of December 31, 2001 and 2000, respectively related to warranty costs and is included within Accrued expenses and other on the accompanying consolidated balance sheets.

(n) *Income Taxes*—The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

In conjunction with the construction of the new US manufacturing facility, the Company repatriated approximately $1,500,000 from one of its foreign entities in the form of a loan to the US operations during 2000. Accordingly, the Company has provided for the additional taxes that it expects will be incurred.

Provisions have not been made for US income taxes or foreign withholding taxes on undistributed earnings of foreign subsidiaries other than as described above, as these earnings are considered indefinitely reinvested. Undistributed foreign earnings amounted to approximately $30,000,000 and $16,900,000 at December 31, 2001 and 2000, respectively. These earnings could become subject to US income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to the US parent company or a US subsidiary, or if the Company should sell its stock in the subsidiaries.

(o) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred.

(p) *Reclassifications*—Certain amounts reported in the consolidated balance sheet and consolidated statement of operations as of and for the year ended December 31, 2000 have been reclassified to conform to the December 31, 2001 presentation.

(6) New Accounting Standards

Effective January 1, 2001, Tempur World adopted the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133” or “the Standard”) as amended by SFAS 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities”. This Standard, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities, including a requirement to recognize all derivatives at their fair value as either assets or liabilities in the balance sheet. Changes in the fair value of derivative financial instruments are either recognized periodically in income or shareholder’s equity (as a component of comprehensive income, depending on whether the derivative is being used to hedge changes in fair value or cash flows). The adoption of SFAS 133 did not have any effect on Tempur World’s financial position or results of operations as it did not have derivatives at such date. See Note (11).

In July 2001, the Financial Accounting Standards Board issued SFAS 141, “Business Combinations”, and SFAS 142, “Goodwill and Other Intangible Assets”. SFAS 141 requires that the purchase method of accounting

be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ".

The Company adopted the provisions of SFAS 142 effective January 1, 2002. Goodwill, all of which was acquired in the formation of Tempur World on January 1, 2000, continued to be amortized through the end of 2001. As of December 31, 2001, the Company has unamortized goodwill in the amount of $15,357,000 and unamortized identifiable intangible assets in the amount of approximately $3,692,700, all of which will be subject to the transition provisions of SFAS 142. Amortization expense related to goodwill was $1,262,700 and $1,085,600 for the years ended December 31, 2001 and 2000, respectively.

In connection with the transitional impairment evaluation, SFAS 142 requires the Company to perform an assessment of whether there is an indication that goodwill and other intangible assets are impaired as of January 1, 2002. The Company has completed the first step assessment of goodwill impairment and has determined that the carrying amount of the Company's reporting unit does not exceed the fair value of the reporting unit as defined by SFAS 142 and no transitional impairment losses are required to be recognized.

Beginning January 1, 2002, the Company is no longer recording amortization expense related to goodwill.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ", and the accounting and reporting provisions for APB Opinion No. 30, "Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. We will adopt the provisions of SFAS 144 as of January 1, 2002, and we are currently evaluating the impact SFAS 144 may have on our financial position and results of operations.

(7) Supplemental Cash Flow Information

Cash payments for interest and net cash payments for income taxes are as follows (approximated):

	2000	2001
Interest, net of capitalized interest	$ 2,804,800	$ 6,464,900
Income taxes, net of refunds	14,907,300	5,256,900

Non-cash investing and financing activities have been excluded as non-cash items from the consolidated statement of cash flows for the year ended December 31, 2001. Total non-cash activity for the year was primarily related to the refinancing of the Germany distribution facility of approximately $2,058,900 through the refinancing of the related party notes payable with a third party bank.

(8) Debt

(a) *Credit Facilities and Refinanced Facilities*

One of the Company's subsidiaries has a line of credit facility with a bank with an aggregate borrowing capacity of $237,100. As of December 31, 2001, the total amount outstanding on this facility was approximately $184,100. This facility is secured by a letter of credit.

During 2001, the Company had a working capital line of credit agreement (Working Capital Credit Facility) with an original maturity date of November 2, 2001, which allowed maximum borrowings of $3,000,000. At December 31, 2000, the Working Capital Credit Facility is presented as a current liability in the accompanying balance sheet within the line item Notes Payable—Lines of Credit and had an outstanding balance of $2,207,800. Additionally, the Company also had lines of credit with three banks maturing during 2001 with allowable maximum borrowings of approximately $35,465,800. As of December 31, 2000, the lines of credit had outstanding balances of $32,424,800 with floating interest rates based on prevailing short-term interest rates in the country of origin at a weighted average rate of 5.95% as of December 31, 2000. These credit facilities were refinanced in September 2001 as part of the Debt refinancing transaction (Note (4)(a)).

(b) *Long-term Debt*—Long-term debt (see also Note (4)(a)) for the Company's subsidiaries at December 31, 2001 and 2000, consisted of the following (approximated):

	2000	2001
US Term Loan payable to a lender, secured by substantially all company US assets, interest at LIBOR plus margin (6.25% as of December 31, 2001), principal and interest payments due quarterly through September 2007.	$ —	$ 48,750,000
European Term Loan payable to a lender, secured by substantially all company European assets, interest at IBOR plus margin (6.84% as of December 31, 2001), principal and interest payments due quarterly through September 2007.	—	34,125,000
US Long-Term Revolving Credit Facility payable to a lender, secured by substantially all company US assets, interest at LIBOR plus margin (6.25% as of December 31, 2001), commitment through and due September 2007.	—	12,488,300
European Long-Term Revolving Credit Facility payable to a lender, secured by substantially all company European assets, interest at IBOR plus margin (6.56% as of December 31, 2001), commitment through September 2007.	—	6,830,100
Mortgages payable to a bank, secured by certain property, plant and equipment and other assets, bearing fixed interest at 4.0% to 5.1%. Reported as Related Party Notes Payable as of December 31, 2000 (see Note 14).	—	1,974,400
Notes payable to various banks, secured by certain assets, bearing fixed interest at 4.24% to 7.61%, refinanced in connection with the Debt refinancing in September 2001.	$ 14,435,500	$ —
Mortgages payable to various banks, secured by certain property, plant and equipment and other assets, bearing fixed interest at 5.44% to 20.6%, refinanced in connection with the Debt refinancing in September 2001.	9,303,700	—
Construction note payable to a bank, secured by land and building, interest at bank prime plus 1% (10.5% at December 31, 2000), refinanced in connection with the Senior Debt refinancing in September 2001.	6,494,600	—
	30,233,800	104,167,800
Less: Current portion	8,587,000	9,207,700
Long-term debt	$ 21,646,800	$ 94,960,100

The Company's long-term debt, including subsidiary debt, are scheduled to mature as follows (approximately):

Year Ending December 31,	
2002	$ 9,207,700
2003	9,805,600
2004	14,055,600
2005	17,193,500
2006	18,239,500
Thereafter	35,665,900
Total	$ 104,167,800

(9) Consumer Credit Arrangements

During 2001 the Company entered into an agreement with third party financiers (the "Card Servicer") to provide financing for the customers. The Company refers customers, seeking extended financing, to the Card Servicers. The Card Servicers, if credit is granted, establish the interest rates, fees and all other terms and conditions of the customer accounts based on their evaluation of the credit worthiness. As the receivables are owned by the Card Servicers, at no time are the receivables purchased or acquired from the Company. In connection with customer purchases, financed under these arrangements, the Card Servicer pays the Company an amount equal to the total amount of such purchases, net of a non-refundable financing fee as well as an interest bearing holdback of 20% (to be released upon ultimate collection) of certain amounts financed with recourse under the program. The total amounts financed and uncollected under the program is approximately $2,038,200, included in Accounts Receivable, as of December 31, 2001.

(10) Commitments and Contingencies

(a) *Lease Commitments*—The Company's subsidiaries lease certain property, plant and equipment under noncancellable capital lease agreements expiring at various dates through 2005. Such leases also contain renewal and purchase options. The Company leases space for its corporate headquarters and a retail outlet under operating leases which calls for annual rental payments due in equal monthly installments. Operating lease expenses were approximately $776,900 and $1,212,100 for the years ended December 31, 2001 and 2000, respectively.

Future minimum lease payments at December 31, 2001 under these non-cancelable leases are as follows (approximated):

	Capital Leases	Operating Leases
Year Ended December 31:		
2002	$ 225,300	$ 1,459,200
2003	116,200	918,300
2004	64,100	177,900
2005	5,000	539,200
2006	—	519,800
Thereafter	—	1,308,600
	410,600	$ 4,923,000
Less amount representing interest	(26,000)	
Present value of minimum lease payments	$ 384,600	

(b) *Minority Shareholder Put Right*—Under the terms of the Preferred Stock transaction certain minority shareholders owning common stock of the Company may exercise put rights, subject to Board of Director

approval, as provided for in the Securities Purchase Agreement after April 1, 2004 for a period of 30 days as defined in the agreement. Except for certain provisional changes, within 60 days of notice, the Company is required to purchase all shares subject to the put from the shareholders. The purchase price is calculated based on the relative ownership interests of the exercising shareholders and a determination of the fair market value, as defined, of the Company at that time. The purchase price is required to be paid in cash unless prohibited by restriction from the debt and equity agreements in which case it will be paid in additional shares of preferred stock. The exercise of these put rights are subordinate to the Preferred Shareholders put rights (Note 10(c)).

In addition, any holder of preferred stock may redeem held shares of Preferred Stock if there is a change of control, as defined in the agreement, at a purchase price which is the higher of the purchase price under the put or the price to be received due to a change of control, assuming the conversion of all convertible securities into shares of Company common stock.

(c) *Preferred Stockholder Put Right*—Under the terms of the Amended and Restated Stockholders Agreement, certain Preferred Stockholders of the Company may exercise put rights as provided for in the agreement after April 1, 2004 for a period of 30 days or upon certain Events of Default as defined in the Securities Purchase Agreement period. Except for certain provisional changes, within 60 days of notice, the Company is required to purchase all shares subject to the put from the shareholders. The purchase price is calculated based on the greater of i) the liquidation value of such preferred shares plus all accrued and unpaid dividends, and ii) the aggregate common share put price assuming conversion to common stock in accordance with the amended Certificate of Incorporation of the Company. The purchase price is required to be paid in cash unless it is prohibited by restriction from the Company’s agreements with its lenders in which case it will be paid in additional shares of preferred stock.

If any portion of the repurchase price is not paid in cash, then, each month after the closing of the put right, the Company is required to issue to certain preferred shareholders Common Stock Purchase Warrants equal to one percent of the aggregate number of shares of common stock (assuming the conversion of all convertible securities) times the ratio of the aggregate repurchase price not paid in cash to the total repurchase price.

In addition, any holder of Preferred Stock may require the Company to redeem all shares of Preferred Stock if there is a change of control, as defined, at a purchase price that is the higher of the purchase price under the put right or the price to be received due to a change of control, assuming the conversion of all convertible securities into shares of Company common stock.

(d) *Stock Buy-Backs*—The Company, certain redeeming common stock shareholders of the Company and certain investors in Preferred Stock of the Company have entered into a Stock Redemption Agreement which provides for the sale and purchase, as the case may be, by the redeeming shareholders and the investors at a nominal price, of sufficient Preferred Stock which will cause the Internal Rate of Return, as defined, of such shares to be within a range as specified in the agreement.

Such sales and purchases are permitted upon the sale or transfer by certain investors of more than 50% of the securities such investors purchased under the Securities Purchase Agreement, the exercise by such investors of a put right, a liquidation, dissolution, merger, consolidation or sale of all or substantially all assets or stock of the Company to a third party, the first public sale of securities by such investor, or the first anniversary of the termination of any applicable restrictive “lock-up” period as defined in the agreement.

Upon such an event, Fagerdala Industri AB (Note (1)), has the right to purchase from the Company a number of common shares in the same proportion to the proportion of shares being repurchased by each redeeming shareholder to the shares each such redeeming shareholder owned prior to redemption.

(e) *Litigation*—The Company is party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings is not presently determinable, management does not

believe that adverse determinations in any or all of such proceedings will have a material adverse effect upon the financial condition or results of operations of the Company.

(11) Derivative Financial Instruments

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company may enter into derivative contracts (Note (5)(d)). Gains and losses on these contracts generally offset losses and gains on the Subsidiary's foreign currency receivables and foreign currency debt.

The Company does not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor does it hedge exposure related to anticipated transactions.

The Company does not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked to market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings (both in other income). The contracts held by the Company are denominated in US dollars, British Pound Sterling, Japanese Yen, and the Euro.

The Company had derivative financial instruments with a notional value of approximately $7,688,500 and a fair value of approximately $57,300 included in Prepaid Expenses and Other Current Assets on the Consolidated Balance Sheet as of December 31, 2001.

A sensitivity analysis indicates that if US dollar to foreign currency exchange rates at December 31, 2001 increased 10%, the Company would incur losses of $1,362,900 on foreign currency forward contracts outstanding at December 31, 2001. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged.

(12) Income Taxes

The provision (benefit) for income taxes for the year ended December 31, 2001 consisted of the following (approximately):

	Year ended December 31,	
	2000	2001
Current provision		
Federal	$ 141,400	$ 159,500
State	51,400	265,900
Foreign	8,033,000	8,140,300
Total current	8,225,800	8,565,700
Deferred provision (benefit)		
Federal	(807,700)	885,500
State	(177,200)	197,000
Foreign	(553,300)	1,994,100
Total deferred	(1,538,200)	3,076,600
Total provision for income taxes	$ 6,687,600	$ 11,642,300

The provision for income taxes includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities.

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The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws. The Company has established a valuation allowance for net operating loss carryforwards related to certain foreign operations (NOLs) and certain contribution carryovers related to US charitable donations. The Company has NOLs of approximately $7,300,000 that expire at various dates through 2011. The Company has contribution carryovers of approximately $5,700,000 that expire at various dates through 2006. Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of certain of these contribution carryovers and NOLs. The realizability of certain contribution carryovers and NOLs are dependent upon future income related to US and certain non-US operations. The Company believes that it is more likely than not that its tax assets (other than those discussed previously) are realizable based on the level of future reversing taxable temporary differences and on historically profitable operations which the Company believes are more likely than not to continue into the future to the extent necessary to assure realization of recorded deferred tax assets. However, there can be no assurance that such assets will be realized if circumstances change.

The effective income tax provision differs from the amount calculated using the statutory US federal income tax rate, principally due to the following:

	2000		2001	
	Amount	**Percentage of Income Before Taxes**	**Amount**	**Percentage of Income Before Taxes**
Statutory United States federal income tax	$6,550,300	34.00%	$ 8,007,000	34.00%
State income taxes, net of federal benefit	(83,000)	(0.43)	77,400	0.33
Foreign tax differential	(478,500)	(2.48)	(951,300)	(4.04)
Change in valuation allowance	756,100	3.92	2,847,000	12.12
Goodwill	247,500	1.28	247,500	1.05
Subpart F income	352,800	1.83	1,143,500	4.83
Charitable contributions	(609,700)	(3.16)	(320,600)	(1.36)
Other—Permanent	(47,800)	(0.25)	591,800	2.61
Effective income tax provision	$6,687,700	34.71%	$ 11,642,300	49.54%

Subpart F income represents interest and royalties earned by a foreign subsidiary. Under the Internal Revenue Code, such income is taxable to Tempur World, Inc. as if, in effect, earned directly by Tempur World, Inc.

The net deferred tax asset and liability recognized in the consolidated balance sheets as of December 31, 2001 and 2000, respectively, consists of the following:

	2000	2001
Deferred tax assets:		
Contribution carryover	$ 1,418,100	$ 2,157,400
AMT credit	—	91,400
Start up costs	—	377,000
Inventories	2,530,900	1,618,800
Net operating losses	949,300	2,388,000
Foreign tax credit carryover	—	479,000
Land and buildings	757,800	757,800
Accrued expenses and other	305,300	950,300
Total deferred tax assets	5,961,400	8,819,700
Valuation allowances	(1,868,800)	(4,758,500)
Net deferred tax assets	4,092,600	4,061,200
Deferred tax liabilities:		
Depreciation	(997,000)	(2,049,400)
Intangible assets	(1,149,800)	(1,825,100)
Total deferred tax liabilities	(2,146,800)	(3,874,500)
Net deferred tax asset	$ 1,945,800	$ 186,700

(13) Stock Based Compensation Plan

(a) *Accounting for Stock-Based Compensation*—The Company has elected to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" and to provide pro forma net income disclosures for employee stock option grants made as if the provisions of SFAS No. 123, "Accounting for Stock Based Compensation" were followed.

(b) *Stock Options*—The Company adopted the Tempur World, Incorporated 2000 Stock Option Plan ("Stock Option Plan") to provide grants of options to purchase shares of common stock to certain key employees. Options granted under the Stock Option Plan are non-qualified and are granted with an exercise price equal to the fair market value of the Company's common stock at the date of grant, except for a single grant issued to one individual for which compensation expense was recorded. The fair market value is based on acceptable valuation methodologies and is approved by Board of Directors. Options granted under the Stock Option Plan generally vest in increments of 25% per year over a four year period on the yearly anniversary date of the grant and may be exercised up to six years from the grant date and five years from the date of grant for any shareholders who own 10% or more of the shares of Company common stock outstanding. At the end of 2001 and 2000, 126,924 and 65,837 options, respectively were exercisable. The total number of shares of common stock subject to issuance under the Stock Option Plan may not exceed 10% of the authorized share capital, which was 1,000,000 shares as of December 31, 2001 and 2000 subject to certain adjustment provisions.

The following table summarizes information about stock options outstanding as of December 31, 2001 and 2000:

	Shares	Exercise Price
January 1, 2000	—	—
Granted	263,348	$ 11.98 to 24.50
Exercised	—	—
Terminated	—	—
December 31, 2000	263,348	$ 11.98 to 24.50
Granted	39,000	$ 27.71
Exercised	—	—
Terminated	(9,500)	—
December 31, 2001	292,848	$ 11.98 to 27.71

(c) *Stock Based Compensation*—Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under those plans, the Company's net income would have been adjusted to the pro forma amount listed below:

	2000	2001
Net income		
As reported	$ 12,577,800	$ 11,857,400
Pro forma income	12,254,000	11,578,500

The weighted average fair values at date of grant for options granted during 2001 and 2000 was $8.19 and $8.26, respectively and were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	2000	2001
Expected life of option in years	5–6	5–6
Risk-free interest rate	6.60%	4.99%
Expected volatility of stock	—	—
Expected dividend yield on stock	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's options have characteristics significantly different from those of traded options, and changes in the subjective input can materially affect the fair value estimate.

(14) Related Party Transactions

The Company has transactions with certain Fagerdala subsidiaries which are considered related parties due to common control or ownership. Several agreements existed as of January 1, 2000, the date of the merger and were necessitated by the utilization of the Fagerdala distribution network to sell the Tempur related products prior to the merger.

In connection with the merger, on December 31, 1999, the Company executed a binding letter of intent with Fagerdala to provide for the termination or modification of the major existing related party agreements as described below:

(a) *Agreement to Restructure and Terminate the Fagerdala License Agreement*—On September 30, 2000, the Company and Fagerdala agreed to Restructure and Terminate the Fagerdala License Agreement ("the Termination and Restructuring Agreement" or "TRA"). The actual termination occurred on September 30, 2000.

Under the original License Agreement, dated September 30, 1991, Fagerdala provided marketing and distribution services to the Company. During 2000 the Company established its own distribution network and no longer required the marketing and distribution services performed by Fagerdala under the agreement. The Company did, however, wish to retain the consulting services of Fagerdala until the end of the year to ensure the effective transition of all customer relationships and services. Thus, for the period from October 1, 2000 through December 31, 2000, the Termination and Restructuring Agreement provided for Fagerdala to provide consulting and administrative services to the Company for an Administrative Services Fee of approximately $972,700 per month for the three-month period ended December 31, 2000.

In addition, because the original License Agreement was effective through September 30, 2001, the TRA also required the Company to pay a termination fee of approximately $2,024,300, which was accrued as of the opening balance sheet on January 1, 2000 and paid by the Company in 2000.

(b) *Set-Off Agreement*—On November 10, 2000, Dan Foam A/S and Fagerdala executed the Set-Off Agreement to eliminate the majority of the related party receivables and payables that existed between the Company and Fagerdala in order to minimize the administrative and financial complexity arising from related party transactions.

Based upon statements detailing the balances outstanding between the parties as of October 31, 2000, the balances were offset against each other resulting in a payment of the net balance of approximately $1,696,300 to Fagerdala from the Company.

(c) *Consulting and Service Support Agreements*—Effective January 1, 2001, Ashfield Consultancy Ltd. ("ACL"), an affiliate, will provide the following services to the Company: (i) establishing new markets for the products of the Company (ii) establishing a distribution network for the products of the Company (iii) development of new products and (iv) providing office space, office equipment and related services to accomplish the aforementioned services. In consideration of the services provided above, the Company agrees to pay ACL an annual fee of approximately $880,000 plus office costs, payable monthly at the beginning of each month. The term of this agreement is for one year and is renewable annually.

On December 31, 1999, Dan-Foam A/S acquired certain remaining Tempur trademark rights from Fagerdala World Foams A/B, a related party, for approximately $6,750,000 and is reflected as a deduction of paid-in capital (among other items) in the formation balance sheet as there was no historical book value to record.

As some of the Company's operations are leasing office and warehouse space and receive some administrative services from Fagerdala personnel, the Company is in the process of finalizing a standard administrative services contract for those operations. The amounts charged for rent, use of equipment and administrative support are be based on management's estimate of prevailing arms-length pricing in the location of the operations.

On December 18, 2000, a German subsidiary completed the acquisition of real property located in Steinhagen, Germany that it uses for its facilities from Gefinex GmbH, an affiliate, by issuing a note payable that was refinanced by the Company through a bank loan during 2001. The note bears interest at rates ranging from 4% to 6% (weighted average interest rate of 4.6% as of December 31, 2000) with an outstanding balance of $4,718,600 and is included in related party notes payable on the consolidated balance sheet as of December 31, 2000 (Note (8)).

The Company also has other various obligations included in related party notes payable that relate primarily to the acquisition of certain assets and liabilities of the Tempur-related businesses during 2000 and are secured by these net assets. These notes bear interest at rates ranging from 4.0% to 8.0%.

The Company's related party debt, including subsidiary debt, totaling approximately $1,286,800 and $5,540,500 as of December 31, 2001 and 2000, respectively, is scheduled to mature in its entirety during 2002.

Sales to and purchases from the affiliated entities are primarily for product and are priced according to pricing applicable to third-party customers. Interest income and expense are charged on outstanding note and trade accounts based on management's estimate of prevailing market rates of interest at the time of the obligations. Management fee income and expense are charged for shared services at certain of the subsidiary locations based on management's estimate of prevailing market conditions in the country of operation. The total amounts reported in the consolidated financial statements as of December 31, 2001 and 2000 are approximately as follows:

	2001	2000
As of period ended:		
Accounts receivable	$ 340,900	$ 163,800
Accounts payable	347,300	30,400
Notes receivable, interest rate of 8%	$ 550,000	$ 123,400
Notes payable	1,286,800	5,450,500
For the year ended:		
Related party sales	$ 56,600	$ 3,559,000
Related party purchases	657,000	457,300
Interest income	$ 153,000	$ 49,500
Interest expense	81,500	80,400
Management fee income	$ 70,100	$ 139,100
Management fee expense	209,300	327,000
Fagerdala License Agreement costs	$ —	$ 10,508,300
Ashfield Consulting Agreement	1,198,800	1,656,500
Termination and Restructuring Agreement costs	—	2,918,000

(15) Employment Agreements

The Company maintains employment agreements with certain key employees, four of whom are also officers of the Company. The employment agreements contain provisions relating to minimum salary levels, adjusted annually, as well as incentive bonuses for achieving certain objectives as specified by management.

(16) Major Customers

Four customers accounted for approximately 17.2% and 31.2% of sales for the years ended December 31, 2001 and 2000, respectively, one of which accounted for approximately 12.2% and 15.5% of sales. These same customers also accounted for approximately 9.4% and 26.4% of accounts receivable as of December 31, 2001 and 2000, respectively. The loss of one or more of these customers could have a material adverse effect on the Company.

(17) Benefit Plan

A subsidiary of the Company has a defined contribution plan whereby eligible employees may contribute up to 25% of their pay each year to the plan subject to certain limitations as defined by the Plan. Employees are eligible to receive matching contributions at the start of employment with the Company. During fiscal 2000, the Company amended the Plan to provide a 100% match of the first 3% and 50% of the next 2% on eligible

employee contributions and eliminated the vesting period such that matching contributions vest immediately. The Company incurred approximately $152,700 and $88,000 of expenses associated with the defined contribution plan for the years ended December 31, 2001 and 2000, respectively.

(18) Adoption of SFAS 142, "Goodwill and Other Intangibles Assets"

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are subject to an assessment for impairment on a reporting unit basis by applying a fair-value-based test annually, and more frequently if circumstances indicate a possible impairment. Separate intangible assets that are not deemed to have an indefinite live continue to be amortized over their useful lives.

Prior to the adoption of SFAS No. 142, the Company had $17,807,000 of goodwill acquired in 1999 that was amortized on a straight-line basis over a period of 15 years. Had the Company accounted for goodwill in accordance with SFAS No. 142 in 2001, net income would have been as follows (in thousands):

	2001	2000
Reported Net Income Add back	$ 11,857,300	$ 12,577,800
Goodwill amortization, net of tax	1,310,000	1,113,000
Adjusted Net Income	$ 13,167,300	$ 13,690,800

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus does not offer to sell or ask for offers to buy any securities other than those to which this prospectus relates and it does not constitute an offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities. The information contained in this prospectus is current only as of its date.

PRELIMINARY PROSPECTUS

TEMPUR-PEDIC, INC.
TEMPUR PRODUCTION USA, INC.

OFFER TO EXCHANGE

$150,000,000 principal amount of 10 1/4% Senior Subordinated Notes due 2010, which have been registered under the Securities Act, for any and all of the outstanding 10 1/4% Senior Subordinated Notes due 2010

Until   , 2003, all dealers that, buy, sell or trade the exchange notes, whether or not participating in the exchange offer, may be required to deliver a prospectus. This requirement is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments and subscriptions.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 20. ***Indemnification of Directors and Officers***

Each of TWI Holdings, Inc., Tempur World, Inc. and Tempur World Holdings, Inc. is incorporated under the laws of the State of Delaware. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

Section 145 of the Delaware General Corporation Law further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity, arising out of his or her status as such, whether or not the corporation would otherwise have the power to indemnify him or her under Section 145 of the Delaware Corporation Law.

The certificates of incorporation, as amended, of each of TWI Holdings, Inc., Tempur World, Inc. and Tempur World Holdings, Inc. eliminate the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liabilities arising (a) from any breach of the director's duty of loyalty to the corporation or its stockholders; (b) from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) under Section 174 of the Delaware General Corporation Law; or (d) from any transaction from which the director derived an improper personal benefit. In addition, the bylaws of each of TWI Holdings, Inc. and Tempur World, Inc., and the certificate of incorporation of Tempur World Holdings, Inc., provide for indemnification of directors, officers, employees and agents to the fullest extent permitted by Delaware law. The bylaws of each of TWI Holdings, Inc. and Tempur World, Inc. authorize the respective company to purchase and maintain insurance to protect itself and any director, officer, employee or agent of the company or another business entity against any expense, liability, or loss, regardless of whether the company would have the power to indemnify such person under the company's bylaws or Delaware law.

Each of Tempur-Pedic, Inc., Tempur-Pedic, Direct Response, Inc. and Tempur-Medical, Inc. is incorporated under the laws of the State of Kentucky. Section 8 of the Kentucky Business Corporation Act (the "KCBA") authorizes a corporation to indemnify an individual made a party to a proceeding because he is or was a director, officer, employee, or agent of the corporation, against the obligation to pay a judgment, settlement, penalty, fine, or reasonable expenses incurred with respect to the proceeding (except that indemnity in connection with a proceeding by or in the right of the corporation shall be limited to reasonable expenses incurred in connection with the proceeding) if (1) he conducted himself in good faith, (2) he reasonably believed, in the case of conduct in his official capacity with the corporation, that his conduct was in its best interest and, in all other cases, that his conduct was at least not opposed to its best interest, and (3) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful, except that no indemnification may be made in connection with a proceeding by or in the right of the corporation in which the person was adjudged liable to the corporation, or in connection with any other proceeding charging improper personal benefit to him, whether or not involving

action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

Section 8 of the KCBA authorizes the court conducting the proceeding or another court of competent jurisdiction to order indemnification if it shall determine the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the standard of conduct or was adjudged liable as described above, but if he were adjudged so liable, the indemnification shall be limited to reasonable expenses incurred.

Section 8 of the KCBA further provides that a corporation shall indemnify a director or officer who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director or officer of the corporation against reasonable expenses incurred by him in connection with the proceeding; that indemnification and advancement of expenses provided for by Section 8 shall not be deemed exclusive of any other right to which the indemnified party may be entitled; empowers the corporation to purchase and maintain insurance on behalf of a director, officer, employee or agent of the corporation against liability asserted against or incurred by him in that capacity or arising from his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 8; and empowers the corporation to indemnify and advance expenses to an officer, employee, or agent who is not a director to the extent, consistent with public policy, that may be provided by its articles of incorporation, by-laws, general or specific action of its board of directors, or contract.

The articles of incorporation, as amended, of Tempur-Pedic, Inc., Tempur-Pedic, Direct Response, Inc., and Tempur-Medical, Inc. eliminate the personal liability of directors to the corporation and its shareholders for monetary damages for breach of the duties as a director, except for liabilities arising from (a) any transaction in which the director has a personal financial interest in conflict with the financial interests of the corporation or its shareholders, (b) acts or omissions not in good faith, involving intentional misconduct, or known to the director to be a violation of law, (c) any vote for or assent to a distribution made in violation of the articles of incorporation or Kentucky law, including a distribution which renders the corporation unable to pay its debts as they become due in the usual course of business or which results in the corporation’s total liabilities exceeding its total assets, and (d) any transaction from which the director derived an improper personal benefit. In addition, the articles of incorporation, as amended, of Tempur-Pedic, Inc. and the bylaws of Tempur-Pedic, Direct Response, Inc. and Tempur-Medical, Inc., provide for indemnification of and advancement of expenses to directors, officers, employees, and agents of the corporation to the fullest extent permitted by Kentucky law. The articles of incorporation, as amended, of Tempur-Pedic, Inc. provide for indemnification of and advancement of expenses to directors and officers to the fullest extent permitted by Kentucky law and authorize Tempur-Pedic, Inc. to purchase and maintain liability insurance on behalf of any director, officer, employee or agent.

Tempur Production USA, Inc. is incorporated under the laws of the State of Virginia. Article 10 of the Virginia Stock Corporation Act (the “VSCA”) provides that a corporation may indemnify an individual made a party to a proceeding because he is or was a director or officer against liability incurred in the proceeding if he conducted himself in good faith and he believed, in the case of conduct in his official capacity with the corporation, that his conduct was in its best interests, in all other cases, that his conduct was at least not opposed to its best interests, and in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

Under the VSCA, a director’s conduct with respect to an employee benefit plan for a purpose he believed to be in the interests of the participants in and beneficiaries of the plan is conduct that satisfies the above requirements. The termination of a proceeding by judgment, order, settlement or conviction is not, of itself, determinative that the director did not meet the standard of conduct described.

In addition, under the VSCA, a corporation may not indemnify a director in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation, or in connection

with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him. Indemnification permitted in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

Unless limited by a corporation's articles of incorporation, the VSCA states that a corporation shall indemnify a director or officer who entirely prevails in the defense of any proceeding to which he was a party because he is or was a director or officer of the corporation against reasonable expenses incurred by him in connection with the proceeding.

Item 21. ***Exhibits and Financial Statement Schedules***

(a) Exhibits

1.1*	Purchase Agreement dated as of August 8, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc., Lehman Brothers Inc, UBS Securities LLC and Credit Suisse First Boston LLC.
2.1*	Agreement and Plan of Merger dated as of October 4, 2002, among Fagerdala Holding B.V., Fagerdala Industri A.B., Chesterfield Properties Limited, Viking Investments S.a.r.l., Robert B. Trussell, Jr., David C. Fogg, Jeffrey P. Heath, H. Thomas Bryant, TWI Holdings, Inc., TWI Acquisition Corp. and Tempur World, Inc.
2.2*	Contribution Agreement dated as of October 4, 2002, among TA IX, L.P., TA/Advent VIII L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA Investors LLC, Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, Robert B. Trussell, Jr., David C. Fogg, H. Thomas Bryant, Jeffrey P. Heath, Mrs. R.B. Trussell, Jr. and TWI Holdings, Inc.
3.1*	Articles of Incorporation of Tempur-Pedic, Inc., including amendments.
3.2*	Articles of Incorporation of Tempur Production USA, Inc.
3.3*	Certificate of Incorporation of TWI Holdings, Inc., including amendments.
3.4*	Amended and Restated Certificate of Incorporation of Tempur World, Inc.
3.5*	Certificate of Incorporation of Tempur World Holdings, Inc.
3.6*	Articles of Incorporation of Tempur-Pedic, Direct Response, Inc., including amendments.
3.7*	Articles of Incorporation of Tempur-Medical, Inc., including amendments.
3.8*	Amended and Restated By-laws of Tempur-Pedic, Inc.
3.9*	By-laws of Tempur Production USA, Inc.
3.10*	By-laws of TWI Holdings, Inc.
3.11*	By-laws of Tempur World, Inc.
3.12*	By-laws of Tempur World Holdings, Inc.
3.13*	By-laws of Tempur-Pedic, Direct Response, Inc.
3.14*	By-laws of Tempur-Medical, Inc.
4.1*	Indenture dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee.

4.2*	Form of 10¼% Senior Subordinated Notes Due 2010 (included in Exhibit 4.1).
4.3*	Registration Rights Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc., Lehman Brothers Inc, UBS Securities LLC and Credit Suisse First Boston LLC.
5.1	Opinion of Bingham McCutchen LLP.
5.2**	Opinion of Frost Brown Todd LLC.
5.3**	Opinion of Wetherington, Melchionna, Terry, Day & Ammar.
10.1*	Second Amended and Restated Credit Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur World Holding Company ApS, Dan-Foam ApS, certain Credit Parties as defined therein, General Electric Capital Corporation, Lehman Commercial Paper Inc., Nordea Bank Danmark A/S, GE European Leveraged Finance Limited, HSBC Bank PLC, the Lenders as defined therein, Lehman Brothers Inc. and GECC Capital Markets Group, Inc.
10.2*	Registration Rights Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P., TA Investors LLC, TA Subordinated Debt Fund, L.P., Gleacher Mezzanine Fund I, L.P., Gleacher Mezzanine Fund P, L.P. and the investors listed on Schedule I thereto.
10.3*	Stockholder Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P., TA Investors LLC, TA Subordinated Debt Fund, L.P., Gleacher Mezzanine Fund I, L.P., Gleacher Mezzanine Fund P, L.P. and the investors listed on Schedule I thereto.
10.4*	Series A Preferred Stock Stockholder Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.sP., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P. and TA Investors LLC.
10.5*	TWI Holdings, Inc. 2002 Stock Option Plan.
10.6*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Robert B. Trussell, Jr.
10.7*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and David C. Fogg.
10.8*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and H. Thomas Bryant.
10.9*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Jeffrey P. Heath.
10.10*	Separation Agreement dated as of July 3, 2003, among TWI Holdings, Inc., Tempur World, Inc. and Jeffrey P. Heath.
10.11*	Consultant's Agreement effective as of July 12, 2003, among Tempur-Pedic, Inc., Tempur World, Inc. and Jeffrey P. Heath.
10.12*	Employment and Noncompetition Agreement dated as of July 11, 2003, between Tempur World, Inc. and Dale E. Williams.
10.13	Employment Agreement dated September 12, 2003 between Tempur International Limited and David Montgomery.

12.1*	Statement regarding computation of ratio of earnings to fixed charges.
21.1	Subsidiaries of TWI Holdings, Inc.
23.1	Consent of Ernst & Young LLP.
23.2*	Notice regarding consent of Arthur Andersen LLP.
23.3	Consent of Bingham McCutchen LLP (included in Exhibit 5.1).
23.4	Consent of Frost Brown Todd LLC (included in Exhibit 5.2).
23.5	Consent of Wetherington, Melchionna, Terry, Day & Ammar (included in Exhibit 5.3).
24.1*	Power of Attorney of Tempur-Pedic, Inc.
24.2*	Power of Attorney of Tempur Production USA, Inc.
24.3*	Power of Attorney of TWI Holdings, Inc.
24.4*	Power of Attorney of Tempur World, Inc.
24.5*	Power of Attorney of Tempur World Holdings, Inc.
24.6*	Power of Attorney of Tempur-Pedic, Direct Response, Inc.
24.7*	Power of Attorney of Tempur-Medical, Inc.
25.1*	Form T-1 Statement of Eligibility of Trustee.
99.1*	Form of Letter of Transmittal.
99.2*	Form of Notice of Guaranteed Delivery.
99.3*	Form of Letter to Clients.
99.4*	Form of Letter to DTC Participants.
99.5*	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

* Previously filed.
** To be filed by amendment.

(b) Financial Statement Schedules

The following financial statement schedule is included in this registration statement:

Report of Independent Accountants on Financial Statement Schedule S-1
Schedule II—Valuation and Qualifying Accounts S-2

All other schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements and therefore has been omitted.

Item 22. ***Undertakings.***

Each of the undersigned registrants hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement, or the most recent post-effective amendment thereof, which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered, if the total dollar value of securities offered would not exceed that which was registered, and any deviation from the low or high end of the

estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering.

(4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the provisions described in Item 20 or otherwise, the registrants have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(5) The undersigned registrants hereby undertake to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in this registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur-Pedic, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR-PEDIC, INC.

By: /S/ H. THOMAS BRYANT

H. Thomas Bryant
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ H. THOMAS BRYANT **H. Thomas Bryant**	Chief Executive Officer (Principal Executive Officer)	October 30, 2003
* **David C. Fogg**	President	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Chief Financial Officer, Secretary (Principal Financial Officer) and Director	October 30, 2003
/S/ JASON P. BROYLES **Jason P. Broyles**	Vice President, Finance (Principal Accounting Officer)	October 30, 2003
* **Robert B. Trussell, Jr.**	Director	October 30, 2003

*By: /S/ DALE E. WILLIAMS

Dale E. Williams
Attorney-in-Fact

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur Production USA, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR PRODUCTION USA, INC.

By: /S/ ROBERT B. TRUSSELL, JR.

Robert B. Trussell, Jr.
President

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ ROBERT B. TRUSSELL, JR. **Robert B. Trussell, Jr.**	President (Principal Executive Officer) and Director	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Chief Financial Officer, Treasurer, Secretary (Principal Financial Officer) and Director	October 30, 2003
* **E. Wayne Fields**	Vice President and Controller (Principal Accounting Officer)	October 30, 2003

*By: /S/ DALE E. WILLIAMS

Dale E. Williams
Attorney-in-Fact

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, TWI Holdings, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TWI HOLDINGS, INC.

By: /S/ ROBERT B. TRUSSELL, JR.

Robert B. Trussell, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ ROBERT B. TRUSSELL, JR. **Robert B. Trussell, Jr.**	President, Chief Executive Officer (Principal Executive Officer) and Director	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Senior Vice President, Chief Financial Officer, Assistant Secretary and Treasurer (Principal Financial Officer)	October 30, 2003
* **Jeffrey B. Johnson**	Corporate Controller, Chief Accounting Officer, Vice President and Assistant Secretary (Principal Accounting Officer)	October 30, 2003
* **Jeffrey S. Barber**	Director	October 30, 2003
* **Christopher A. Masto**	Director	October 30, 2003
* **Francis A. Doyle**	Director	October 30, 2003

*By: /S/ DALE E.WILLIAMS

Dale E.Williams
Attorney-in-Fact

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur World, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR WORLD, INC.

By: /S/ ROBERT B. TRUSSELL, JR.

Robert B. Trussell, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ ROBERT B. TRUSSELL, JR. **Robert B. Trussell, Jr.**	President, Chief Executive Officer (Principal Executive Officer) and Director	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Senior Vice President, Chief Financial Officer, Assistant Secretary and Treasurer (Principal Financial Officer)	October 30, 2003
* **Jeffrey B. Johnson**	Corporate Controller, Chief Accounting Officer, Vice President and Assistant Secretary (Principal Accounting Officer)	October 30, 2003
* **Jeffrey S. Barber**	Director	October 30, 2003
* **Christopher A. Masto**	Director	October 30, 2003
* **Francis A. Doyle**	Director	October 30, 2003

*By: /S/ DALE E.WILLIAMS

Dale E.Williams
Attorney-in-Fact

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur World Holdings, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR WORLD HOLDINGS, INC.

By: /S/ ROBERT B. TRUSSELL, JR.

Robert B. Trussell, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ ROBERT B. TRUSSELL, JR. **Robert B. Trussell, Jr.**	President, Chief Executive Officer (Principal Executive Officer) and Director	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	October 30, 2003

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur-Pedic, Direct Response, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR-PEDIC, DIRECT RESPONSE, INC.

By: /S/ DANY SFEIR

Dany Sfeir
President

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ DANY SFEIR **Dany Sfeir**	President (Principal Executive Officer)	October 30, 2003
/S/ JASON P. BROYLES **Jason P. Broyles**	Chief Financial Officer, Secretary (Principal Financial and Accounting Officer) and Director	October 30, 2003
* **H. Thomas Bryant**	Director	October 30, 2003

*By: /S/ DALE E.WILLIAMS

Dale E.Williams
Attorney-in-Fact

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur-Medical, Inc. has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 30th day of October, 2003.

TEMPUR-MEDICAL, INC.

By: /S/ JOEL GUERIN

Joel Guerin
President

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/S/ JOEL GUERIN **Joel Guerin**	President (Principal Executive Officer)	October 30, 2003
/S/ JASON P. BROYLES **Jason P. Broyles**	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	October 30, 2003
* **Robert B. Trussell, Jr.**	Director	October 30, 2003
/S/ DALE E. WILLIAMS **Dale E. Williams**	Director	October 30, 2003

*By: /S/ DALE E.WILLIAMS

Dale E.Williams
Attorney-in-Fact

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders of TWI Holdings, Inc. and Subsidiaries

We have audited the consolidated financial statements of TWI Holdings, Inc. and Subsidiaries as of December 31, 2002, and for the two months ended December 31, 2002, and have issued our report thereon dated June 20, 2003 (included elsewhere in this Registration Statement).

We have audited the consolidated financial statements of Tempur World, Inc. and Subsidiaries as of October 31, 2002, and for the ten months ended October 31, 2002, and have issued our report thereon dated June 20, 2003 (included elsewhere in this Registration Statement).

The financial statements of Tempur World, Inc. and Subsidiaries as of December 31, 2001 and 2000 and for the years then ended were audited by other auditors who have ceased operations and whose report dated March 8, 2002 expressed an unqualified opinion on those statements.

Our audits of TWI Holdings, Inc. for the two months ended December 31, 2002 and Tempur World, Inc. for the ten months ended October 31, 2002 also included the financial statement schedules (Schedule II) included in this Registration Statement. These schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/S/ ERNST & YOUNG LLP

Louisville, Kentucky
June 20, 2003

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TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 2001
FOR THE TEN MONTHS ENDED OCTOBER 31, 2002
SCHEDULE II

TWI HOLDINGS, INC.
(Successor to Tempur World, Inc.)
VALUATION AND QUALIFYING ACCOUNTS
FOR THE TWO MONTHS ENDED DECEMBER 31, 2002
SCHEDULE II

Description	Balance at Beginning of Period	Additions Charges to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for Doubtful Accounts:					
TEMPUR WORLD, INC. AND SUBSIDIARIES:					
Year Ended December 31, 2000	$ 298,633	$ 3,289,814	$ —	$ (3,051,732)	$ 536,715
Year Ended December 31, 2001	536,715	3,000,112	—	(2,719,366)	817,461
Ten Months Ended October 31, 2002	817,461	2,776,105	—	(1,516,594)	2,076,972
TWI HOLDINGS, INC.					
Two Months Ended December 31, 2002	2,076,972	500,531	—	(59,018)	2,518,485

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EXHIBIT INDEX

1.1*	Purchase Agreement dated as of August 8, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc., Lehman Brothers Inc, UBS Securities LLC and Credit Suisse First Boston LLC.
2.1*	Agreement and Plan of Merger dated as of October 4, 2002, among Fagerdala Holding B.V., Fagerdala Industri A.B., Chesterfield Properties Limited, Viking Investments S.a.r.l., Robert B. Trussell, Jr., David C. Fogg, Jeffrey P. Heath, H. Thomas Bryant, TWI Holdings, Inc., TWI Acquisition Corp. and Tempur World, Inc.
2.2*	Contribution Agreement dated as of October 4, 2002, among TA IX, L.P., TA/Advent VIII L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA Investors LLC, Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, Robert B. Trussell, Jr., David C. Fogg, H. Thomas Bryant, Jeffrey P. Heath, Mrs. R.B. Trussell, Jr. and TWI Holdings, Inc.
3.1*	Articles of Incorporation of Tempur-Pedic, Inc., including amendments.
3.2*	Articles of Incorporation of Tempur Production USA, Inc.
3.3*	Certificate of Incorporation of TWI Holdings, Inc., including amendments.
3.4*	Amended and Restated Certificate of Incorporation of Tempur World, Inc.
3.5*	Certificate of Incorporation of Tempur World Holdings, Inc.
3.6*	Articles of Incorporation of Tempur-Pedic, Direct Response, Inc., including amendments.
3.7*	Articles of Incorporation of Tempur-Medical, Inc., including amendments.
3.8*	Amended and Restated By-laws of Tempur-Pedic, Inc.
3.9*	By-laws of Tempur Production USA, Inc.
3.10*	By-laws of TWI Holdings, Inc.
3.11*	By-laws of Tempur World, Inc.
3.12*	By-laws of Tempur World Holdings, Inc.
3.13*	By-laws of Tempur-Pedic, Direct Response, Inc.
3.14*	By-laws of Tempur-Medical, Inc.
4.1*	Indenture dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee.
4.2*	Form of 10¼% Senior Subordinated Notes Due 2010 (included in Exhibit 4.1).
4.3*	Registration Rights Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., TWI Holdings, Inc., Tempur World, Inc., Tempur World Holdings, Inc., Tempur-Pedic, Direct Response, Inc., Tempur-Medical, Inc., Lehman Brothers Inc, UBS Securities LLC and Credit Suisse First Boston LLC.
5.1	Opinion of Bingham McCutchen LLP.
5.2**	Opinion of Frost Brown Todd LLC.
5.3**	Opinion of Wetherington, Melchionna, Terry, Day & Ammar.

10.1*	Second Amended and Restated Credit Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur World Holding Company ApS, Dan-Foam ApS, certain Credit Parties as defined therein, General Electric Capital Corporation, Lehman Commercial Paper Inc., Nordea Bank Danmark A/S, GE European Leveraged Finance Limited, HSBC Bank PLC, the Lenders as defined therein, Lehman Brothers Inc. and GECC Capital Markets Group, Inc.
10.2*	Registration Rights Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P., TA Investors LLC, TA Subordinated Debt Fund, L.P., Gleacher Mezzanine Fund I, L.P., Gleacher Mezzanine Fund P, L.P. and the investors listed on Schedule I thereto.
10.3*	Stockholder Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.P., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P., TA Investors LLC, TA Subordinated Debt Fund, L.P., Gleacher Mezzanine Fund I, L.P., Gleacher Mezzanine Fund P, L.P. and the investors listed on Schedule I thereto.
10.4*	Series A Preferred Stock Stockholder Agreement dated as of November 1, 2002, among TWI Holdings, Inc., Friedman Fleischer & Lowe Capital Partners, LP, FFL Executive Partners, LP, TA IX, L.sP., TA/Atlantic and Pacific IV, L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P., TA/Advent VIII L.P. and TA Investors LLC.
10.5*	TWI Holdings, Inc. 2002 Stock Option Plan.
10.6*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Robert B. Trussell, Jr.
10.7*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and David C. Fogg.
10.8*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and H. Thomas Bryant.
10.9*	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Jeffrey P. Heath.
10.10*	Separation Agreement dated as of July 3, 2003, among TWI Holdings, Inc., Tempur World, Inc. and Jeffrey P. Heath.
10.11*	Consultant's Agreement effective as of July 12, 2003, among Tempur-Pedic, Inc., Tempur World, Inc. and Jeffrey P. Heath.
10.12*	Employment and Noncompetition Agreement dated as of July 11, 2003, between Tempur World, Inc. and Dale E. Williams.
10.13	Employment Agreement dated September 12, 2003 between Tempur International Limited and David Montgomery.
12.1	Statement regarding computation of ratio of earnings to fixed charges.
21.1	Subsidiaries of TWI Holdings, Inc.
23.1	Consent of Ernst & Young LLP.
23.2*	Notice regarding consent of Arthur Andersen LLP.
23.3	Consent of Bingham McCutchen LLP (included in Exhibit 5.1).
23.4	Consent of Frost Brown Todd LLC (included in Exhibit 5.2).
23.5	Consent of Wetherington, Melchionna, Terry, Day & Ammar (included in Exhibit 5.3).
24.1*	Power of Attorney of Tempur-Pedic, Inc.
24.2*	Power of Attorney of Tempur Production USA, Inc.
24.3*	Power of Attorney of TWI Holdings, Inc.
24.4*	Power of Attorney of Tempur World, Inc.

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24.5*	Power of Attorney of Tempur World Holdings, Inc.
24.6*	Power of Attorney of Tempur-Pedic, Direct Response, Inc.
24.7*	Power of Attorney of Tempur-Medical, Inc.
25.1*	Form T-1 Statement of Eligibility of Trustee.
99.1*	Form of Letter of Transmittal.
99.2*	Form of Notice of Guaranteed Delivery.
99.3*	Form of Letter to Clients.
99.4*	Form of Letter to DTC Participants.
99.5*	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

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* Previously filed.

** To be filed by amendment.

Exhibit 5.1

October 30, 2003

Tempur-Pedic, Inc.
Tempur Production USA, Inc.
TWI Holdings, Inc.
Tempur World, Inc.
Tempur World Holdings, Inc.
Tempur-Pedic, Direct Response, Inc.
Tempur-Medical, Inc.
c/o Tempur World, Inc.
1713 Jaggie Fox Way
Lexington, Kentucky 40511

Re: Registration Statement on Form S-4 Under the Securities Act of 1933, As Amended (File No. 333-109054)

Ladies and Gentlemen:

We have acted as special counsel to (i) Tempur-Pedic, Inc., a Kentucky corporation ("TPI"), (ii) Tempur Production USA, Inc., a Virginia corporation ("TPUSA" and together with TPI, the "Issuers"), (iii) TWI Holdings, Inc., a Delaware corporation ("TWI"), (iv) Tempur World, Inc., a Delaware corporation ("Tempur World"), and Tempur World Holdings, Inc., a Delaware corporation ("Holdings" and together with TWI and Tempur World, the "Parent Guarantors"), and (ii) Tempur-Medical, Inc., a Kentucky corporation ("Tempur-Medical"), and Tempur-Pedic Direct Response, Inc., a Kentucky corporation ("TPDRI" and together with Tempur-Medical, the "Subsidiary Guarantors"), in connection with the Registration Statement on Form S-4 (File No. 333-109054), as amended (the "Registration Statement"), filed by the Issuers, the Parent Guarantors and the Subsidiary Guarantors, with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), for the registration of (i) $150,000,000 aggregate principal amount of 10¼% Senior Subordinated Notes due 2010 of the Issuers (the "Exchange Notes"), issued in exchange for an equal aggregate principal amount of the outstanding 10¼% Senior Subordinated Notes due 2010 of the Issuers (the "Old Notes") and (ii) the guarantees by the Parent Guarantors and the Subsidiary Guarantors of the Exchange Notes (the "Note Guarantees").

The Exchange Notes and the Note Guarantees are to be issued pursuant to an Indenture, dated as of August 15, 2003, by and among the Issuers, the registrant guarantors listed on the signature pages thereto, and Wells Fargo Bank Minnesota, National

Association, as the trustee thereunder (the "Indenture"). The Parent Guarantors and the Subsidiary Guarantors are collectively referred to herein as the "Guarantors," and the Guarantors and the Issuers are collectively referred to herein as the "Tempur Parties"). Capitalized terms used herein without definition have the respective meanings given to them in the Indenture.

In connection with this opinion, we have examined originals or copies of: the Registration Statement; the Registration Rights Agreement; the Indenture; the Exchange Notes; the Note Guarantees; resolutions duly adopted by the board of directors of each of the Parent Guarantors; and certified copies of the certificate of incorporation and by-laws of each of the Parent Guarantors, each as amended to date. In addition, we have examined such other corporate and public records and agreements, instruments, certificates and other documents as we have deemed necessary or appropriate for purposes of this opinion. The Indenture, the Exchange Notes and the Note Guarantees are referred to herein collectively as the "Transaction Documents."

We have assumed the genuineness of all signatures, the conformity to the originals of all documents reviewed by us as copies, the authenticity and completeness of all original documents reviewed by us in original or copy form and the legal competence of each individual executing any document.

For purposes of this opinion, we have made such examination of law as we have deemed necessary. This opinion is limited solely to the internal substantive laws (other than state and local tax, antitrust, blue sky and securities laws, as to which we express no opinion) of the State of New York as applied by courts located in New York; the federal laws of the United States of America (except for tax, antitrust, blue sky and securities laws, as to which we express no opinion); the Delaware General Corporation Law, as applied by the courts of Delaware; and we express no opinion as to the laws of any other jurisdiction.

We note that the Transaction Documents contain provisions stating that each is to be governed by the laws of the State of New York (each such contractual choice of law clause being referred to as a "Chosen-Law Provision"). Except to the extent that such a Chosen-Law Provision is made enforceable by New York General Obligations Law Section 5-1401, as applied by a New York state court or a federal court sitting in New York and applying New York choice of law principles, no opinion is given herein as to any Chosen-Law Provision, or otherwise as to the choice of law or internal substantive rules of law that any court or other tribunal may apply to the transactions contemplated by the Transaction Documents.

Our opinion is further subject to the following exceptions, qualifications and assumptions, all of which we understand to be acceptable to you:

(a) We have assumed without any independent investigation that each of the Issuers and the Subsidiary Guarantors, at all times relevant thereto, (i) is validly existing

and in good standing under the laws of the jurisdiction in which it is organized, and is qualified to do business and in good standing under the laws of each jurisdiction where such qualification is required generally or is necessary in order for such party to enforce its rights under the Transaction Documents; (ii) had and has the full organizational power, authority and legal right under its certificate of incorporation, by-laws, and other governing organizational documents, and the applicable corporate, or other enterprise legislation and other applicable laws, as the case may be, to execute, deliver and perform its obligations under the Transaction Documents to which it is a party; (iii) has duly authorized, executed and delivered the Indenture; (iv) has duly authorized the Exchange Notes, in the case of the Issuers; and (v) has duly authorized, executed and delivered the Note Guarantees, in the case of the Subsidiary Guarantors.

(b) We have assumed without any independent investigation that the Trustee, at all times relevant thereto, (i) is validly existing and in good standing under the laws of the jurisdiction in which it is organized, and had and has the full organizational power, authority and legal right under its governing documents and applicable laws to execute, deliver and perform its obligations under the Transaction Documents to which it is party, (ii) the Trustee has duly authorized, executed and delivered each of the Transaction Documents to which it is party; and (iii) each of the Transaction Documents to which the Trustee is party is a valid, binding and enforceable agreement of the Trustee.

(c) The enforcement of any obligations of any of the Tempur Parties or any other Person, whether under any of the Transaction Documents or otherwise, may be limited by bankruptcy, insolvency, reorganization, moratorium, marshaling or other laws and rules of law affecting the enforcement generally of creditors’ rights and remedies (including such as may deny giving effect to waivers of debtors’ or guarantors’ rights); and we express no opinion as to the status under any fraudulent conveyance laws or fraudulent transfer laws of any of the obligations of, or any security interest granted by, any of the Tempur Parties or any other Person, whether under any of the Transaction Documents or otherwise.

(d) The enforcement of the rights of any Person may in all cases be subject to an implied duty of good faith and fair dealing and to general principles of equity, including, without limitation, concepts of materiality and reasonableness (regardless of whether such enforceability is considered in a proceeding at law or in equity), whether enforcement is considered in a proceeding in equity or law, and the discretion of the court before which any proceeding therefor may be brought and, as to any rights to any applicable collateral security, will be subject to a duty to act in a commercially reasonable manner.

(e) We express no opinion as to the effect of suretyship defenses, or defenses in the nature thereof, with respect to the obligations of any applicable guarantor, joint obligor, surety, accommodation party, or other secondary obligor.

(f) We note that, under the laws of the State of New York, the remedies available in the State of New York for the enforcement of the Transaction Documents could be affected by any failure of any party not organized in New York (i) to become authorized, under Article 13 of the New York Business Corporation Law, to do business in the New York or (ii) to become authorized, under Article 5 of the New York Banking Law, to transact business in New York as a foreign banking corporation. Further, no opinion is given herein as to any other similar laws or requirements in any other jurisdiction.

(g) We have assumed that (i) each of the Parent Guarantors is the direct or indirect corporate parent of the Issuers, owning directly or indirectly all of their outstanding stock; and (ii) the Note Guarantees are necessary or convenient to the conduct, promotion or attainment of the business of the Issuers.

(h) We express no opinion as to the effect of events occurring, circumstances arising, or changes of law becoming effective or occurring, after the date hereof on the matters addressed in this opinion letter, and we assume no responsibility to inform you of additional or changed facts, or changes in law, of which we may become aware.

Based upon the foregoing, and subject to the limitations and qualifications set forth above, we are of the opinion that:

1. The Exchange Notes, when executed and authenticated in accordance with the provisions of the Indenture and delivered in exchange for the Old Notes in accordance with the Indenture and the Exchange Offer, will be entitled to the benefits of the Indenture and will be the valid and binding obligations of the Issuers, enforceable against the Issuers in accordance with their terms.

2. The Note Guarantees have been duly authorized, executed and delivered by the Parent Guarantors and, when the Exchange Notes are executed and authenticated in accordance with the provisions of the Indenture and the Exchange Offer, the Exchange Notes will be entitled to the benefits of the Note Guarantees.

We consent to the filing of this opinion with the Securities and Exchange Commission as an exhibit to the Registration Statement and the reference to us under the heading “Legal Matters” in the related prospectus.

Very truly yours,

/s/ Bingham McCutchen LLP

BINGHAM McCUTCHEN LLP

Private & Confidential

DATED September 12, 2003

TEMPUR INTERNATIONAL LIMITED (1)

and

DAVID MONTGOMERY (2)

EMPLOYMENT AGREEMENT

Wragge&Co

Birmingham London Brussels

Tel +44 (0)870 903 1000 **Fax +44 (0)870 904 1099** **mail@wragge.com** **www.wragge.com**

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THIS AGREEMENT is made as of September 12, 2003

BETWEEN:

(1) **Tempur International Limited**, a United Kingdom limited liability company having its principal office at Tempur House, 5 Caxton Trading Estate, Printing House Lane, Hayes, Middlesex UB3 1BE, UK ("**EMPLOYER**"); and

(2) **DAVID MONTGOMERY** (**"EMPLOYEE**")

THE PARTIES AGREE that:

1 **Definitions and interpretation**

1.1 In this Agreement, unless the context requires otherwise:

"**Approved Interest"** means a holding or interest in the shares or securities of any company quoted on any Recognised Investment Exchange provided:

(a) the holding or interest does not exceed 5 percent of the Equity Share Capital of the company concerned; and

(b) EMPLOYEE complies with all rules, laws and regulations relating to dealing in shares or securities.

In calculating the Approved Interest of any person, it shall include a legal, beneficial, sole or joint interest, and any shares or securities which his spouse or any child of his under the age of 18 holds or is entitled to;

"Associated Company" means any company or other legal entity that is 50% or more owned, directly or indirectly, by TWI Holdings, Inc.;

"**Authorised Absence**" means any period of incapacity under clause [13], holiday under clause [10] or time off pursuant to the exercise of any statutory right or the performance of a statutory duty;

"**Benefits**" means all contractual entitlements or benefits of EMPLOYEE under this Agreement other than Salary;

"**Board**" means the board of directors of EMPLOYER or any duly constituted committee of the board of directors of EMPLOYER;

"**Business**" means the services business of EMPLOYER and/or the bedding products business of any relevant Associated Company in which EMPLOYEE is involved or concerned or of which he has significant knowledge;

"**Business Day**" means any day which is not a Saturday, a Sunday or a bank or public holiday in England/any part of the United Kingdom;

"**EMPLOYER Contractors**" means any of EMPLOYER's agents, suppliers, customers, clients, employees, workers, distributors (including any relevant Associated Company), officeholders or contractors;

"**Confidential Information**" means any confidential information relating to the Business, products, finances, advertising, marketing & sales strategies and affairs of EMPLOYER, any Associated Company or EMPLOYER Contractors which has or may have come into EMPLOYEE's possession or knowledge during his employment by EMPLOYER, which is used by EMPLOYER, Associated Company or any EMPLOYER Contractor in a trade or business and knowledge of which is restricted including trade and business secrets, actual or potential client and supplier details, terms of business, pricing and fee arrangements and other financial information provided that information shall not be or shall cease to be, confidential to the extent that it comes to be in the public domain otherwise than as a result of the unauthorised act or default of EMPLOYEE;

"**Deductions**" means any deduction of income tax, national insurance contributions or any other tax or statutory deduction applicable to any payment to, or provision of benefits for, EMPLOYEE;

"**Employment**" means the employment of EMPLOYEE under this Agreement or, where the context requires, the duration of the employment of EMPLOYEE under this Agreement;

"**Equity Share Capital**" has the meaning given to it in section 744 Companies Act 1985;

“**ERA**” means the Employment Rights Act 1996;

“**Holding Company**” and “**Subsidiary**” have the meanings given to them respectively in sections 736 and 736A Companies Act 1985;

“Intellectual Property Rights” means any patents, registered designs, trade marks and service marks (whether registered or not), domain names, copyright, design rights, data base rights, confidential information, trade secrets, goodwill, brand names or logos, the right to use any trade names, property rights (whether or not registered) and all rights or forms of similar protection or having equivalent or similar effect including those subsisting (in any part of the world) in inventions, ideas, improvements, designs, drawings, performances, computer programs, confidential information, business names, goodwill and the style of presentation of goods or services including any improvements or refinements to any of the foregoing and in application for protection of any of the above rights;

“Know-how” means information (including that comprised in formulae, specifications, designs, drawings, component lists, databases, software (or pre-cursor documents), manuals, instructions and catalogues) held in any form relating to any product, service, equipment, system or activity of EMPLOYER or to the creation, production or supply of any products or services by EMPLOYER or any Associated Company or by or to any of the suppliers, customers, partners or joint ventures of EMPLOYER or any Associated Company ;

“**Normal Retiring Age**” means [65] years of age;

“**Notice Payment Period”** means that part of the period of notice required by EMPLOYER to terminate the Employment in accordance with clause 3.1 that has not been given to EMPLOYEE;

“**Recognised Investment Exchange**” has the meaning given to it in section 285 Financial Services and Markets Act 2000;

“**Review Date**” means on or about January in each year, beginning January 2004, or as otherwise established by the Board of Directors.

“**Salary**” means the salary referred to in clause 6.1;

“**Termination Date**” means the date on which the Employment of EMPLOYEE terminates for any reason;

“**Termination Payment”** means the Salary as at the Termination Date, which shall not be subject to any review although a Review Date may fall within the Notice Payment Period, and Benefits for the Notice Payment Period less any Deductions;

“**Working Time**” in relation to EMPLOYEE has, the meaning given to it in the Working Time Regulations;

“**Working Time Regulations**” means the Working Time Regulations 1998.

1.2 Unless the context requires otherwise:

(a) the headings to clauses are inserted for convenience only and do not affect the interpretation or construction of this Agreement;

(b) references in this Agreement to clauses are to the clauses of this Agreement;

(c) use of the singular includes the plural and vice versa. Use of a gender includes every gender. References to “persons” include an individual, company, corporation, unincorporated association, firm or partnership;

(d) the words and phrases “other”, “including” and “in particular” do not limit the general nature of any words preceding them and must not be construed as being limited to the same class as any words preceding them where a wider construction is possible;

(e) references to any statute or statutory provision include:

(i) any subordinate legislation made under it;

(ii) any provision which it has modified or re-enacted (whether with or without modification); and

(iii) any provision which subsequently supersedes or re-enacts it (whether with or without modification).

2 Employment

2.1 EMPLOYER shall employ EMPLOYEE and EMPLOYEE agrees to be employed as President Tempur International Limited and shall be appointed to Executive Vice President and an Officer of Tempur World, Inc. In such capacity, Employee shall be subject to the authority of, and shall report to, the Board and shall also have administrative reporting to the Chief Executive Officer, Tempur World, Inc.

2.2 During the Employment EMPLOYEE shall:

(a) assist the Board in setting targets and objectives for, and be accountable to the Board for services provided to (i) Dan Foam ApS pursuant to the Consulting and Service Support Agreement between EMPLOYER and Dan Foam ApS dated May 1, 2003 and/or (b) any other customer or client of the EMPLOYER;

(b) oversee and co-ordinate all sales and marketing services for EMPLOYER outside the continents of North and South America, more particularly research, investigate, evaluate and develop strategic markets worldwide, excluding North and South America, for the exportation and sale of new and current products of Dan Foam ApS and any other customer or client of the EMPLOYER. The markets shall include but not be limited to medical, mail order, retail and direct response markets;

(c) devote all his time, attention, knowledge and skill to the business and interests of EMPLOYER and any Associated Company during normal business hours and during such additional hours as are necessary for the proper performance of his duties or as the Board requires from time to time;

(d) faithfully, loyally, efficiently and diligently perform those duties and exercise such powers consistent with his position as are assigned to or vested in him from time to time by the Board;

(e) at all times and in all respects conform to and comply with the constitution of the EMPLOYER or any relevant Associated Company (as amended from time to time);

(f) obey the reasonable and lawful directions of the Board or any relevant Associated Company

(g) comply with all EMPLOYER's rules, regulations, policies and procedures from time to time in force;

(h) keep the Board promptly and fully informed (in writing if requested) of his conduct of the Business and provide such information in connection with it as the Board requires;

(i) comply with all rules and regulations (as amended from time to time) of all regulatory authorities and bodies relevant to EMPLOYER and any Associated Company with which EMPLOYEE is concerned;

(j) maintain the highest standards in the performance of his duties and in the conduct of his office; and

(k) use his best endeavours to promote maintain and extend the interests and reputation of EMPLOYER and any Associated Company and refrain from any conduct which in the opinion of the Board may be to its detriment.

2.3 EMPLOYER reserves the right to require EMPLOYEE to perform for EMPLOYER or any Associated Company other duties or tasks not within the scope of his normal duties.

2.4 EMPLOYER may appoint any other person or persons to act jointly with EMPLOYEE in any position to which he may be assigned from time to time.

2.5 EMPLOYEE may be required, without being entitled to further remuneration, to hold the office of director, company secretary or any other office of EMPLOYER or any Associated Company including the position of Executive Vice President of Tempur World Inc.

2.6 EMPLOYEE shall not during or after the Employment knowingly or willingly:

(a) do or cause or permit to be done anything which prejudices or injures or is calculated or may tend to prejudice or injure the interests of EMPLOYER or any Associated Company or

(b) omit or cause or permit to be omitted any act which is to the benefit of EMPLOYER or any Associated Company

and if, during or after the Employment, EMPLOYEE shall learn of any act or omission by any person, whether or not employed by EMPLOYER which prejudices or injures or is calculated or may tend to prejudice or injure the interests of EMPLOYER or any Associated Company he shall promptly report it to the Board (in writing if requested) giving all necessary particulars of it.

3 Commencement of employment and term

3.1 The Employment shall commence on February 24, 2003 (the "**Effective Date**") and, subject to the provisions of this Agreement, shall continue unless and until terminated by the Employer giving not less than 12 months' notice in writing to Employee, or Employee giving not less than 6 months notice in writing to Employer.

3.2 For the purposes of the ERA, EMPLOYEE's period of continuous employment began on the Effective Date. The Employment is not continuous with any other previous employment.

3.3 The Employment shall terminate automatically and immediately when EMPLOYEE reaches the Normal Retiring Age without the need for notice to be given by either party to the other.

4 Hours of work

4.1 There are no normal hours of work predetermined by EMPLOYER for EMPLOYEE. EMPLOYEE shall work the hours he determines necessary for the proper performance of his duties. EMPLOYEE acknowledges that he can determine his own Working Time and therefore the Employment is within Regulation 20(1) of the Working Time Regulations.

4.2 EMPLOYEE agrees that the limit in Regulation 4(1) of the Working Time Regulations shall not apply to him nor the Employment and that his Working Time may therefore exceed an average of 48 hours for each 7 day period in the applicable reference period. EMPLOYEE can withdraw his agreement by giving 3 months' prior written notice to EMPLOYER.

5 Place of work

5.1 EMPLOYEE's place of work will be EMPLOYER's offices. EMPLOYER reserves the right to change EMPLOYEE's principal place of work. EMPLOYEE will be given reasonable prior notice of any change to his place of work. The Company shall reimburse Employee for all authorized and approved relocation expenses incurred in the course of the performance of Employee's duties and responsibilities pursuant to this Agreement and consistent with the Company's policies in effect at the time.

5.2 For the purpose of performing his duties, EMPLOYEE shall at the expense of EMPLOYER travel within the United Kingdom and elsewhere as the Board reasonably requires.

6 Salary and bonus

6.1 During the Employment EMPLOYER shall pay to EMPLOYEE the Salary at the rate of £192,500 per year which shall accrue daily and be payable by equal monthly instalments in arrears. EMPLOYEE's Salary will be reviewed and be subject to adjustment by the Board on or about January 1 of each year beginning with January 1, 2004.

6.2 Performance Bonus:

Employee will be eligible to earn an annual performance-based bonus based on a formula approved by the Board and the Board of Directors of Tempur World, Inc and incorporated herein by this reference for each full or pro-rata portion of the fiscal year during which Employee is employed by the Company (a "Bonus Year"), the terms and conditions of which as well as Employee's entitlement thereto shall be determined annually in the sole discretion of the Board of Directors of Tempur World, Inc. (the "Performance Bonus"). The amount of the Performance Bonus will vary based on the achievement of performance criteria in the formula established by the Board of Directors of Tempur World, Inc. but the formula will be set to target a Performance Bonus equal to 30% of Base Salary as of January 1st of the Bonus Year if the performance criteria in the formula are met.

7 Deductions

7.1 EMPLOYEE authorises EMPLOYER to deduct from the Salary, and to set off against any monies due to him under clause 9 (expenses) or otherwise, any sum due to EMPLOYER from him including any overpayments, loans or advances made to him by EMPLOYER, the cost of repairing any damage or loss to EMPLOYER's property caused by him (whether solely or jointly).

8 Car

Employer agrees to provide Employee with an annual auto allowance of £15,000. Such amount is not included for the determination of any other benefit provided by Employer.

9 Expenses

9.1 Employer shall reimburse the Executive in respect of all authorised expenses reasonably incurred by him in the proper performance of his duties, subject to the Executive complying with the Employer's rules and policies then in force and shall provide such receipts or other appropriate evidence as the Employer requires.

10 Holidays

10.1 Employee will receive to up to five weeks holiday time, the entitlement and use of which shall be in accordance with EMPLOYER's policy in force from time to time and English law.

11 Pension

11.1 While he is employed, Employer agrees to contribute to a retirement scheme agreeable to both Employee and the Board, an annual amount equal to 10% of Employee's base salary commencing from February 24, 2003. The annual contribution amount is subject to the approval of the Board and will be set following Employee's Review Date. At no time will Employer contribute an annual amount in excess of the amount allowable under English law.

12 Benefits

(a) During the Employment EMPLOYER shall provide EMPLOYEE with full international health coverage for himself and his spouse and children under 18 subject to: the terms and conditions of those policies from time to time in force; and

(b) the insurer accepting EMPLOYEE for cover and liability to make payment under the relevant policy at normal rates.

(c) During his employment, Employer agrees to provide Employee with the following supplemental insurance benefits which are in addition to any benefits regularly provided by Employer or English law.

1) Death in Service: Insurance gap coverage to provide up to four times Employee’s base salary at the time of Employee’s death.

2) Widow’s Pension to an amount equal to 25% (twenty-five percent) of Employee’s salary at the time of Employee’s death.

3) Critical Illness: Insurance gap coverage beyond the coverage provided by Employer, to provide up to four times the Employee’s base salary at the time of an illness or injury preventing him from any further employment by Employer.

4) Permanent Health Insurance: Insurance protection to provide long term income protection to 55% of salary for an illness or injury preventing Employee from working for Employer for a period beyond that provided by Employer in clause 13.1 and such coverage shall continue to Normal Retirement Age unless otherwise mutually agreed to by the parties.

13 Sickness/Incapacity

13.1 EMPLOYER shall continue to pay EMPLOYEE’s Salary and Benefits for up to a maximum of 130 Business Days absence on medical grounds in any period of 12 calendar months or in any continuous period of absence (or linked periods of absence, as determined by the Social Security Contributions and Benefits Act 1992) provided that EMPLOYEE shall:

(a) as soon as possible, and if practicable by the first Business Day of his absence,

report his absence, the reason for it and his anticipated return date to the CEO Tempur World, Inc.

(b) supply EMPLOYER with medical certificates covering any period of sickness or incapacity exceeding seven days (including weekends); and

(c) complete a self-certification form detailing the reason for his absence immediately following his return to work after a period of absence.

13.2 Any payment to EMPLOYEE pursuant to sub-clause 13.1 shall be subject to set off by EMPLOYER in respect of any statutory sick pay and any social security sickness benefit or other benefits to which EMPLOYEE is entitled.

13.3 If EMPLOYEE's absence is occasioned by the actionable negligence of a third party in respect of which damages may be recoverable, then all sums paid to EMPLOYEE shall be treated as loans and EMPLOYEE shall:

(a) notify EMPLOYER immediately of all the relevant circumstances and of any claim, compromise, settlement or judgment made or awarded in connection with it;

(b) give to EMPLOYER such information concerning the above matters as EMPLOYER requires; and

(c) if EMPLOYER requires, refund to EMPLOYER any amount received by him from any third party provided that the refund shall be no more than the amount which he has recovered in respect of loss of earnings.

13.4 For statutory sick pay purposes EMPLOYEE's qualifying days shall be his normal working days.

13.5 At any time during the Employment, (but not normally more often than once every second year), EMPLOYER may require EMPLOYEE to undergo a medical examination at its expense, undertaken by a medical practitioner selected by EMPLOYER. EMPLOYEE shall undergo any requisite tests and fully co-operate with that medical practitioner and shall authorise him to disclose to and discuss with EMPLOYER's medical adviser the results of the examination and any matters which

arise from it subject to the provisions of the Access to Medical Reports Act 1988 (as applicable).

14 Termination

Payment in lieu of notice

14.1 The Board may at its sole discretion terminate the Employment immediately without any notice, or on notice less than that required by sub-clause [3.1] and pay the Termination Payment to EMPLOYEE less any income or benefit EMPLOYEE has received or become entitled to by reason of the provision of his services to any person during the Notice Payment Period . The Termination Payment shall be paid on the date of Termination. In a like manner, Employer will also pay benefits as provided in clause 8 (Car) and Clause 11 (Pension) herein.

Immediate dismissal

14.2 Notwithstanding any other provision of this Agreement, in any of the following circumstances the Board may terminate the Employment immediately by serving written notice on EMPLOYEE to that effect. If it does so, EMPLOYEE shall not be entitled to any further payment from EMPLOYER including a Termination Payment, except any sums which have accrued due at that time. The circumstances are if EMPLOYEE:

(a) commits any serious breach of this Agreement or is guilty of any gross misconduct or any wilful neglect in the discharge of his duties;

(b) repeats or continues (after warning) any breach of this Agreement, including any wilful neglect of or refusal to carry out any of his duties or to comply with any reasonable and lawful instruction given to him by the Board;

(c) is guilty of any fraud or dishonesty, whether in the course of the Employment or otherwise and whether relating to EMPLOYER, any Associated Company or any EMPLOYER Contractors or otherwise;

(d) is (in the reasonable opinion of the Board) guilty of conduct tending to bring himself or EMPLOYER or any Associated Company into disrepute;

(e) is convicted of any criminal offence (other than minor offences under the Road Traffic Acts or the Road Safety Acts for which a fine or non-custodial penalty is imposed);

(f) becomes of unsound mind or is or becomes a patient for the purposes of any statute relating to mental health;

(g) becomes addicted to or habitually under the influence of alcohol or any drug (other than a drug prescribed for EMPLOYEE by a medical doctor for the treatment of a condition other than drug addiction) the possession of which is controlled by law;

(h) fails to substantially perform the reasonably assigned duties with Employer which are consistent with Employee's position and job description referred to in this Agreement, after a written notice is delivered to Employee by the Board which specifically identifies the manner in which Employee has not substantially performed the assigned duties.

(i) breaches any of the rules and regulations, as amended from time to time, of any regulatory authority or body relevant to the business of EMPLOYER or any Associated Company

(j) refuses (without reasonable cause) to accept the novation by EMPLOYER, or Board of this Agreement, or an offer of employment on terms no less favourable to him than the terms of this Agreement, by any company which, as a result of reorganisation, amalgamation or reconstruction of EMPLOYER, acquires or agrees to acquire not less than 90 per cent of the Equity Share Capital of EMPLOYER;

Any delay by EMPLOYER or BOARD in exercising this right of termination shall not constitute a waiver of it. The proper exercise by EMPLOYER and BOARD of its right of termination under this clause shall be without prejudice to any other rights or remedies which either may have or be entitled to exercise against EMPLOYEE.

Ill-health dismissal

14.3 If at any time EMPLOYEE is unable to perform his duties properly because of ill

health, accident or otherwise for a period or periods totalling at least 130 Business Days in any period of 12 calendar months, then EMPLOYER may terminate the Employment by giving him not less than three months' written notice to that effect. If at any time during the currency of such a notice EMPLOYEE provides a medical certificate satisfactory to the Board to the effect that he has fully recovered and that no recurrence of illness or incapability can reasonably be anticipated, EMPLOYER shall withdraw the notice unless, by that date, a replacement for EMPLOYEE has been appointed.

Rights and Obligations on Termination

14.4 Upon the termination of this Agreement Employee shall:

(a) immediately deliver to EMPLOYER all materials within the scope of sub-clause [15.3] (e.g., EMPLOYER property) and all keys, credits cards, cars and other property of or relating to the business of EMPLOYER or of any Associated Company which is in his possession or under his power or control;

and should he fail to do so EMPLOYER is irrevocably appointed to be EMPLOYEE's attorney in his name and on his behalf to execute any documents and to do any things necessary to give effects to this clause [14.6].

14.5 Upon termination of this Agreement in any circumstances, EMPLOYEE shall have no rights to any additional compensation under or in respect of pension funding (11.1) and supplemental insurances (12.(b)) in which he has participated or has received grants or allocation or benefits on or before the Termination Date. Any rights he has under such scheme[s] shall be exclusively governed by the rules or agreements made between Employee and Employer of the scheme in question.

14.6 The proper exercise by EMPLOYER of its right of termination under sub-clause [14.2] shall be without prejudice to any other rights or remedies which EMPLOYER or any Associated Company may have or be entitled to exercise against EMPLOYEE.

14.7 EMPLOYEE irrevocably authorises EMPLOYER to appoint a nominee on his behalf to do and sign any things and documents in his name and on his behalf as may be required under the constitution of EMPLOYER and any Associated Company in

order to give effect to this clause.

14.8 EMPLOYEE shall not at any time after the Termination Date make any public statements in relation to EMPLOYER or any Associated Company or any EMPLOYER Contractors. EMPLOYEE shall not after the Termination Date represent himself as being employed by or connected with EMPLOYER or any Associated Company

14.9 If the Employment is terminated for the purpose of reconstruction or amalgamation only, whether by reason of the liquidation of EMPLOYER or otherwise and EMPLOYEE is offered employment with any concern or undertaking resulting from this reconstruction or amalgamation on terms and conditions no less favourable than the terms of this Agreement, then EMPLOYEE shall have no claim against EMPLOYER in respect of the termination of the Employment.

15 Confidential Information and EMPLOYER and/or Associated Company property

15.1 The EMPLOYEE shall neither during the Employment (except in the proper performance of his duties, as required by law or with the express prior written consent of the Board) nor at any time (without limit) after the termination of the Employment except in compliance with an order of a competent court:

(a) divulge or communicate to any person;

(b) use for his own purposes or for any purposes other than those of EMPLOYER or any Associated Company

(c) remove from EMPLOYER's or any Associated Company's premises or make any copies summaries or adaptation of;

(d) through any failure to exercise due care and diligence, permit or cause any unauthorised disclosure, removal, copying, summarising or adaptation of

any Confidential Information.

15.2 During the Employment, the EMPLOYEE shall use his best endeavours to prevent the unauthorised use or disclosure of any Confidential Information by any other

officer, EMPLOYEE, worker or agent of EMPLOYER or any Associated Company and shall be under an obligation promptly and fully to report to the Board any unauthorised use or disclosure which comes to his knowledge.

15.3 The EMPLOYEE acknowledges that all books, notes, memoranda, records, lists of customers and suppliers and EMPLOYEEs, correspondence, documents, computer and other discs and tapes, data listings, codes, designs and drawings, Confidential Information and other documents and material (whether made, acquired, compiled or created by the EMPLOYEE or otherwise) relating to EMPLOYER or any Associated Company or any EMPLOYER Contractor (and any copies, summaries or adaptation of them):

(a) shall be and remain the property of EMPLOYER or the relevant Associated Company or EMPLOYER Contractor;

(b) shall not be removed from EMPLOYER or any Associated Company premises or copied in any way, except in the proper authorised course of the Employment;

(c) shall be handed over by the EMPLOYEE to EMPLOYER or to the relevant Associated Company on demand and in any event on the termination of the Employment and the EMPLOYEE shall certify in writing that all such property has been handed over on request by the Board; and

(d) shall at the request of EMPLOYER be deleted from any computer discs, hard drives, tapes or other storage media in EMPLOYEE's possession or under his control and all other documents and tangible items in his possession or under his control which contain or refer to any Confidential Information shall be destroyed.

15.4 The provisions of sub-clauses [15.1 and 15.2] shall apply in relation to each of the Associated Companies to trade secrets or Confidential Information which the EMPLOYEE has received or obtained while in the service of EMPLOYER and the EMPLOYEE will upon the request of any Associated Company enter into a separate agreement or undertaking with that Associated Company effecting those terms.

16 Intellectual Property

16.1 EMPLOYEE agrees that, whilst employed by EMPLOYER, any Intellectual Property Rights and rights in inventions or Know-How the EMPLOYEE is involved in creating or discovering belong to EMPLOYER or the relevant Associated company absolutely. EMPLOYEE agrees to execute all instruments and do all things necessary for vesting any of those rights in EMPLOYER or such Associated company as sole and beneficial owner, and obtaining any form of protection or registration for such rights including duly authorising EMPLOYER to act as EMPLOYEE's attorney for this purpose.

17 Restrictions during Employment

17.1 During the Employment EMPLOYEE shall not directly or indirectly:

(a) be employed, engaged, concerned or interested in any other business or undertaking which is wholly or partly in competition with or is similar to any Business or is a supplier to, or customer of, EMPLOYER or any Associated Company or

(b) engage in any activity which the Board considers may be, or become, harmful to the interests of EMPLOYER or of any Associated Company or which might reasonably be considered to interfere with the timely and proper performance of EMPLOYEE's duties under this Agreement or EMPLOYER gaining the full benefit of EMPLOYEE's skill, knowledge and ability.

17.2 Clause 17.1 shall not apply:

(a) to EMPLOYEE holding an Approved Interest; or

(b) to any act undertaken by EMPLOYEE with the prior written consent of the Board

18 Restrictions after termination

18.1 EMPLOYEE shall not, without the prior written consent of EMPLOYER, whether by himself, through his employees, agents or otherwise and whether on his own behalf or on behalf of any other person, directly or indirectly:

(a) for a period of twelve months after the Termination Date or, if earlier, the date on which EMPLOYEE last carried out work for EMPLOYER or any Associated Company, Employee shall not in any capacity (whether in the capacity as an employee, officer, director, partner, manager, consultant, agent or owner (other than a minority shareholder or other equity interest of not more than 5 % of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter), directly or indirectly advise, manage, render or perform services to or for any person or entity which is engaged in a business competitive to that of the Company or any Associated Company within any geographical location wherein the Company or any Associated Company produces, sells or markets its goods and services at the time of such termination or within a one- year period prior to such termination.;

(b) for a period of twelve months after the Termination Date or, if earlier, the date on which EMPLOYEE last carried out work for EMPLOYER or any Associated company, interfere with, tender for, canvass, solicit or endeavour to entice away from EMPLOYER or Associated Company, the business of any person or company who at any time during the period of twelve months immediately preceding the Termination Date, was, to EMPLOYEE's knowledge, a client of EMPLOYER or a Associated Company with whom he has dealt in the normal course of the Employment during the period of twelve months immediately preceding the Termination Date;

(c) for a period of twelve months after either the Termination Date or, if earlier, the date on which EMPLOYEE last carried out work for EMPLOYER or any Associated Company, interfere with or seek to interfere with the continuance of supplies that are material to the continuation of EMPLOYER's or an Associated Company's business, to EMPLOYER or an Associated Company from a person who is, to EMPLOYEE's knowledge, a supplier of EMPLOYER or an Associated Company and with whom he has dealt in the normal course of the Employment during the period of twelve months immediately preceding the Termination Date;

(d) for a period of twelve months after either the Termination Date or, if earlier,

the date on which EMPLOYEE last carried out work for EMPLOYER or any Associated Company, interfere with, tender for, canvass, solicit or endeavour to entice away from EMPLOYER or an Associated Company a contract or project (including the renewal of them) which as at the Termination Date was in the process of negotiation and in respect of which EMPLOYEE was involved during the period of twelve months immediately preceding the Termination Date;

(e) for a period of twelve months after either the Termination Date (or, if earlier, the date on which EMPLOYEE last carried out work for EMPLOYER or any Associated Company employ or engage (whether as an EMPLOYEE, a partner, a consultant or otherwise) or arrange the employment or engagement of a person who to EMPLOYEE's knowledge, was at the Termination Date, or within a period of twelve months immediately preceding the Termination Date an employee or consultantof EMPLOYER or an Associated Company with whom he had personal dealing in the normal course of employment during the period of twelve months immediately preceding the Termination Date;

(f) at any time after the Termination Date make use of any corporate, business or brand name or logo which is identical, similar to, or likely to be confused with, any corporate business, or brand name, or logo of EMPLOYER or an Associated Company;

(g) at any time after the Termination Date represent himself as being interested in or employed by or in any way connected with EMPLOYER or an Associated Company, other than as a former EMPLOYEE of EMPLOYER.

18.2 Nothing in clause [18.1] shall preclude EMPLOYEE from holding an Approved Interest.

18.3 Each of the covenants in clause 18.1 are separate and shall be treated as a separate obligation and shall be enforceable as such.

19 Disciplinary procedures

19.1 EMPLOYER's disciplinary procedures as amended from time to time apply to the Employment.

20 Computer policy

20.1 EMPLOYEE agrees to comply with all aspects of any policies that may from time to time be published by EMPLOYER in relation to its e-mail and Internet policy.

21 Data Protection and interception of communications

21.1 EMPLOYEE agrees that personal data (other than sensitive personal data) as defined in the Data Protection Act 1998, relating to EMPLOYEE and to the Employment may to the extent that it is reasonably necessary in connection with the Employment or the business of the Employer:

(a) be collected and held (in hard copy and computer readable form) and processed by Employer); and

(b) be disclosed or transferred:

(i) to other employees of EMPLOYER;

(ii) to any other member of an Associated Company and their employees;

(iii) to any other persons as may be reasonably necessary; or

(iv) as otherwise required or permitted by law.

21.2 EMPLOYEE agrees that Employer may process sensitive personal data relating to him, including medical details and details of gender, race and ethnic origin. Personal data relating to gender, race and ethnic origin will be processed by the Group only for the purpose of monitoring the Employer's equal opportunities policy with a view to enabling equal opportunities to be promoted and maintained. EMPLOYEE agrees that the Employer may disclose or transfer such sensitive personal data to other persons if it is required or permitted by law to do so or, for the purpose of monitoring, the Employer's equal opportunities policy.

21.3 EMPLOYEE consents to the transfer and disclosure of personal data as set out above applying regardless of the country of residence of the person to whom the data is to be transferred. Where the disclosure or transfer is to a person resident outside the European Economic Area, the Employer shall take reasonable steps to ensure that

EMPLOYEE's rights and freedom in relation to the processing of the relevant personal data are adequately protected.

21.4 EMPLOYEE agrees that EMPLOYER and any Associated Company may intercept and monitor communications transmitted by or to EMPLOYEE via any private telecommunication systems or services of EMPLOYER or any Associated Company.

22 Notices

22.1 Any notice sent under this Agreement must be in writing.

22.2 Any notice may be served by personal delivery or by sending it by ordinary first class post or facsimile transmission at the address given next to the name of the relevant party or at such other address as the relevant party may give for the purpose of service of notices under this Agreement.

22.3 Every such notice shall be deemed to have been served:

(a) upon delivery if served by hand;

(b) two Business Days after despatch if delivered by ordinary first class post; or

(c) at 10.00 am local time of the recipient on the next Business Day following despatch if sent by facsimile transmission.

22.4 To prove service of any notice it shall be sufficient to show:

(a) in the case of a notice delivered by hand, that it was duly addressed and delivered by hand;

(b) in the case of a notice served by post, that it was duly addressed prepaid and posted in the manner set out above; and

(c) in the case of a notice given by facsimile transmission, that it was despatched in a legible and complete form to the correct telephone number without any error message, provided that a confirmation copy of the transmission is sent to the recipient by post in the manner set out above. If a confirmation copy is not sent, the service of any notice by facsimile transmission is not valid.

23 Whole Agreement

23.1 This Agreement sets out the entire agreement relating to the employment of EMPLOYEE with EMPLOYER and shall replace any previous agreements, whether by way of letters of appointment, arrangements, whether written, oral or implied, relating to the employment, service, consultancy, office holding or any other arrangement between EMPLOYER and EMPLOYEE. These shall be deemed to have been terminated by mutual consent as from the date of this Agreement. EMPLOYEE acknowledges that he has no outstanding claims of any kind against EMPLOYER or any Associated Company in respect of any such agreement.

23.2 The obligations imposed on EMPLOYEE by this Agreement are in addition and without prejudice to any obligations imposed upon him by general law.

23.3 There are no collective agreements applicable to the Employment.

24 Choice of law and submission to jurisdiction

24.1 This Agreement and any dispute or claim arising out of or in connection with it shall be governed by and construed in accordance with English law.

24.2 All disputes or claims arising out of or relating to this Agreement shall be subject to the exclusive jurisdiction of the English Courts to which the parties irrevocably submit.

25 General

25.1 If this Agreement expires or terminates the following are not affected:

(a) any rights or remedies or either party which have accrued up to the date of termination or expiry; and

(b) any provision of this Agreement which is expressly or by implication intended to come into force, or continue in force after expiry or termination.

25.2 EMPLOYEE acknowledges that the provisions of clauses [18] (Restrictions after termination), [17] (Restrictions during Employment), [15] (Confidential Information and EMPLOYER and any Associated Company’s Property) and [16] (Intellectual

Property) constitute separate undertakings given for the benefit of each Associated Company and may be enforced by any of them.

25.3 This Agreement constitutes the written statement of the terms of employment of EMPLOYEE provided in compliance with Part I of the ERA.

25.4 Nothing in this Agreement shall prevent EMPLOYEE from making a protected disclosure in good faith in accordance with the Public Interest Disclosure Act 1998.

25.5 EMPLOYER may at its sole discretion transfer this Agreement to any Associated Company

25.6 It is acknowledged that EMPLOYER is entering into this Agreement both on its own accord and as trustee for each Associated Company.

26 Alterations

26.1 No purported alteration or variation of this Agreement shall be effective unless it is in writing, refers specifically to this Agreement and is signed by EMPLOYER.

27 Waiver

27.1 If either party:

(a) grants the other any indulgence, forbearance or extension of time; or

(b) does not ascertain or exercise any of its rights or remedies, or delays in doing so,

the rights and remedies of that party in respect of this Agreement shall not be diminished, waived or extinguished.

27.2 If either party waives any breach of this Agreement, it can still enforce that provision subsequently and such waiver shall not be deemed to be a waiver of any subsequent breach of that or any other provision.

28 Enforceability

28.1 If any part of this Agreement (including any one or more of the clauses, schedules or paragraphs or any part of one or more of those clauses, schedules or paragraphs) is

held to be or becomes void or otherwise unenforceable for any reason at any time under any applicable law, it shall be deemed to be omitted from this Agreement and the validity and/or enforceability of the remaining provisions of this Agreement shall not in any way be affected as a result of that omission.

28.2 While the terms of this Agreement (on which EMPLOYEE has had the opportunity to take independent advice, as EMPLOYEE acknowledges) are considered by the parties to be reasonable in all the circumstances, it is agreed that if any term or restriction, by itself, or taken together, shall be adjudged to go beyond what is reasonable in all the circumstances for the protection of the legitimate interests of EMPLOYER or an Associated Company but would be adjudged reasonable if part or parts of the wording were deleted, the relevant restriction or restrictions shall apply with such deletion as is necessary to make it or them valid and effective.

29 Counterparts

29.1 This Agreement may be executed in any number of counterparts. Provided that both the parties enter into this Agreement in that way, this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

30 Third Party Rights

30.1 A person other than an Associated Company who is not a party to this Agreement (including EMPLOYEE's spouse or children) has no right (whether under the Contracts (Rights of Third Parties) Act 1999 or otherwise) to enforce any term of this Agreement.

IN WITNESS OF THE ABOVE the parties have signed this Agreement as a deed [and delivered it] on the date written at the head of this Agreement.

Signed as a deed and delivered by)
EMPLOYER acting [by a director and its)
secretary]/[two directors])

/S/ R.B.TRUSSELL, JR.

Director

/S/ H. THOMAS BRYANT

Secretary or Director

Signed as a deed and delivered by)
EMPLOYEE in the presence of:)

/S/ DAVID MONTGOMERY
/S/ HUGH MURPHY

Witness: Mr. J. Lillich

Signature: /s/ Jeffrey Lillich /s/ Hugh Murphy

Name: Jeffrey Lillich

Address: 1 Woodchester Park 1713 Jaggie Fox Way

Buckinghamshire Lexington, KY 40511

Bensonsfield
HP6 2TU

Occupation: VP of Finance

Exhibit 12.1

TWI Holdings Inc

Ratio of Earnings To Fixed Charges (unaudited)

	Pre-Predecessor			Predecessor			TWI Holdings	Combined	TWI Holdings	Combined	TWI Holdings
	(a) Twelve Months Ended April 30, 1998	(a) Twelve Months Ended April 30, 1999	(a) Eight Months ended December 31, 1999	Twelve Months Ended December 31, 2000	Twelve Months Ended December 31, 2001	Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Twelve Months Ended December 31, 2002	Six Months Ended June 30, 2003	(b) Proforma As Adjusted Twelve Months Ended December 30, 2002	(b) Proforma As Adjusted Six Months Ended June 30, 2003
FIXED CHARGES:											
Interest Expense	—	—	—	4,626,238	6,952,564	6,604,562	3,046,460	9,651,022	8,452,766	22,593,022	14,923,766
Interest Portion of Rental Expense (c)	—	—	—	70,193	44,987	105,365	4,358	109,723	45,754	109,723	45,754
Amortization of debt issue costs and Discount or Premium Relating to Indebtedness	—	—	—	—	159,073	1,115,608	370,969	1,486,577	1,328,471	2,927,577	2,070,471
TOTAL FIXED CHARGES	—	—	—	4,696,431	7,156,624	7,825,535	3,421,787	11,247,322	9,826,991	25,630,322	17,039,991
EARNINGS:											
Income From Continuing Operation Before Income Taxes	—	—	—	19,265,000	23,500,000	32,377,000	(1,965,000)	30,412,000	42,486,000	16,029,000	35,273,000
Fixed charges	—	—	—	4,696,431	7,156,624	7,825,535	3,421,787	11,247,322	9,826,991	25,630,322	17,039,991
TOTAL	—	—	—	23,961,431	30,656,624	40,202,535	1,456,787	41,659,322	52,312,991	41,659,322	52,312,991
RATIO OF EARNINGS TO FIXED CHARGES	—	—	—	5.10	4.28	5.14	(d)	3.70	5.32	1.63	3.07

(a) The pre-predecessor consolidated information is unavailable for these periods.

(b) To give effect to the reduction in interest expense due to refinancing.

(c) Interest portion of rental expense is based upon an average imputed interest rate of 11.1% within the Company’s operating leases.

(d) Ratio of earnings to fixed charges is less than one to one. Earnings deficiency for the period is $5,386,787.

Exhibit 21.1

SUBSIDIARIES OF TWI HOLDINGS, INC.

Entity	State or Country of Organization
Tempur World, Inc.	Delaware
Tempur World Holdings, Inc.	Delaware
Tempur-Pedic, Inc.	Kentucky
Tempur Production USA, Inc.	Virginia
Tempur-Medical, Inc.	Kentucky
Tempur-Pedic, Direct Response, Inc.	Kentucky
Tempur World Holdings S.L.	Spain
Tempur World Holding Company ApS	Denmark
Tempur World Holding Sweden AB	Sweden
Dan-Foam ApS	Denmark
Tempur UK, Ltd.	United Kingdom
Tempur Japan Yugen Kaisha	Japan
Tempur International Limited	United Kingdom
Tempur Danmark A/S	Denmark
Tempur Suomi OY	Finland
Tempur Norge AS	Norway
Tempur Sverige AB	Sweden
Tempur Italia Srl	Italy
Tempur France SARL	France
Tempur Holding GmbH	Germany
Kruse System GmbH	Germany
Tempur Deutschland GmbH	Germany
Tempur Schweiz AG	Switzerland
Tempur Pedic Espana SA	Spain
Tempur Singapore Pte Ltd.	Singapore
Tempur Benelux B.V.	Netherlands
Tempur South Africa p.t.y.	South Africa

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated June 20, 2003, in the Amendment to the Registration Statement and related Prospectus of TWI Holdings, Inc. and Subsidiaries, dated October 30, 2003, for the registration of 10 1/4% Senior Subordinated Notes due 2010.

/s/ ERNST & YOUNG LLP

Louisville, Kentucky
October 30, 2003