As filed with the Securities and Exchange Commission on December 12, 2003

Registration No. 333-109798

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

AMENDMENT NO. 3
TO

FORM S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

Tempur-Pedic International Inc.

(f/k/a "TWI Holdings, Inc.")
(Exact name of registrant as specified in its charter)

Delaware	2510	33-1022198
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1713 Jaggie Fox Way
Lexington, Kentucky 40511
800-878-8889
(Address, including zip code, and telephone number, including area code, of the registrant's 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.	**Jeremy W. Dickens, Esq.**
Bingham McCutchen LLP	**Weil, Gotshal & Manges LLP**
150 Federal Street	**767 Fifth Avenue**
Boston, MA 02110	**New York, NY 10153**
617-951-8000	**212-310-8000**

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, 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. ☐

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value $0.01 per share	$366,562,500	$29,655

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(2) Calculated pursuant to Rule 457(a) based on an estimate of the proposed maximum aggregate offering price.
(3) $24,270 was previously paid to the Commission in connection with the initial filing of this Registration Statement on October 17, 2003. $3,640.50 was paid in connection with the filing of Amendment No. 1 to this Registration Statement on November 20, 2003 and $1,744.50 is being paid in connection with the filing of this amendment.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) 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(A), MAY DETERMINE.

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Subject to Completion, dated December 12, 2003

PROSPECTUS

18,750,000 Shares

Common Stock

This is our initial public offering of common stock. We are offering 6,250,000 shares and the selling stockholders identified in this prospectus are offering 12,500,000 shares. No public market currently exists for our shares. We will not receive any proceeds from the sale of the shares offered by the selling stockholders.

We have applied to have our common stock listed on the New York Stock Exchange under the symbol "TPX." We currently estimate that the initial public offering price will be between $15 and $17 per share.

Investing in the shares involves risks. Risk Factors begin on page 9.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to Tempur-Pedic International Inc. (before expenses)	$	$
Proceeds to selling stockholders	$	$

The selling stockholders have granted the underwriters a 30-day option to purchase up to an aggregate of 2,812,500 additional shares of common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about , 2003.

LEHMAN BROTHERS **GOLDMAN, SACHS & CO.**

UBS INVESTMENT BANK **CITIGROUP**

CIBC WORLD MARKETS **U.S. BANCORP PIPER JAFFRAY**

, 2003

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospectus may have changed since that date.

Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights all material information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in shares of our common stock. We encourage you to read this entire prospectus carefully, including "Risk Factors" beginning on page 9 and our consolidated financial statements and the notes to those financial statements beginning on page F-1, before making an investment decision. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for Tempur-Pedic International Inc. (f/k/a "TWI Holdings, Inc.") or its predecessors. As used in this prospectus, the term "Tempur-Pedic International" refers to Tempur-Pedic International Inc. only and the terms "we," "our," "ours" and "us" refer to Tempur-Pedic International and its consolidated subsidiaries. Unless otherwise noted in this prospectus, all references to dollars are to United States dollars.

Tempur-Pedic International Inc.

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 because of the strong value our products provide 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 grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 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 41.7% 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 approximately 21.5 million mattress units sold in the United States in 2002, although sales decreased during the 2000 to 2002 period. 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. Based on information derived from an ISPA report, we believe that 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.

The medical community is also a large consumer of mattresses to furnish hospitals and nursing homes. In the United States, there are over 15,400 nursing homes with a total bed count in excess of 1.7 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.

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 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 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. We were incorporated under the laws of the State of Delaware in September 2002.

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. We believe our Tempur brand's global recognition is reinforced by our high level of customer satisfaction. Furthermore, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand.
- ***Diversified Product Offerings Sold Globally Through Multiple Distribution Channels.*** Our diversified product offerings include mattresses, pillows and other products, primarily adjustable beds, which we sell through multiple distribution channels including retail, direct, healthcare and third party distributor channels. For the nine months ended September 30, 2003, mattress, pillow and other product sales, primarily adjustable beds, represented 52.9%, 27.8% and 19.3%, respectively, of our net sales. For the nine months ended September 30, 2003, our retail channel represented 63.5% of our net sales, with our direct, healthcare and third party distributor channels representing 18.6%, 9.3% and 8.6%, respectively.

- ***Strong Financial Performance.*** Over the last several years, our diversified, well-balanced business model has enabled us to achieve rapidly growing revenues and strong gross and operating margins, with low maintenance capital expenditure and working capital requirements. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which we believe is more than 1.5 times the average for three of the major bedding manufacturers in the United States. Our strong financial performance gives us the flexibility to invest in our manufacturing operations, enhance our sales force and marketing, invest in information systems and recruit talented management and other personnel.
- ***Significant Growth Opportunities.*** We believe we have significant growth opportunities because 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. 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 a collective bed count in excess of 2.7 million). 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 into a global business with approximately $342.4 million in total net sales for the nine months ended September 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 13% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options (11.9% after this offering).

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 international sales growth 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 Albuquerque, New Mexico. 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

TA Associates, Inc. (TA) manages $5.0 billion of capital for buyouts and private equity investments in profitable growth companies in the consumer, technology, financial services, business services and healthcare industries. Founded in 1968, TA has a staff of over 40 investment professionals operating from offices in Boston, Massachusetts, Menlo Park, California, and London, and has invested in approximately 350 companies over its 35 year history.

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 Tempur-Pedic International to purchase Tempur World, Inc. for approximately $268.0 million plus the refinancing of approximately $88.8 million of existing debt obligations and a deferred earn-out payment of approximately $40.0 million. Tempur-Pedic International funded that purchase and related transaction fees and expenses using $150.0 million of senior bank financing, $50.0 million in mezzanine debt financing, net of cash on hand, and approximately $160.0 million in cash contributions and non-cash equity contributions from our owners. Collectively, TA and FFL currently own 79.7% of our fully diluted common stock, after giving effect to the vesting of all outstanding options (63.4% after this offering), 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."

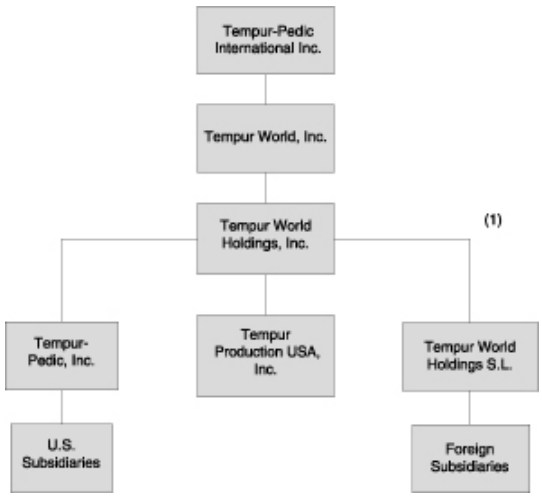
The Recapitalization

In August 2003, we completed a recapitalization consisting of the following transactions:

- Tempur-Pedic International and certain of our domestic and 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."
- Tempur-Pedic, Inc. and Tempur Production USA, Inc., indirect wholly-owned subsidiaries of TWI, issued $150.0 million aggregate principal amount of 10¼% Senior Subordinated Notes due 2010. We refer to these notes in this prospectus as the "senior subordinated notes."
- 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.
- Tempur-Pedic International distributed approximately $160.0 million as a return of capital to its equityholders.

Our Structure

Tempur-Pedic, Inc. and Tempur Production USA, Inc. are indirect wholly-owned subsidiaries of Tempur-Pedic International 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 Tempur-Pedic International. Set forth below is a chart showing our structure:



(1) Tempur-Pedic International 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.

The Offering

Common stock offered by Tempur-Pedic International in this offering	6,250,000 shares
Common stock offered by selling stockholders in this offering	12,500,000 shares
Common stock to be outstanding after this offering	97,266,520 shares
Use of proceeds	We intend to use the proceeds we receive from this offering to repay outstanding debt. We will not receive any proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds."
Proposed New York Stock Exchange symbol	"TPX"

The number of shares of our common stock that will be outstanding after this offering is based on the number of shares outstanding as of November 15, 2003, and unless otherwise indicated herein, assumes the conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all our outstanding warrants into common stock on a one-for-one basis, and excludes:

- 6,533,720 shares of our common stock issuable upon the exercise of stock options outstanding as of November 15, 2003 at a weighted average exercise price of $1.87 per share, none of which options were then exercisable; and
- 8,000,000 shares of our common stock reserved for future grant under our 2003 Equity Incentive Plan.

Unless specifically stated otherwise, the information in this prospectus:

- assumes no exercise of the underwriters' over-allotment option;
- assumes an initial public offering price of $16.00 per share, the midpoint of the initial public offering price range indicated on the cover of this prospectus;
- reflects the automatic conversion of all shares of our convertible preferred stock and outstanding classes of our common stock and the mandatory exercise of our outstanding warrants for a total of 91,016,520 shares of our common stock upon the completion of this offering;
- gives effect to a 525-for-one stock split of our common stock, in the form of a stock dividend, which will occur immediately prior to the closing of the offering; and
- reflects the filing, prior to the completion of this offering, of our restated certificate of incorporation, referred to in this prospectus as our certificate of incorporation, and the adoption of our amended and restated by-laws, referred to in this prospectus as our by-laws, implementing the provisions described under "Description of Capital Stock."

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.

Unaudited Summary and Historical Pro Forma As Adjusted 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 as adjusted 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 nine months ended September 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 nine month period ended September 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 nine months ended September 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 nine months ended September 30, 2003 are included elsewhere in this prospectus.

The summary unaudited pro forma as adjusted financial data for the nine months ended September 30, 2003 has been prepared to give pro forma effect to the Tempur acquisition, the recapitalization and the offering as if they had occurred on January 1, 2003. Because the balance sheet as of September 30, 2003 includes the effects of the recapitalization, no pro forma balance sheet data information with respect to the Tempur acquisition and the recapitalization is presented. The summary unaudited pro forma as adjusted 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, the recapitalization or the offering 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 As Adjusted Financial Information," "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.

($ in thousands except per share data)	Predecessor			Tempur-Pedic International	Predecessor	Tempur-Pedic International	
	Year ended December 31,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Nine Months ended September 30, 2002	Nine Months ended September 30, 2003	Pro forma As Adjusted Nine Months ended September 30, 2003(1)
	2000	2001			(unaudited)	(unaudited)	(unaudited)
Statement of Operations Data:							
Net sales	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 205,944	$ 342,359	$ 342,359
Cost of sales(2)	89,450	107,569	110,228	37,811	95,822	158,804	158,804
Gross profit	72,519	113,945	127,086	22,833	110,122	183,555	183,555
Operating expenses(3)	50,081	83,574	86,693	23,816	77,627	125,015	125,015
Operating income/(loss)	22,438	30,371	40,393	(983)	32,495	58,540	58,540
Net interest expense	2,225	6,555	6,292	2,955	5,713	13,741	18,180
Other (income)/expense	947	316	1,724	(1,330)	(652)	1,478	1,478
Income/(loss) before income taxes	19,266	23,500	32,377	(2,608)	27,434	43,321	38,882
Income taxes	6,688	11,643	12,436	640	12,493	17,332	15,601
Net income/(loss)	12,578	11,857	19,941	(3,248)	14,941	25,989	23,281
Preferred stock dividend	—	345	1,238	1,958	1,109	8,764	—
Net income/(loss) available to common stockholders	$ 12,578	$ 11,512	$ 18,703	$ (5,206)	$ 13,832	$ 17,225	$ 23,281
Earnings per share(4)							
Basic				$ (.67)		$ 2.13	$ .24
Diluted				$ (.67)		$ .28	$ .23
Weighted average shares (in thousands)							
Basic				7,815		8,091	95,689
Diluted				7,815		93,143	100,907
Balance Sheet Data (at end of period):							
Cash and cash equivalents	$ 10,572	$ 7,538	$ 6,380	$ 12,654	$ 5,518	$ 12,512	
Total assets	144,305	176,841	199,641	448,593	193,432	535,183	
Total debt	71,164	106,023	89,050	198,352	91,454	382,532	
Redeemable preferred stock	—	11,715	15,331	—	15,199	—	
Total stockholders' equity	38,237	16,694	39,895	151,606	34,746	25,523	
Other Financial and Operating Data (GAAP):							
Depreciation and amortization	$ 6,002	$ 10,051	$ 10,383	$ 3,306	$ 10,066	$ 14,437	$ 14,437
Net cash provided by operating activities	1,125	19,716	22,706	12,385	15,091	41,770	43,054
Net cash used in investing activities	(27,014)	(34,862)	(4,646)	(1,859)	(3,534)	(16,545)	(16,545)
Net cash (used in)/provided by financing activities	34,314	12,593	(19,702)	(4,221)	(13,330)	(24,808)	(10,928)
Capital expenditures	27,418	35,241	9,175	1,961	7,660	17,266	17,266
Other Financial and Operating Data (non-GAAP):							
Number of pillows sold(5)	1,717,476	1,819,993	1,528,608	407,476	1,354,331	2,199,223	2,199,223
Number of mattresses sold(5)	173,338	212,695	218,656	50,564	194,085	283,078	283,078

(1) The summary unaudited pro forma as adjusted financial data give effect to the recapitalization, the Tempur acquisition and the offering.

(2) Includes $9.8 million in non-cash charges for the two months ended December 31, 2002 relating to the step-up in inventory as of November 1, 2002 relating to the Tempur acquisition.

(3) Includes $19.3 million in non-cash charges for the nine months ended September 30, 2003 comprised of $13.6 million relating to the non-recurring write-off of deferred financing fees in connection with the recapitalization, $3.8 million in amortization of definite-lived intangibles and $1.9 million in non-cash stock-based compensation expense relating to stock option grants and acceleration.

(4) Predecessor company earnings per share has been omitted as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur acquisition.

(5) Number of units sold is before consideration of returned mattresses and pillows.

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 invest in shares of our common stock. 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 our significant competitors 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 $342.4 million for the nine months ended September 30, 2003. 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 make investments in 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;
- our ability to maintain public association of our brand with premium products, including overcoming any impact on our brand caused by some of our customers seeking to sell our products at a discount to our recommended price;
- the level of consumer acceptance of our products; and
- general economic conditions and consumer confidence, which affect discretionary spending levels for premium items such as our products.

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 impair our ability to service our indebtedness and make investments in our business.

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 nine months ended September 30, 2003, in the United States we had approximately $19.4 million in returns for a return rate of approximately 9.6% of our total net sales in the United States. 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. 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. However, our actual level of warranty claims could prove to be greater than the level of warranty claims we estimated based on our products' performance during product testing. If our warranty reserves are not adequate to cover future warranty claims, their inadequacy could have a material adverse effect on our liquidity and profitability if our warranty costs exceed 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 could impair our liquidity and profitability, and any claim or product recall that results in significant adverse publicity against us, could result in consumers purchasing fewer of our products, which would also impair our liquidity and profitability.

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.

Allegations of the possibility of price fixing in the mattress industry could increase our costs or otherwise adversely affect our operations.

Our retail pricing policies are subject to antitrust regulations. If federal or state regulators initiate investigations into our pricing policies, 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 federal, state or other antitrust laws, there could be an imposition of damages for persons injured, as well as injunctive relief. Any requirement that we pay fines or damages could decrease our liquidity and profitability, and any investigation that requires significant management attention or causes us to change our business practices could disrupt our operations, also resulting in a decrease in our liquidity and profitability.

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

Our business focuses on mattresses and pillows made with our visco-elastic foam, and we are vulnerable to shifting consumer tastes and demands. 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 arising 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 41.7% of our net sales from non-U.S. operations during the first nine 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 22.4% of our net sales for the nine months ended September 30, 2003. During this period, our largest customer, Brookstone Company, Inc., accounted for 7.9% 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 liquidity and profitability.

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 not reached by our wholly-owned subsidiaries. Most of these arrangements provide for exclusive rights for such distributors in a designated territory. If our third party distributors were to 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 could 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.

If we are not able to protect our trade secrets or maintain our trademarks, patents and other intellectual property, we may not be able to prevent competitors from developing similar products or from marketing in a manner that capitalizes on our trademarks, and this loss of a competitive advantage could decrease our profitability and liquidity.

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 10 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 86 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. Any loss of trademark protection could result in a decrease in sales or cause us to spend additional amounts on marketing, either of which could decrease our liquidity and profitability. In addition, if we incur significant costs defending our trademarks that could also decrease our liquidity and profitability. In addition, we may not have the financial resources necessary to enforce or defend our trademarks. Furthermore, our patents may not provide meaningful protection and patents may never be issued for our 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, this loss of a competitive advantage could result in decreased sales or increased operating costs, either of which would decrease our liquidity and profitability.

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. We currently acquire almost all of our polyol from one supplier. If we were unable to obtain polyol from this supplier, we would have to find a replacement supplier. Any substitute arrangements for polyol might not be on terms as favorable to us as our current terms. 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, which could result in a decrease of our sales, or could cause an increase in our cost of sales, and either of these results could decrease our liquidity and profitability. 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 be forced to source it elsewhere at a higher cost. To the extent we were unable to pass those higher costs to our customers, those costs could reduce our gross profit margin, which could result in a decrease in our liquidity and profitability.

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

Approximately 41.7% of our net sales were received or denominated in foreign currency for the nine months ended September 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. We have introduced new distribution programs to increase our ability to deliver products on a timely basis, but if we fail to deliver products on a timely basis, we may lose sales which could decrease our liquidity and profitability. 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 effect on our liquidity. In March 2003, we began construction of 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 $10.1 million through September 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 will be located in Albuquerque, New Mexico. This facility is currently expected to require capital expenditures of approximately $45.0 million and to be completed by the fourth quarter of 2006. 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.

A deterioration in labor relations could disrupt our business operations and increase our costs, which could decrease our liquidity and profitability.

As of September 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 our labor costs could decrease our liquidity and profitability, and any deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, employee turnover or otherwise, could result in a decrease in our net sales or an increase in our costs, either of which could decrease our liquidity and profitability.

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.

Our leverage limits our flexibility and increases our risk of default.

As of September 30, 2003, the book value of our long-term debt was $382.5 million, and our stockholders' equity was $25.5 million and as of September 30, 2003 on a pro forma basis after giving effect to this offering, the book value of our long-term debt would be $296.4 million and our stockholders' equity would be $111.6 million. Our high degree of leverage could have important consequences to you, such as:

- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete and increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to obtain in the future additional financing we may need to fund future working capital, capital expenditures, product development, acquisitions or other corporate requirements;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, which will reduce the availability of cash flow to fund working capital, capital expenditures, product development, acquisitions and other corporate requirements; and
- placing us at a competitive disadvantage compared to competitors who are less leveraged and have greater financial and other resources.

In addition, the instruments governing our debt contain financial and other restrictive covenants, which limit our operating flexibility and could prevent us from taking advantage of business opportunities. In addition, our failure to comply with these covenants may result in an event of default. If such event of default is not cured or waived, we may suffer adverse effects on our operations, business or financial condition, including acceleration of our debt.

Our ability to meet our debt obligations and to reduce our indebtedness will depend on our future performance, which depends partly on general economic conditions and financial, business, political and other factors that are beyond our control. We may not be able to continue to generate cash flow from operations at or above current levels and meet our cash interest payments on all of our debt and other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on the senior subordinated notes or our other debt, we may have to sell assets, seek additional capital or restructure or refinance our debt. We may not be able to pay or refinance our debt on acceptable terms or at all. Our ability to refinance all or a portion of our debt or to obtain additional financing is substantially limited under the terms of the indenture governing the senior subordinated notes and the amended senior credit facilities. Under the terms of our debt instruments, we and our subsidiaries may be able to incur substantial additional indebtedness in the future, which would exacerbate the risks associated with our substantial leverage.

If our business plans change or if general economic, financial or political conditions in any of our markets or competitive practices in our industry change materially from those currently prevailing or from those now anticipated, or if other presently unexpected circumstances arise that have a material effect on the cash flow or profitability of our business, the anticipated cash needs of our business as well as the conclusions as to the adequacy of the available sources could change significantly. Any of these events or circumstances could involve significant additional funding needs in excess of the identified currently available sources, and could require us to raise additional capital to meet those needs. However, our ability to raise additional capital, if necessary, is subject to a variety of additional factors, including the commercial success of our operations, the volatility and demand of the capital and lending markets and the future market prices of our securities.

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 Operations —Interest Rate Risk.”

Risks Related to this Offering

There may not be an active, liquid trading market for our common stock.

Prior to this offering, there has been no public market for our common stock. An active, liquid trading market for our common stock may not develop or be maintained following this offering. As a result, you may not be able to sell your shares of our common stock quickly or at the market price. The initial public offering price of our common stock was determined by negotiation between us and representatives of the underwriters based upon a number of factors and may not be indicative of prices that will prevail following the completion of this offering. The market price of our common stock may decline below the initial public offering price, and you may not be able to resell your shares of our common stock at or above the initial offering price.

Our stock price will likely be volatile, your investment could decline in value, and we may incur significant costs from class action litigation.

The trading price of our common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- actual or anticipated variations in our quarterly operating results, including those resulting from seasonal variations in our business;
- introductions or announcements of technological innovations or new products by us or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters, and our ability to patent our products and technologies;
- changes in our financial estimates by securities analysts;
- conditions or trends in the specialty bedding industry;
- additions or departures of key personnel;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- regulatory developments in the United States and abroad; and
- economic and political factors.

In addition, the stock market in general has experienced significant price and volume fluctuations that have often been unrelated or disproportionate to operating performance. These broad market factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in potential liabilities, substantial costs, and the diversion of our management's attention and resources, regardless of the outcome.

Future sales of our common stock may depress our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the closing of this offering, or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock. There will be 97,266,520 shares of our common stock outstanding immediately after this offering, based on the number of shares of our common stock outstanding as of November 15, 2003. All of the shares of our common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933, except for any shares of our common stock purchased by our executive officers, directors, principal stockholders, and some related parties. For more information, see "Shares Eligible for Future Sale."

Although substantially all our stockholders have agreed with our underwriters to be bound by a 180-day lock-up agreement that prohibits these holders from selling or transferring their stock, except in limited circumstances, the underwriters, at their discretion, can waive the restrictions of the lock-up agreement at an earlier time without prior notice or announcement and allow our stockholders to sell their shares of our common stock. If the restrictions of the lock-up agreement are waived, shares of our common stock will be available for sale into the market, subject only to applicable securities rules and regulations, which would likely reduce the market price for shares of our common stock.

After this offering, we intend to register 15,033,720 shares of our common stock that are reserved for issuance upon the exercise of options granted or reserved for grant under our 2002 Stock Option Plan, our 2003 Equity Incentive Plan and our 2003 Employee Stock Purchase Plan. Once we register these shares of our common stock, stockholders can sell them in the public market upon issuance, subject to restrictions under the securities laws and any applicable lock-up agreements. In addition, some of our existing stockholders will be entitled to register their shares of our common stock after this offering.

You will experience immediate and substantial dilution as a result of this offering and may experience additional dilution in the future.

If you purchase common stock in this offering, you will pay more for your shares than the amounts paid by existing stockholders for their shares. As a result, you will incur immediate and substantial dilution of $17.84 per share, representing the difference between our pro forma net tangible book value per share after giving effect to this offering and the initial public offering price. In addition, after giving effect to the $160.0 million return of capital paid to our equityholders in August 2003 as part of the recapitalization, purchasers of shares of our common stock in this offering will have contributed approximately 88.2% of the aggregate price paid by all purchasers of our stock, but will own only approximately 6.4% of the shares of our common stock outstanding after the offering based on the number of shares of our common stock and common stock equivalents outstanding as of November 15, 2003. In addition, if the holders of outstanding options and warrants exercise those options at prices below the initial public offering price, you will incur further dilution. We may also acquire other companies or technologies or finance strategic alliances by issuing equity, which may result in additional dilution to you.

Our current principal stockholders own a large percentage of our common stock and could limit you from influencing corporate decisions.

Immediately after this offering, our executive officers, directors, current principal stockholders, and their respective affiliates will beneficially own, in the aggregate, approximately 73.6% of our outstanding common stock. These stockholders, as a group, would be able to control substantially all matters requiring approval by our stockholders, including mergers, sales of assets, the election of all directors, and approval of other significant corporate transactions, in a manner with which you may not agree or that may not be in your best interest.

Provisions of Delaware law and our charter documents could delay or prevent an acquisition of us, even if the acquisition would be beneficial to you.

Provisions of Delaware law and our certificate of incorporation and by-laws could hamper a third party's acquisition of us, or discourage a third party from attempting to acquire control of us. You may not have the opportunity to participate in these transactions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

These provisions include:

- our ability to issue preferred stock with rights senior to those of the common stock without any further vote or action by the holders of our common stock;
- the requirements that our stockholders provide advance notice when nominating our directors; and
- the inability of our stockholders to convene a stockholders' meeting without the chairperson of the board, the president, or a majority of the board of directors first calling the meeting.

Our management will have broad discretion in the use of net proceeds from this offering and may not use those proceeds in ways that will enhance our market value.

As of the date of this prospectus, we cannot specify with certainty the amounts we will spend on particular uses from the net proceeds we will receive from this offering. Our management will have broad discretion in the application of the net proceeds but currently intends to use the net proceeds as described in "Use of Proceeds." If our management does not apply these funds effectively, we could lose significant business opportunities. Furthermore, our stock price could decline if the market does not view favorably our use of the proceeds from the offering.

We do not anticipate paying dividends on our capital stock in the foreseeable future.

In August 2003, in connection with the recapitalization, we paid approximately $160.0 million to our equityholders as a return of capital and we do not anticipate paying any dividends in the foreseeable future. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of the instruments governing our existing debt and any future debt or credit facility may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

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

Arthur Andersen LLP, independent auditors, have audited the consolidated financial statements of our predecessor company 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 have included these consolidated financial statements of our predecessor company 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements," which include information 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;
- risks arising from having a new senior management team;
- 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 any 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 stockholders;
- our ability to maintain our labor relations;
- our ability to rely on the services of our senior management team;
- risks arising from our degree of leverage; and
- increase in interest expense.

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. Except as may be required by law, 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

We estimate that the net proceeds from this offering with respect to the shares to be sold by us will be $91.5 million, based on an assumed initial public offering price of $16.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds of this offering to repay a portion of our outstanding indebtedness.

Our amended senior credit facilities consist of term loan A facilities, a term loan B facility and revolving credit facilities. The revolving credit facilities and the term loan A facilities will mature in 2008, and the term loan B facility will mature in 2009. 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 facilities and revolving credit facilities, respectively, or a Eurodollar rate on deposits for one, two, three or six-month periods, plus an applicable margin for the term loan facilities and revolving credit facilities, respectively. Borrowings under our amended senior credit facilities as of September 30, 2003 had a blended annual interest rate of 4.65%. Our senior subordinated notes bear interest at an annual rate of 10.25% and mature on August 15, 2010. Borrowings under the amended senior credit facilities and the net proceeds from the senior subordinated notes were used to fund the recapitalization in August 2003, refinance amounts borrowed to fund the acquisition of Tempur in 2002 and for working capital purposes.

The foregoing use of the net proceeds from this offering represents our current intentions based upon our present plans and business condition. We retain broad discretion in the allocation and use of the net proceeds of this offering, and a change in our plans or business condition could result in the application of the net proceeds from this offering in a manner other than as described in this prospectus. Pending the uses described above, we intend to invest the net proceeds from this offering in short-term, investment grade, interest-bearing securities.

DIVIDEND POLICY

In connection with the recapitalization, in August 2003 we distributed approximately $160.0 million to our equityholders as a return of capital. We currently intend to retain our future earnings, if any, to support the growth and development of our business, and we do not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, and other factors that our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2003, on an actual basis and on an as adjusted basis to give effect to the offering.

($ in millions)	As of September 30, 2003 Actual	As of September 30, 2003 As Adjusted
Cash and cash equivalents	$ 12.5	$ 12.5
Long-term debt (including current portion):		
Amended senior credit facilities(1)	$ 229.9	$ 196.3
Senior Subordinated Notes due 2010	150.0	97.5
Mortgage payable	2.1	2.1
Capital leases and other	0.5	0.5
Total long-term debt	382.5	296.4
Stockholders' equity:		
Series A convertible preferred stock	157.2	—
Class A common stock	—	—
Class B-1 common stock	—	—
Common stock	—	1.0
Additional paid in capital	20.8	270.8
Class B-1 common stock warrants	2.3	—
Deferred stock compensation, net of amortization	(0.1)	(0.1)
Unearned stock-based compensation	(11.3)	(11.3)
Retained earnings(2)	(148.0)	(153.4)
Accumulated other comprehensive income	4.6	4.6
Total stockholders' equity	25.5	111.6
Total capitalization	$ 408.0	$ 408.0

(1) Does not include outstanding revolving credit borrowings of approximately $11.5 million under our amended senior credit facilities as of November 30, 2003.

(2) In connection with our proposed redemption of our senior subordinated notes, we will be required to pay approximately $5.4 million in prepayment penalty to the holders of the senior subordinated notes.

Shares of common stock to be outstanding after the offering do not include 6,533,720 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of $1.87 per share as of September 30, 2003. None of these outstanding options were vested and exercisable as of September 30, 2003.

DILUTION

The historical net tangible book value of our common stock as of September 30, 2003 was a deficit of $(264.9) million, or $(2.91) per share. The historical net tangible book value per share of our common stock is the difference between our tangible assets and our liabilities, divided by the number of common shares outstanding. The pro forma net tangible book value of our common stock as of September 30, 2003 was a deficit of $(178.8) million, or $(1.84) per share. The pro forma net tangible book value per share of our common stock is the difference between our tangible assets and our liabilities, divided by the number of shares of our common stock outstanding as of September 30, 2003, after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all of our outstanding warrants into 91,016,520 shares of our common stock upon the completion of this offering. For new investors in our common stock, dilution is the per share difference between the initial public offering price of our common stock and the pro forma net tangible book value of our common stock immediately after completing this offering. Dilution in this case results from the fact that the per share offering price of our common stock is substantially in excess of the per share price paid by our current stockholders.

As of September 30, 2003, after giving effect to the sale of the shares of our common stock offered by us under this prospectus at an assumed initial public offering price of $16.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, the pro forma net tangible book value per share of our common stock would have been a deficit of $(1.84) per share. Therefore, the new investors in our common stock would have paid $16.00 for a share of common stock having a pro forma net tangible book value of a deficit of approximately $(1.84) per share after this offering. That is, their investment would have been diluted by approximately $17.84 per share. At the same time, our current stockholders would have realized an increase in pro forma net tangible book value of $1.07 per share after this offering without further cost or risk to themselves. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$16.00
Pro forma net tangible book value per share before this offering	$ (2.91)	
Increase in pro forma net tangible book value per share attributable to investors in this offering	$ 1.07	
Pro forma net tangible book value per share after this offering		$ (1.84)
Dilution per share to new investors		$17.84

The following table sets forth, as of September 30, 2003, on a pro forma basis to give effect to the conversion of all shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all of our outstanding warrants into 91,016,520 shares of common stock, the number of shares of common stock purchased in this offering, the total consideration paid, and the average price per share paid by existing and new stockholders, before deducting underwriting discounts and commissions and our estimated offering expenses:

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders(1)	91,016,520(2)	93.6%	$ 13.4	11.8%	$ .15
New investors	6,250,000	6.4	100.0	88.2	$ 16.00
Total	97,266,520	100.0%	$ 113.4	100.0%	$ 1.17

(1) Total consideration to existing stockholders reflects $160.0 million distributed to these existing stockholders as a return of capital.
(2) Excludes an aggregate of 6,533,720 shares of common stock issuable pursuant to stock options outstanding as of September 30, 2003 at an exercise price per share of $1.87.

UNAUDITED PRO FORMA AS ADJUSTED FINANCIAL INFORMATION

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

The recapitalization occurred in August 2003. Because the balance sheet as of September 30, 2003 included elsewhere in this prospectus includes the effects of the Tempur acquisition and recapitalization, no pro forma as adjusted balance sheet information is presented. The pro forma as adjusted condensed consolidated statements of operations for the nine months ended September 30, 2003 and the twelve months ended December 31, 2002 are adjusted to give effect to the Tempur acquisition, the recapitalization and the offering 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 as adjusted 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 as adjusted 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."

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

	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	Pro Forma Offering Adjustments	Pro Forma as Adjusted
($ in thousands, except per share data)							
Net sales	$ 237,314	$ 60,644	$ —	$ —	$ 297,958	$ —	$ 297,958
Cost of sales	110,228	37,811	(2,011)(a)	—	146,028	—	146,028
Operating expenses	86,693	23,816	7,605 (b)	—	118,114	—	118,114
Operating income/(loss)	40,393	(983)	(5,594)	—	33,816		33,816
Net interest (income)/expense	6,292	2,955	5,888 (c)	14,165(d)	29,300	(6,679)(e)	22,621
Other (income)/expense	1,724	(1,330)	—	—	394	—	394
Income/(loss) before income taxes	32,377	(2,608)	(11,482)	(14,165)	4,122	6,679	10,801
Income taxes	12,436	640	(4,478)(f)	(5,524)(f)	3,074	2,607 (f)	5,681
Net income/(loss)	$ 19,941	$ (3,248)	$ (7,004)	$ (8,641)	$ 1,048	$ 4,072	$ 5,120
Preferred stock dividend	1,238	1,958	—	—	3,196	(3,196)(g)	—
Net income/(loss) available to common stockholders	$ 18,703	$ (5,206)	$ (7,004)	$ (8,641)	$ (2,148)	$ 7,268	$ 5,120
Earnings per share							
Basic		$ (.67)			$ .01		$ .05
Diluted		$ (.67)			$ .01		$ .05
Weighted average shares (in thousands)							
Basic		7,815			95,689(h)		95,689(h)
Diluted		7,815			100,907(h)		100,907(h)

See accompanying Notes to Unaudited Pro Forma As Adjusted Financial Data

Unaudited Pro Forma As Adjusted Condensed Consolidated Statement of Income
for the Nine Months Ended September 30, 2003

($ in thousands, except per share data)	Historical Period from January 1, 2003 to September 30, 2003	Pro Forma Recapitalization Adjustments	Pro Forma	Pro Forma Offering Adjustments	Pro Forma as Adjusted
Net sales	$ 342,359	$ —	$ 342,359	$ —	$ 342,359
Cost of sales	158,804		158,804	—	158,804
Operating expenses	125,015	—	125,015	—	125,015
Operating income/(loss)	58,540		58,540	—	58,540
Net interest (income)/expense	13,741	9,316 (d)	23,057	(4,877)(e)	18,180
Other (income)/expense	1,478	—	1,478	—	1,478
Income/(loss) before income taxes	43,321	(9,316)	34,005	4,877	38,882
Income taxes	17,332	(3,633)(f)	13,699	1,902 (f)	15,601
Net income/(loss)	$ 25,989	$ (5,683)	$ 20,306	$ 2,975	$ 23,281
Preferred stock dividend	8,764	—	8,764	(8,764)(g)	—
Net income/(loss) available to common stockholders	$ 17,225	$ (5,683)	$ 11,542	$ 11,739	$ 23,281
Earnings per share					
Basic	$ 2.13		$ 1.43		$ .24
Diluted	$ .28		$ .22		$ .23
Weighted average shares (in thousands)					
Basic	8,091		8,091		95,689(h)
Diluted	93,143		93,143		100,907(h)

See accompanying Notes to Unaudited Pro Forma As Adjusted Financial Data

Notes to Unaudited Pro Forma As Adjusted 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
Estimated inventory step-up adjustment as if the Tempur acquisition occurred at the beginning of the respective period	$ 7,769
Actual Tempur acquisition step-up adjustment recorded as of November 1, 2002	9,780
	$ (2,011)

(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
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
Additional amortization expense of intangible assets resulting from the Tempur acquisition as if the Tempur acquisition occurred at the beginning of the respective period	7,301
	$ 7,605

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

	Twelve months Ended December 31, 2002
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
Additional debt issuance costs amortization as if the Tempur acquisition occurred at the beginning of the respective period	1,033
	$ 5,888

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 December 31, 2002 by approximately $0.7 million.

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

	Twelve months Ended December 31, 2002	Nine months Ended September 30, 2003
Additional interest expense as if the recapitalization occurred at the beginning of the respective period	$ 12,724	$ 8,382
Additional debt issuance costs amortization as if the recapitalization occurred at the beginning of the respective period, net of the elimination of amortization with respect to the mezzanine debt facility	1,441	934
	$ 14,165	$ 9,316

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 nine months ended September 30, 2003 and the twelve months ended December 31, 2002 by approximately $0.8 million and $2.0 million, respectively.

(e) Represents reduction of interest expense due to the prepayment of debt from the proceeds of this offering, net of additional amortization of deferred financing costs.

	Twelve months Ended December 31, 2002	Nine months Ended September 30, 2003
Reduction of interest expense due to prepayment of debt	$ (6,988)	$ (5,226)
Additional amortization of deferred financing cost	309	349
	$ (6,679)	$ (4,877)

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

(g) Represents elimination of preferred stock dividend as preferred stock will convert to common stock following this offering.

(h) Pro forma earnings per share is based on the weighted average number of shares of common stock outstanding after giving effect to the offering, the automatic conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of our outstanding warrants into shares of our common stock upon completion of the offering and the 525-for-one stock split granted in the form of a stock dividend.

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 United States 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 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 statements 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 nine month period ended September 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 nine month period ended September 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 nine months ended September 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 nine months ended September 30, 2003 are included elsewhere in this prospectus.

($ in thousands, except per share data)	Pre-Predecessor			Predecessor			Tempur-Pedic International	Predecessor	Tempur-Pedic International
	Year ended April 30,		8 Months ended December 31,	Year ended December 31,		Period from January 1, 2002 to October 31,	Period from November 1, 2002 to December 31,	Nine Months ended September 30,	Nine Months ended September 30,
	1998	1999	1999	2000	2001	2002	2002	2002	2003
								(unaudited)	(unaudited)
Statement of Operations Data:									
Net sales	$ 58,800	$ 85,245	$ 73,635	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 205,944	$ 342,359
Cost of sales(1)	37,932	55,500	45,755	89,450	107,569	110,228	37,811	95,822	158,804
Gross profit	20,868	29,745	27,880	72,519	113,945	127,086	22,833	110,122	183,555
Operating expenses(2)	10,795	21,678	16,410	50,081	83,574	86,693	23,816	77,627	125,015
Operating income/(loss)	10,073	8,067	11,470	22,438	30,371	40,393	(983)	32,495	58,540
Net interest expense	482	976	997	2,225	6,555	6,292	2,955	5,713	13,741
Other (income)/expense	(1,337)	(10)	793	947	316	1,724	(1,330)	(652)	1,478
Income/(loss) before income taxes	10,928	7,101	9,680	19,266	23,500	32,377	(2,608)	27,434	43,321
Income taxes	4,821	2,821	3,851	6,688	11,643	12,436	640	12,493	17,332
Net income/(loss)	6,107	4,280	5,829	12,578	11,857	19,941	(3,248)	14,941	25,989
Preferred stock dividend	—	—	—	—	345	1,238	1,958	1,109	8,764
Net income/(loss) available to common stockholders	$ 6,107	$ 4,280	$ 5,829	$ 12,578	$ 11,512	$ 18,703	$ (5,206)	$ 13,832	$ 17,225
Earnings per share(3)									
Basic							$ (.67)		$ 2.13
Diluted							$ (.67)		$ .28
Weighted average shares (in thousands)									
Basic							7,815		8,091
Diluted							7,815		93,143
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	$ 5,518	$ 12,512
Total assets	34,520	49,276	66,404	144,305	176,841	199,641	448,593	193,432	535,183
Total debt	6,496	8,637	19,508	71,164	106,023	89,050	198,352	91,454	382,532
Redeemable preferred stock	—	—	—	—	11,715	15,331	—	15,199	—
Total stockholders' equity	9,495	12,862	14,424	38,237	16,694	39,895	151,606	34,746	25,523
Other Financial and Operating Data (GAAP):									
Depreciation and amortization				$ 6,002	$ 10,051	$ 10,383	$ 3,306	$ 10,066	$ 14,437
Net cash provided by operating activities				1,125	19,716	22,706	12,385	15,091	41,770
Net cash used in investing activities				(27,014)	(34,862)	(4,646)	(1,859)	(3,534)	(16,545)
Net cash (used in)/provided by financing activities				34,314	12,593	(19,702)	(4,221)	(13,330)	(24,808)
Capital expenditures				27,418	35,241	9,175	1,961	7,660	17,266
Other Financial and Operating Data (non-GAAP):									
Number of pillows sold(4)				1,717,476	1,819,993	1,528,608	407,476	1,354,331	2,199,223
Number of mattresses sold(4)				173,338	212,695	218,656	50,564	194,085	283,078

(1) Includes $9.8 million in non-cash charges for the two months ended December 31, 2002 relating to the step-up in inventory as of November 1, 2002 relating to the Tempur acquisition.

(2) Includes $19.3 million in non-cash charges for the nine months ended September 30, 2003 comprised of $13.6 million relating to the non-recurring write-off of deferred financing fees in connection with the recapitalization, $3.8 million in amortization of definite-lived intangibles and $1.9 million in non-cash stock-based compensation expense relating to stock option grants and acceleration.

(3) Pre-predecessor company and predecessor company earnings per share have been omitted as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur acquisition.

(4) Number of units sold is before the consideration of returned mattresses and pillows.

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. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for Tempur-Pedic International 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 grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 million.

Tempur-Pedic International 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 our "predecessor company." For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "our," "ours" and "us" refer to Tempur-Pedic International and its consolidated subsidiaries for the period from and after November 1, 2002 and refer to our predecessor company 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 September 30, 2003 was $3.8 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 $264.2 million as of September 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, Tempur-Pedic International 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, Tempur-Pedic International

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 September 30, 2003 were approximately $68.4 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 Tempur-Pedic International or a United States subsidiary, or if Tempur-Pedic International should sell its stock in the subsidiaries.

Stock-Based Compensation.

We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Several companies recently elected to change their accounting policies and record the fair value of options as an expense. We currently are not required to record stock-based compensation charges if the employee stock option exercise price or restricted stock purchase price equals or exceeds the deemed fair value of our common stock at the grant date. Because no market for our common stock existed prior to this offering, our board of directors determines the fair value of our common stock based upon several factors, including our operating performance, forecasted future operating results, the terms of redeemable or convertible preferred stock issued by us, including the liquidation value and other preferences of our preferred stockholders and our expected valuation in an initial public offering.

In addition, we understand that discussions of potential changes to APB 25 and SFAS 123 standards are ongoing and the parties responsible for authoritative guidance in this area may require changes to the applicable accounting standards. If we had estimated the fair value of the options on the date of grant using a minimum value pricing model and then amortized this estimated fair value over the vesting period of the options, our net income (loss) would have been adversely affected.

In connection with stock option grants to certain employees, we recorded non-cash stock-based compensation expense during 2003 in the amount of approximately $1.9 million. The Company has recorded unearned non-cash stock-based compensation of $11.3 million as of September 30, 2003. The unearned non-cash stock-based compensation will be amortized to compensation expense over the respective vesting term, based on the "graded vesting" methodology.

Results of Operations

The results of operations include the effect of the 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.

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,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Pro forma as Adjusted Twelve Months Ended December 31, 2002	Nine Months ended September 30,	
	2000	2001				2002	2003
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.2	48.6	46.5	62.4	49.0	46.5	46.4
Gross profit	44.8	51.4	53.5	37.6	51.0	53.5	53.6
Selling expenses	18.3	23.5	25.1	25.3	25.1	25.2	22.0
General and administrative and other	12.6	14.2	11.4	14.0	12.5	12.5	14.5
Operating income	13.9	13.7	17.0	(1.7)	13.4	15.8	17.1
Interest expense, net	1.4	3.0	2.7	5.0	7.6	2.8	4.0
Other expense, net	0.6	0.1	0.7	(2.4)	0.1	(0.3)	0.4
Income before income taxes	11.9	10.6	13.6	(4.3)	5.7	13.3	12.7
Income tax provision	4.1	5.2	5.2	1.0	2.7	6.1	5.1
Net income	7.8%	5.4%	8.4%	(5.3)%	3.0%	7.2%	7.6%

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,		Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Pro forma as Adjusted Twelve Months Ended December 31, 2002	Nine months ended September 30,	
	2000	2001				2002	2003
($ in millions)							
Retail	$77.8	$116.9	$ 141.7	$ 36.0	$ 177.7	$123.2	$217.5
Direct	31.1	47.6	46.4	12.4	58.8	38.6	63.7
Healthcare	33.1	33.5	32.8	8.4	41.2	29.1	31.9
Third Party	20.0	23.5	16.5	3.8	20.3	15.2	29.3
Domestic	$74.1	$113.2	$ 131.3	$ 33.8	$ 165.3	$114.0	$199.7
International	87.9	108.3	106.1	26.8	132.7	91.9	142.7

Nine Months Ended September 30, 2003 Compared With Nine Months Ended September 30, 2002

Net Sales. Net sales for the nine months ended September 30, 2003 were $342.4 million as compared to $205.9 million for the nine months ended September 30, 2002, an increase of $136.5 million, or 66.3%. The increase in net sales was attributable to growth in our Domestic net sales to $199.7 million for the nine months ended September 30, 2003 as compared to $114.0 million for the nine months ended September 30, 2002, an increase of $85.7 million, or 75.2%, and an increase in our International net sales to $142.7 million for the nine months ended September 30, 2003 as compared to $91.9 million for the nine months ended September 30, 2002,

an increase of $50.8 million, or 55.3%. The growth in our Domestic net sales was attributable primarily to an increase in net sales in our retail channel of $60.4 million and in the direct channel of $24.1 million, and the growth in our International net sales was attributable primarily to growth in the retail channel of $34.1 million. During the second quarter 2002, we introduced a new mattress, the Deluxe Mattress, which represented $23.2 million, or 11.6%, of Domestic net sales for the nine months ended September 30, 2003, and a new pillow, the Comfort Pillow, which represented $6.0 million, or 3.0%, of Domestic net sales for the nine months ended September 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 $158.8 million for the nine months ended September 30, 2003 as compared to $95.8 million for the nine months ended September 30, 2002, an increase of $63.0 million, or 65.8%, although cost of sales decreased as a percentage of net sales from 46.5% in the nine months ended September 30, 2002 to 46.4% in the nine months ended September 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 $104.7 million for the nine months ended September 30, 2003 as compared to $56.4 million for the nine months ended September 30, 2002, an increase of $48.3 million, or 85.6%. Our International cost of sales increased to $48.8 million for the nine months ended September 30, 2003 as compared to $39.4 million for the nine months ended September 30, 2002, an increase of $9.4 million, or 23.9%, excluding eliminations for sales from the International segment to the Domestic segment.

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, including market research and testing for new products. Selling expenses increased to $75.2 million for the nine months ended September 30, 2003 as compared to $51.9 million for the nine months ended September 30, 2002, an increase of $23.3 million, or 44.9%, but decreased as a percentage of net sales to 22.0% during the nine months ended September 30, 2003 from 25.2% for the nine months ended September 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 $217.4 million for the nine months ended September 30, 2003 as compared to $123.2 million for the nine months ended September 30, 2002, an increase of $94.2 million or 76.5%. This increase was due primarily to an increase in net sales in our retail channel, as a percentage of total net sales, to 63.5% of total net sales for the nine months ended September 30, 2003 as compared to 59.7% of total net sales for the nine months ended September 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 are 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 $49.8 million for the nine months ended September 30, 2003 as compared to $25.8 million for the nine months ended September 30, 2002, an increase of $24.0 million, or 93.0%. Included in general and administrative and other expenses are expenses totaling $13.6 million relating to the write off of deferred financing fees, original issue discount and prepayment penalties relating to our recapitalization in August 2003, expenses totaling $3.8 million in amortization of definite-lived intangibles and expenses totaling $1.9 million relating to stock option grants and accelerations. The Company has recorded unearned non-cash stock-based compensation of $11.3 million as of September 30, 2003. The unearned non-cash stock-based compensation will be amortized to compensation expense over the respective vesting term, based on the “graded vesting” methodology. Excluding the expenses related to the recapitalization, general and administrative and other expenses increased as a percentage of net sales to 13.4% during the nine

months ended September 30, 2003 from 12.5% for the nine months ended September 30, 2002. The increase, excluding the expenses associated with the recapitalization, was due to additional spending on corporate overhead expenses, including information technology and professional services. The decrease, excluding the expenses associated with the recapitalization, 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 $13.7 million for the nine months ended September 30, 2003 as compared to $5.7 million for the nine months ended September 30, 2002, an increase of $8.0 million. This increase was due to higher average debt levels and the incurrence of additional debt from the recapitalization in August 2003. 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 nine months ended September 30, 2003 and September 30, 2002 was approximately 40.0% and 45.5%, respectively. Our effective tax rate between the nine month periods has decreased principally as a result of decreasing foreign net operating losses, which are fully reserved, and a decrease in foreign income taxable in the U.S. ("Subpart F") income.

Unaudited Pro forma as Adjusted for the Twelve Months Ended December 31, 2002 Compared With Year Ended December 31, 2001

The following unaudited pro forma as adjusted data for the twelve months ended December 31, 2002 ("pro forma twelve months ended December 31, 2002") are based on the historical financial statements for our predecessor for the ten months ended October 31, 2002 and Tempur-Pedic International for the two months ended December 31, 2002. The pro forma 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 period presented.

For the predecessor ten months ended October 31, 2002, our net sales were $237.3 million and cost of sales was $110.2 million. Our selling expenses were $59.6 million and general and administrative and other expenses were $27.1 million. Interest expense, net was $6.3 million and the income tax provision was $12.4 million.

For the successor two months ended December 31, 2002 our net sales were $60.6 million and cost of sales was $37.8 million. Our selling expenses were $15.3 million and general and administrative and other expenses were $8.5 million. Interest expense, net was $3.0 million and the income tax provision was $0.6 million.

Net Sales. Net sales were $298.0 million for pro forma twelve months ended December 31, 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 pro forma twelve months ended December 31, 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 pro forma twelve months ended December 31, 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 due primarily to an increase in net sales in Japan, consisting primarily of pillows, of 51.2% for pro forma twelve months ended December 31, 2002, partially offset by the general economic slowdown in Europe over the year ended December 31, 2001.

Cost of Sales. Cost of sales increased to $146.0 million for pro forma twelve months ended December 31, 2002 as compared to $107.6 million for the year ended December 31, 2001, an increase of $38.4 million, or 35.7%. The increase was 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 49.0% for pro forma twelve months ended December 31, 2002 as compared to 48.6% for the year ended December 31, 2001, due primarily to the pro forma inventory step-up of $7.8 million and 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 pro forma twelve months ended December 31, 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 pro forma twelve months ended December 31, 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 $37.1 million for pro forma twelve months ended December 31, 2002 as compared to $31.5 million for the year ended December 31, 2001, an increase of $5.6 million, or 17.8%, but decreased as a percentage of net sales to 12.5% for pro forma twelve months ended December 31, 2002 as compared to 14.2% for the year ended December 31, 2001. The increase was due primarily to additional spending on corporate overhead expenses of $0.2 million, including information technology and professional services and an increase in the pro forma depreciation and amortization of property, plant and equipment and intangible assets of $1.6 million.

Interest Expense, Net. Interest expense, net increased to $22.6 million for pro forma twelve months ended December 31, 2002 as compared to $6.6 million for the year ended December 31, 2001, an increase of $16.0 million, or 242.4%. This increase was due to higher average pro forma debt levels as a result of the Tempur acquisition and the recapitalization during the period.

Income Tax Provision. The effective income tax rates in 2003 and pro forma twelve months ended December 31, 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. The effective tax rate for pro forma twelve months ended December 31, 2002 was approximately 52.6% compared to approximately 49.4% in 2001. This higher effective tax rate for pro forma twelve months ended December 31, 2002 compared to 2001 was primarily due to increased pro forma interest expense and partially offset by 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 $89.5 million for the year ended December 31, 2000, an increase of $18.1 million, or 20.2%, 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 stockholders. 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 September 30, 2003, we had working capital of $39.5 million including cash and cash equivalents of $12.5 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 $0.2 million increase in cash and cash equivalents was primarily related to net income for the nine month period ended September 30, 2003 of $26.0 million and an increase in the change in income taxes payments of $10.7 million offset by investments in property, plant and equipment of $17.2 million and cash used in financing activities of $24.8 million. The $8.2 million increase in working capital was driven primarily by an increase in accounts receivable and inventory offset by an increase in income taxes payable, accounts payable and accrued expenses.

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 pro forma twelve months ended December 31, 2002 and $17.3 million for the nine months ended September 30, 2003. We expect 2003 capital expenditures to be approximately $25.4 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. Through September 30, 2003 we have spent approximately $10.1 million in connection with the expansion of our United States manufacturing facility. 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. On August 15, 2003, in connection with the recapitalization, we amended and restated our senior secured credit facility, with a syndicate of United States and European lenders. The facility was increased from $170.0 million to a total of $270.0 million of senior secured U.S. and European term loans and revolving credit facilities. The amended senior facility consists of a (i) $20.0 million U.S. revolving credit facility; (ii) $30.0 million U.S. term loan A; (iii) $135.0 million U.S. term loan B (the U.S. revolving credit facility, term loan A and term loan B are collectively referred to as the "US Facility"); (iv) $20.0 million European revolving credit facility; and (v) $65.0 million European term loan A (the European revolving credit facility and term loan A are collectively referred to as the "European Facility"). The U.S. and European revolving credit facilities provide for the issuance of letters of credit to support local operations. At September 30, 2003, we had approximately $33.7 million available under our United States and European revolving credit facilities. Our net weighted-average borrowing cost was 6.9% for pro forma twelve months ended December 31, 2002 and 6.2% for the year ended December 31, 2001, and 6.9% and 5.7% for the nine months ended September 30, 2003 and September 30, 2002, respectively.

Our cash flow from operations increased to $35.1 million for pro forma twelve months ended December 31, 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 $41.8 million for the nine months ended September 30, 2003 as compared to $15.1 million for the nine months ended September 30, 2002, an increase of $26.7 million, or 176.8%. 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 pro forma twelve months ended December 31, 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 pro forma twelve months ended December 31, 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 the nine month period ended September 30, 2003 were $17.3 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 pro forma twelve months ended December 31, 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 $24.8 million for the nine months ended September 30, 2003 as compared to $13.3 million for the nine months ended September 30, 2002, an increase of $11.5 million or 86.5%. 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 $10.1 million in capital expenditures related to this expansion through September 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 will be located in Albuquerque, New Mexico. 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 $230.0 million in borrowing 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, Tempur-Pedic International's indirect, wholly-owned subsidiaries, Tempur-Pedic, Inc. and Tempur Production USA, Inc., issued senior subordinated notes in the aggregate principal amount of $150.0 million. Those notes will mature on August 15, 2010.

Tempur-Pedic, Inc. and Tempur Production USA, Inc. are permitted to redeem some or all of the senior subordinated notes at any time after August 15, 2007 at specified redemption prices.

If Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International or any of Tempur-Pedic International's other restricted subsidiaries sell certain assets or experience specific kinds of changes of control, Tempur-Pedic, Inc. and Tempur Production USA, Inc. must offer to repurchase the senior subordinated 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 senior subordinated notes contains certain negative and affirmative covenants and requirements affecting us and our subsidiaries that we create or acquire. Subject to certain important exceptions and qualifications set forth in the indenture, these covenants limit the ability of Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International 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.

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. As of September 30, 2003, we had approximately $382.5 million of indebtedness outstanding, excluding letters of credit. In addition, as of September 30, 2003, we had

stockholders' equity of approximately $25.5 million. Our significant debt service obligations following the recapitalization could, under certain circumstances, have material consequences to our security holders, including holders of the senior subordinated 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 $26.0 million annually. The scheduled installments for principal payments on our term loans under our amended senior credit facilities (as currently in effect) total to $3.0 million in 2003, $11.9 million in 2004, $15.4 million in 2005, $15.4 million in 2006, $22.4 million in 2007 and $159.0 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 senior subordinated 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 under the senior credit facilities then in effect. We were not in compliance with certain non-financial covenants as of September 30, 2003 but obtained waivers from our lenders under our amended senior credit facilities.

Contractual Obligations

Our contractual obligations and other commercial commitments as of September 30, 2003 are summarized below:

Contractual Obligations	2003	2004	2005	2006	2007	2008	After 2008	Total Obligations
($ in millions)								
Long-term Debt	$ 3.5	$ 12.3	$ 15.8	$ 15.8	$ 22.9	$ 32.1	280.1	$ 382.5
Operating Leases	1.0	2.8	2.3	1.8	1.7	1.6	1.1	12.3
Total	$ 4.5	$ 15.1	$ 18.1	$ 17.6	$ 24.6	$ 33.7	281.2	$ 394.8

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 ARB No. 51" (FIN 46). FIN 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. On October 10, 2003, the FASB issued Staff Position (FSP) FIN 46-6, "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities" (the FSP). The FSP defers the effective date of FIN 46 for VIEs created or acquired prior to February 1, 2003 until the end of fiscal periods ending after December 15, 2003. Although we do not expect FIN 46 to have a material impact on our consolidated financial statements, we are continuing to evaluate our interest in other entities in accordance with this complex interpretation.

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 15, 2003 (with a few exceptions) and for hedging relationships designated after June 15, 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. We do not believe that the adoption of SFAS 150 will 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 the exchange rate of the United States Dollar to foreign currency at September 30, 2003 increased by 10%, we would incur losses of approximately $0.6 million on foreign currency forward contracts outstanding at September 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. On September 30, 2003, we had variable rate debt of approximately $230.0 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 $1.3 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 $0.0 million at September 30, 2003, which is recorded as follows:

($ in millions)	December 31, 2001	December 31, 2002	September 30, 2003
Foreign exchange receivable	$ 0.1	$ —	$ —
Foreign exchange payable	—	(2.0)	(0.2)
Interest rate caps	—	—	0.2
Total	$ 0.1	$ (2.0)	$ 0.0

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 grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 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 41.7% 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, although sales decreased during the 2000 to 2002 period. 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. Based on information derived from an ISPA report, we believe that 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 collective 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 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 20.2% compound annual growth rate). 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 our premium products will continue to attract sales away from the standard mattress market.

Competitive Strengths

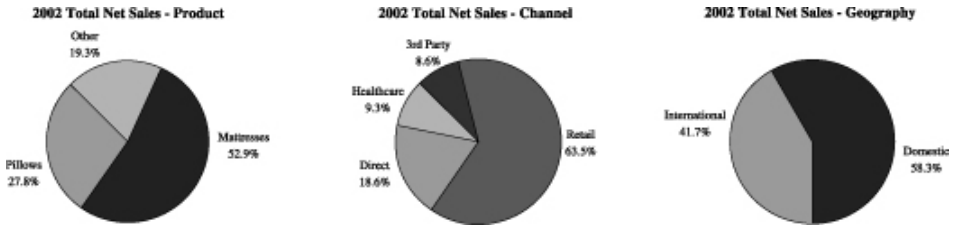
We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

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 we believe its global recognition 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.

Diversified Product Offerings Sold Globally Through Multiple Distribution Channels. Our diversified product offerings include mattresses, pillows and other products, primarily adjustable beds, which we sell through multiple distribution channels including retail, direct, healthcare and third party distributor channels. For the nine months ended September 30, 2003, mattress, pillow and other product sales, primarily adjustable beds, represented 52.9%, 27.8% and 19.3%, respectively, of our total net sales. For the nine months ended September 30, 2003, our retail channel represented 63.5% of total net sales, with our direct, healthcare and third party distributor channels representing 18.6%, 9.3% and 8.6%, respectively. Domestic and International operations generated 58.3% and 41.7%, respectively, of net sales for the nine months ended September 30, 2003.



Strong Financial Performance. Over the last several years, our highly-diversified, well-balanced business model has enabled us to achieve rapidly growing revenues and strong gross and operating margins, with low maintenance capital expenditure and working capital requirements. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which we believe is more than 1.5 times the average for three of the major bedding manufacturers in the United States. For the nine months ended September 30, 2003, our gross margin exceeded 53.6% on net sales of $342.4 million. Our strong financial performance gives us the flexibility to invest in our manufacturing operations, enhance our sales force and marketing, invest in information systems and recruit talented management and other personnel.

Significant Growth Opportunities. We believe we have significant growth opportunities because 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 a collective bed count in excess of 2.7 million). 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 $342.4 million in total net sales for the nine months ended September 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 pro forma 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 for the pro forma twelve months ended December 31, 2002;
- expanded our market share in the premium segment of the global mattress industry;
- 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 13% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options (11.9% after this offering).

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 (40.3% compound annual growth rate) and pillows (20.2% 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.

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 international sales growth 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.

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.	62%	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.	30%	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 pillows.

In order to increase productivity and expand our manufacturing capacity, we plan to develop and construct a third manufacturing facility which will be located in Albuquerque, New Mexico.

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 2004. 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 United States 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

We are involved in various 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

Tempur-Pedic International Inc.'s executive officers and directors and their ages as of November 15, 2003 are as follows:

Name	Age	Position
Robert B. Trussell, Jr.	52	President, Chief Executive Officer and Director
H. Thomas Bryant	56	Executive Vice President and President of North American Operations
David Montgomery	43	Executive Vice President and President of International Operations
Dale E. Williams	40	Senior Vice President, Chief Financial Officer, Secretary and Treasurer
David C. Fogg	44	Senior Vice President of Tempur-Pedic International and President of Tempur-Pedic, Inc. Retail Division
Jeffrey B. Johnson	38	Vice President, Corporate Controller, Chief Accounting Officer and Assistant Secretary
P. Andrews McLane	56	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 Tempur-Pedic International and a member of Tempur-Pedic International's board of directors. He has served in these capacities at Tempur-Pedic International or its predecessor since 2000. From 1992 to 2000, Mr. Trussell served as President of Tempur-Pedic, Inc., one of the predecessors to Tempur-Pedic International. Prior to joining Tempur-Pedic International, 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 Tempur-Pedic International 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 Tempur-Pedic International 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 Tempur-Pedic International 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 a 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 Tempur-Pedic International 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 Tempur-Pedic International 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 Tempur-Pedic International's board of directors since November 2002. Mr. McLane joined TA Associates, Inc., a private equity firm, which is one of our controlling stockholders, 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 buyouts and leveraged 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 Tuck School of Business at Dartmouth in 1973 with an M.B.A. degree.

Jeffrey S. Barber has served as a member of Tempur-Pedic International's 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 stockholders, where he has been employed since 2001. Mr. Barber's activity at TA Associates centers on buyouts and leveraged recapitalizations of companies in the consumer, financial services and business services sectors. Prior to joining TA Associates, Mr. Barber was employed as an Associate both 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 to 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 Sigma Scholar, from Columbia University.

Tully M. Friedman has served as a member of Tempur-Pedic International's board of directors since November 2002. Mr. Friedman is Chairman and Chief Executive Officer of Friedman Fleischer & Lowe, LLC, a private equity firm he co-founded in 1997, which is one of our controlling stockholders. 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 Inc., The Clorox Company and Mattel, Inc. 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 Tempur-Pedic International's 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 stockholders. 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 Tempur-Pedic International's 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 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.

Board Committees

Upon completion of this offering, our board of directors will have three standing committees to assist it with its responsibilities. These committees are described below.

Compensation Committee

After this offering, our board of directors will have a compensation committee consisting initially of three directors, who are Messrs. Doyle, McLane and Friedman. The composition of the compensation committee will satisfy the independence requirements of the New York Stock Exchange, including its transitional rules. Our compensation committee reviews the salaries and other compensation of our executive officers, including equity-based compensation, and makes recommendations to our board of directors. In addition, the compensation committee reviews and administers our incentive compensation and other stock-based plans.

Audit Committee

After this offering, our board of directors will have an audit committee consisting initially of three directors, who are Messrs. Barber, Doyle and Masto. The composition of the audit committee will satisfy the independence and other requirements of the New York Stock Exchange, including its transitional rules, and the Securities and Exchange Commission. Each member of the audit committee will be financially literate at the time such director is appointed. In addition, our board of directors has determined that Mr. Doyle is an audit committee financial expert within the meaning of Item 401(h) of Regulation S-K of the Securities Act. Our audit committee makes recommendations to our board of directors regarding the selection of our independent auditors and reviews the professional services provided by our independent auditors, the independence of our auditors, the professional fees payable to our auditors, our annual financial statements, and our system of internal accounting procedures and controls.

Nominating and Governance Committee

After this offering, our board of directors will have a nominating and governance committee initially consisting of three directors, who are Messrs. Doyle, McLane and Friedman. The composition of the nominating and governance committee will satisfy the independence requirements of the New York Stock Exchange, including its transitional rules.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our board of directors or compensation committee. Prior to the formation of the compensation committee, the board of directors as a whole made decisions relating to compensation of our executive officers.

Compensation of Executive Officers

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to Tempur-Pedic International 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	$ 282,500	$ 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	$ 166,700	$ 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	$ 213,300	$ 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	$ 241,100	$ 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.	0/1,732,500	28.4%	$ 1.52	11/01/2012	$ 1,662,007	$ 6,842,419
Jeffrey P. Heath	0/619,500	10.6%	1.52	11/01/2012	594,293	2,446,702
H. Thomas Bryant	0/892,500	14.6%	1.52	11/01/2012	856,185	3,524,896
David C. Fogg	0/842,100	13.8%	1.52	11/01/2012	807,836	3,325,829
Jeffrey B. Johnson	0/84,000	1.4%	1.52	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 FISCAL YEAR-END OPTION/SAR VALUES

Name	Number of Securities Underlying Unexercised Options/SARS at Fiscal Year-End(#) Exercisable/Unexercisable(a)
Robert B. Trussell, Jr.	0/1,732,500
Jeffrey P. Heath	0/619,500
H. Thomas Bryant	0/892,500
David C. Fogg	0/842,100
Jeffrey B. Johnson	0/84,000

(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 stockholders 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 common stock attributable to the exercise of options, together with the number of shares issuable upon the exercise of outstanding options, shall not exceed 9,907,349 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 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.

In connection with the adoption of our 2003 Equity Incentive Plan, described below, the Board of Directors will amend the 2002 Stock Option Plan to provide that no additional options will be issued under that plan.

2003 Equity Incentive Plan

Upon completion of the offering, a new incentive compensation plan will go into effect, which we refer to in this prospectus as the 2003 Equity Incentive Plan. The 2003 Equity Incentive Plan will be administered by the compensation committee of our board of directors, which committee has the exclusive authority, including the power to determine eligibility to receive awards, the types and number of shares of stock subject to the awards, the price and timing of awards and the acceleration or waiver of any vesting, and performance of forfeiture restriction. The compensation committee, however, does not have the authority to waive any performance restrictions for performance-based awards. As used in this prospectus, the term "administrator" means the compensation committee.

Participants. Any of our employees, our non-employee directors, consultants and advisors to us, as determined by the compensation committee may be selected to participate in the 2003 Equity Incentive Plan. We may award these individuals with one or more of the following:

- stock options;
- stock appreciation rights;
- restricted stock and stock unit awards;
- performance shares;
- stock grants; and
- performance-based awards.

Stock options. Stock options may be granted under the 2003 Equity Incentive Plan, including incentive stock options, as defined under Section 422 of the Internal Revenue Code, as amended (Code), and nonqualified stock options. The option exercise price of all stock options granted under the 2003 Equity Incentive Plan will be determined by the administrator, except that any incentive stock option or any option intended to qualify as performance-based compensation under Code Section 162(m) will not be granted at a price that is less than 100% of the fair market value of the stock on the date of grant. Stock options may be exercised as determined by the administrator, but in no event after the tenth anniversary date of grant.

Upon the exercise of a stock option, the purchase price must be paid in full in either cash or its equivalent. The administrator may also allow payment by tendering previously acquired shares of our common stock with a fair market value at the time of exercise equal to the exercise price, provided such shares have been held for at least six months prior to tender and broker-assisted cashless exercises and may authorize loans for the purpose of exercise as permitted under applicable law.

Stock appreciation rights (SAR). SAR entitle a participant to receive a payment equal in value to the difference between the fair market value of a share of stock on the date of exercise of the SAR over the grant price of the SAR. The administrator may pay that amount cash, in shares of our common stock, or a combination. The terms, methods of exercise, methods of settlement, form of consideration payable in settlement, and any other terms and conditions of any SAR will be determined by the administrator at the time of the grant of award and will be reflected in the award agreement.

Restricted Stock and Stock Units. A restricted stock award or restricted stock unit award is the grant of shares of our common stock either currently (in the case of restricted stock) or at a future date (in the case of restricted stock units) at a price determined by the administrator (including zero), that is nontransferable and is subject to substantial risk of forfeiture until specific conditions or goals are met. Conditions may be based on

continuing employment or achieving performance goals. During the period of restriction, participants holding shares of restricted stock may, if permitted by the administrator, have full voting and dividend rights with respect to such shares. The restrictions will lapse in accordance with a schedule or other conditions determined by the administrator.

Performance shares. A performance share award is a contingent right to receive pre-determined shares of our common stock if certain performance goals are met. The value of performance units will depend on the degree to which the specified performance goals are achieved but are generally based on the value of our common stock. The administrator may, in its discretion, pay earned performance shares in cash, or stock, or a combination of both.

Stock Grants. A stock grant is an award of shares of common stock within restriction. Stock grants may only be made in limited circumstances, such as in lieu of other earned compensation.

Performance-based awards. Grants of performance-based awards enable us to treat other awards granted under the 2003 Equity Incentive Plan as "performance-based compensation" under Section 162(m) of the Code and preserve the deductibility of these awards for federal income tax purposes. Because Section 162(m) of the Code only applies to those employees who are "covered employees" as defined in Section 162(m) of the Code, only covered employees and those likely to become covered employees are eligible to receive performance-based awards.

Participants are only entitled to receive payment for a performance-based award for any given performance period to the extent that pre-established performance goals set by the administrator for the period are satisfied. These pre-established performance goals must be based on one or more of the following performance criteria: pre- or after-tax net earnings, sales or revenue, operating earnings, operating cash flow, return on net assets, return on stockholders' equity, return on assets, return on capital, stock price growth, stockholder returns, gross or net profit margin, earnings per share, price per share, and market share. These performance criteria may be measured in absolute terms or as compared to any incremental increase or as compared to results of a peer group. With regard to a particular performance period, the administrator will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the administrator may reduce or eliminate (but not increase) the award. Generally, a participant will have to be employed on the date the performance-based award is paid to be eligible for a performance-based award for that period.

Shares reserved for issuance. Subject to certain adjustments, we may issue a maximum of 8,000,000 shares of our common stock, including shares of common stock that may be issued upon the exercise of options, under the 2003 Equity Incentive Plan.

Amendment and termination. The administrator, with the board's approval, may terminate, amend, or modify the 2003 Equity Incentive Plan at any time; however, stockholder approval will be obtained for any amendment to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule. We may not make any grants under the 2003 Equity Incentive Plan after December 1, 2013.

Adoption by stockholders. The 2003 Equity Incentive Plan has been approved by the holders of a majority of outstanding shares of our common stock and preferred stock.

2003 Employee Stock Purchase Plan

We plan to sponsor an employee stock purchase plan following the completion of the offering, which we refer to in this prospectus as the 2003 Employee Stock Purchase Plan. The 2003 Employee Stock Purchase Plan will permit eligible employees (as defined in the 2003 Employee Stock Purchase Plan) to purchase up to $25,000

worth of our common stock annually over the course of two semi-annual offering periods at a price of no less than 85% of the price per share of our common stock either at the beginning or the end of each six-month offering period, whichever is less. The compensation committee of our board of directors will administer the 2003 Employee Stock Purchase Plan. Our board may amend or terminate the plan. The 2003 Employee Stock Purchase Plan will comply with the requirements of Section 423 of the Code. We may issue a maximum of 500,000 shares of our common stock under this plan. This plan has been approved by the holders of a majority of outstanding shares of our common stock and preferred stock.

Director Compensation

Francis A. Doyle has been granted options to purchase 210,000 shares of common stock for service as a director and as chairman of the audit committee. Our directors may be reimbursed for expenses incurred in attending board and committee meetings.

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 described below, 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 Tempur-Pedic International's 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 Senior 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 Tempur-Pedic International's 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 Tempur-Pedic International's 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 Tempur-Pedic International's 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 Tempur-Pedic International's 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 by Tempur-Pedic International's 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, and options to purchase shares of our voting common stock.

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.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our outstanding equity securities as of the date of this prospectus by:

- each person known to beneficially own more than 5% of Tempur-Pedic International's outstanding common stock;
- each of Tempur-Pedic International's directors and the Named Executive Officers;
- all of Tempur-Pedic International's directors and executive officers as a group; and
- each of our stockholders who are selling shares in this offering.

To our knowledge, each selling stockholder purchased the shares of our stock in the ordinary course of business and, at the time of acquiring the securities to be resold, the selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

Beneficial ownership of shares is determined under rules of the Securities and Exchange Commission and generally includes any shares over which a person exercises sole or shared voting or investment power. The information set forth in the table below gives effect to the conversion of all preferred stock into common stock. The table also includes the number of shares underlying options and warrants that are exercisable within 60 days of the date of this offering. Common stock subject to these options or warrants is deemed to be outstanding for the purpose of computing the ownership percentage of the person holding such options or warrants, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person. The table assumes 91,016,520 shares of common stock outstanding as of the date of this prospectus and 97,266,520 shares of common stock outstanding upon completion of this offering.

Certain of the selling stockholders have granted the underwriters a 30-day option to purchase up to 2,812,500 shares of common stock to cover over-allotments, if any. If this option is exercised in full, the selling stockholders will sell 2,812,500 shares of common stock to the underwriters.

The selling stockholders may be deemed to be "underwriters" within the meaning of the Securities Act of 1933. Any discounts, commissions, concessions or profits they earn on any sale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are deemed to be "underwriters" within the meaning of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

One of the selling stockholders, Gleacher Mezzanine Funds (as defined below), is an affiliate of Gleacher Partners LLC, a broker-dealer. Gleacher Mezzanine Funds acquired shares of our stock in the ordinary course of its business, and at the time of acquiring shares of our stock had no agreements or understandings, directly or indirectly, with any person to distribute these securities.

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 Tempur-Pedic International Inc., 1713 Jaggie Fox Way, Lexington, Kentucky 40511.

	Number of Shares Beneficially Owned			Percentage of Shares Beneficially Owned	
Name of Beneficial Owner:	**Before Offering**	**After Offering**	**Number of Shares to be Sold in Offering(11)**	**Before Offering**	**After Offering**
5% Stockholders:					
TA Associates Funds(1)(11)	52,215,455	44,190,198	8,025,257	58.2%	45.4%
Friedman Fleischer & Lowe Funds(2)(11)	25,570,151	21,640,145	3,930,006	29.5%	22.2%
Executive Officers and Directors:					
Robert B. Trussell, Jr.(3)(11)	3,377,472	3,377,472	—	3.9%	3.5%
H. Thomas Bryant(11)	287,946	287,946	—	*	*
David C. Fogg(11)	1,140,636	1,140,636	—	1.3%	1.2%

Name of Beneficial Owner:	Number of Shares Beneficially Owned		Number of Shares to be Sold in Offering(11)	Percentage of Shares Beneficially Owned	
	Before Offering	After Offering		Before Offering	After Offering
David Montgomery	196,875	196,875	—	*	*
Jeffrey B. Johnson(11)	21,000	21,000	—	*	*
Dale E. Williams(4)(11)	52,500	52,500	—	*	*
P. Andrews McLane(5)	52,215,455	44,190,198	8,025,257	58.2%	45.4%
Jeffrey S. Barber(6)(11)	52,215,455	44,190,198	8,025,257	58.2%	45.4%
Tully M. Friedman(7)	25,570,151	21,640,145	3,930,006	29.5%	22.2%
Christopher A. Masto(8)	25,570,151	21,640,145	3,930,006	29.5%	22.2%
Francis A. Doyle(9)	52,500	52,500	—	*	*
All Executive Officers and Directors as a group (11 persons)(10)(11):	82,914,535	70,959,272	11,955,263	92.5%	73.0%
Other Selling Stockholders:					
Gleacher Mezzanine Funds(11)	2,912,490	2,464,856	447,634	3.3%	2.6%
Antares Capital Corp.(11)	131,250	111,077	20,173	*	*
Jean H. Downey Living Trust(11)	163,978	138,775	25,203	*	*
Alain Falourd(11)	409,941	389,768	20,173	*	*
Keansburg Investments Limited(11)	177,733	164,074	13,659	*	*
Thomas Jameson(11)	46,977	39,756	7,221	*	*
George Khouri(11)	210,000	206,772	3,228	*	*
Robert Hoeller(11)	538,676	536,574	2,102	*	*
David Wright(11)	114,780	113,252	1,528	*	*
Robert W. and Mary M. Mulcahy, JTWROS(11)	37,437	35,984	1,453	*	*
Lynda Davey and Alan Schiffres, Tenants in Common(11)	131,250	130,039	1,211	*	*
John Paul Pucek(11)	48,667	47,919	748	*	*
Frank Passante(11)	201,757	201,353	404	*	*

* Represents ownership of less than one percent

(1) Amounts shown reflect the aggregate number of shares of common 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 3,120,815 shares of 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. No stockholder, director or officer of TA Associates, Inc. has voting or investment power with respect to the shares of the Company held by TA Associates Funds. Voting and investment power with respect to such shares is vested in a four-person Investment Committee comprised of Jeffrey S. Barber, Brian J. Conway, C. Kevin Landry and P. Andrews McLane. 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.

(2) Amounts shown reflect the aggregate number of shares of common 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 Tempur-Pedic International. The address of the Friedman Fleischer & Lowe Funds is c/o Friedman Fleischer & Lowe, LLC, One Maritime Plaza, 10th Floor, San Francisco, CA 94111.

(3) Amount reflects the aggregate number of shares owned by RBT Investments, LLC and Robert B. Trussell and Martha O. Trussell, Tenants in Common.

(4) Includes 52,500 shares of common stock issuable upon exercise of outstanding and currently exercisable options.

(5) Includes 3,120,815 shares of 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.

(6) Includes 3,120,815 shares of 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.

(7) 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.

(8) 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.

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

(10) Includes 3,120,815 shares of common stock issuable upon exercise of outstanding and currently exercisable warrants and 52,500 shares of common stock issuable upon exercise of outstanding and currently exercisable options.

(11) Assumes the underwriters' over-allotment option is not exercised. In the event that the underwriters' over-allotment option is exercised in full, the following persons named in the table above will sell the additional number of shares set forth after their respective names: TA Associates Funds (1,485,172), Friedman Fleischer & Lowe Funds (727,296), Gleacher Mezzanine Funds (82,840), Antares Capital Corp. (3,733), Robert Hoeller (389), Alain Falourd (3,734), George Khouri (598), Frank Passante (75), Keansburg Investments Limited (2,528), Jean H. Downey Living Trust (4,664), Lynda Davey and Alan Schiffres, Tenants in Common (224), David Wright (283), John Paul Pucek (139), Thomas Jameson (1,337),

Robert W. and Mary M. Mulcahy, JTWROS (269), Robert B. Trussell and Martha O. Trussell, Tenants in Common (125,000), H. Thomas Bryant (51,476), David C. Fogg (102,543) and Dale E. Williams (26,250). In the event that the underwriters' over-allotment option is exercised in full, the following additional persons who are employees of our company but are not named in the table above will sell the number of shares set forth after their respective names: Joel Guerin (13,583), Christian Magnusson (23,204), Dany Sfeir (26,250), Lars Hansen (11,916), Paer Roland Siljedahl (11,860), Paul Key (5,250), Mathias Ingvarsson (9,590), Jeffrey B. Johnson (21,000), Michael Smith (2,101), Kenneth Mitchell (9,079), Frank Henry (2,101), Jeffrey T. Lillich (526), Miguel Lorenzo Searl (8,569), Rick Peak (6,242), John Miller (3,806), Charles W. Tauchert (5,391), William H. Poche (2,626), Tom Dam Mikkelson (5,391), Jean Paul Palman (526), Richard D. Zander (4,987), Harald Stokkeland (4,725), Simon Walsh (4,725), Jason P. Broyles (4,725), Johnny Cagle (3,151) and Beat Lucy (2,626).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Contribution Agreement

In October 2002, Tempur-Pedic International 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 Tempur-Pedic International common stock of Tempur World, 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.

In October 2003, in order to resolve certain issues relating to the treatment of options of Tempur World, Inc. that were terminated in connection with the acquisition by Tempur-Pedic International in November 2002 of Tempur World, we made one-time payments of $136,596 to Mr. Trussell, $60,709 to Mr. Bryant, $83,475 to Mr. Fogg and $75,886 to Mr. Heath. We also made payments totaling approximately $210,000 to certain other former stockholders of Tempur World.

In connection with the transactions contemplated by the contribution agreement, TA Associates received a $1.5 million transaction fee and a $700,000 facility fee in connection with the mezzanine financing entered into in November 2002, and FFL Partners received a $1.0 million transaction fee and expense reimbursement of approximately $175,000. With respect to the $50.0 million mezzanine facility entered into in November 2002, affiliates of TA Associates provided $35.0 million of this funding. This facility was repaid in full as part of the recapitalization in August 2003.

Stockholder Agreements

In November 2002, Tempur-Pedic International 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 Tempur-Pedic International a first right of purchase on any proposed transfer of shares of Tempur-Pedic International's capital stock held by stockholders other than the management investors and the TA Associates Funds and Friedman Fleischer & Lowe Funds; (iii) grants Tempur-Pedic International 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 Tempur-Pedic International to an independent third party if such sale is approved by Tempur-Pedic International's 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 Tempur-Pedic International's voting securities held by them and to cause to be

elected to Tempur-Pedic International's board of directors (x) four designees, one of whom will serve as chairman, of the holders of a majority of Tempur-Pedic International's outstanding Class B common stock issued to Tempur-Pedic International's 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 Tempur-Pedic International's 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 Tempur-Pedic International's 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 it will terminate upon consummation of the offering.

In November 2002, Tempur-Pedic International 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 our outstanding Series A preferred stock and would own a majority of Tempur-Pedic International's 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 Tempur-Pedic International's voting securities held by them and to cause to be elected to Tempur-Pedic International's 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 it will terminate upon consummation of the offering.

Registration Rights Agreement

On November 1, 2002, Tempur-Pedic International 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 Tempur-Pedic International's registrable securities, as defined in the registration rights agreement, and certain stockholders who held notes with an aggregate unpaid principal balance of $15.0 million have the right, subject to certain conditions, to require Tempur-Pedic International to register any or all of their shares under the Securities Act at Tempur-Pedic International's expense. In addition, all holders of registrable securities are entitled to request the inclusion of any of their shares in any registration statement at Tempur-Pedic International's expense whenever we propose to register any of Tempur-Pedic International's securities under the Securities Act. In connection with all such registrations, Tempur-Pedic International 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 Tempur-Pedic International against certain liabilities. As of November 15, 2003, parties to the registration rights agreement held 86,558,215 shares of our common stock and warrants to purchase 4,458,305 shares of our common stock. Options to purchase 6,533,720 shares of our common stock were outstanding at this time, which when exercised, will cause the holders thereof to become parties to the registration rights agreement. All of the 12,500,000 shares of common stock being sold in this offering by selling stockholders are held by parties to the registration rights agreement. After the offering, parties to the registration rights agreement will hold 78,516,520 shares of our common stock. Options to purchase 6,533,720 shares of our common stock will be outstanding after the offering, which when exercised, will cause the holders thereof to become parties to the registration rights agreement. Although we have no current plans to file another registration statement to register these shares, certain of these holders have demand registration rights under the registration rights agreement as described above.

Special Bonuses

In August 2003, the board of directors of Tempur-Pedic International 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.

Senior Subordinated Notes

In connection with the issuance and sale by Tempur-Pedic, Inc. and Tempur Production USA, Inc. of $150,000,000 aggregate principal amount of senior subordinated notes, High Street Partners L.P., an affiliate of TA Associates, Inc., purchased $ 3.0 million aggregate principal amount of senior subordinated notes from the initial purchasers in that offering. High Street Partners L.P. continues to hold these senior subordinated notes.

DESCRIPTION OF CAPITAL STOCK

General

Upon the closing of this offering, our board of directors will be authorized to issue 300,000,000 shares of common stock, par value $0.01 per share, of which 97,266,520 shares will be issued and outstanding, and 10,000,000 shares of undesignated preferred stock, $0.01 par value per share, of which no shares will be issued or outstanding.

The following summary description of our capital stock, certificate of incorporation, and by-laws assumes the filing as of the closing of the offering of our certificate of incorporation and the adoption of our by-laws.

Common Stock

As of November 15, 2003, there were 91,016,520 shares of our common stock outstanding, held of record by 74 stockholders, after giving effect to the automatic conversion of all of our outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of our outstanding warrants upon the completion of this offering.

Upon the closing of this offering, our board of directors will be authorized to issue up to 300,000,000 shares of common stock, $0.01 par value per share. Holders of our common stock are entitled to one vote per share for each share held of record on all matters to be voted upon by the stockholders. Accordingly, holders of a majority of the shares of our common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any outstanding preferred stock, holders of our common stock are entitled to receive ratably such dividends as may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution, or winding up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of our common stock have no cumulative voting rights, preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to our common stock. The outstanding shares of our common stock are, and the shares offered in this offering will be, when issued and paid for, fully paid and non-assessable.

Preferred Stock

Upon the closing of this offering, our board of directors will be authorized to issue up to 10,000,000 shares of preferred stock, $0.01 par value per share. The board of directors will be authorized, subject to any limitations prescribed by law, without further vote or action by the stockholders, to issue from time to time shares of preferred stock in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Such rights may include voting and conversion rights which could adversely affect the holders of our common stock. Satisfaction of any dividend preferences of outstanding preferred stock would reduce the amount of funds available, if any, for the payment of dividends on common stock. Holders of our preferred stock would typically be entitled to receive a preference payment in the event of our liquidation, dissolution or winding up before any payment is made to the holders of common stock. Additionally, the issuance of our preferred stock could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding voting stock. Upon the closing of the offering, there will be no shares of preferred stock outstanding, and we have no present plans to issue any shares of the preferred stock after this offering.

Registration Rights

On November 1, 2002, we and certain of our 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 our registrable securities, as defined in the registration rights agreement, and certain stockholders who held notes with an aggregate unpaid principal balance of $15.0 million have the right, subject to certain conditions, to require us to register any or all of their shares under the Securities Act at our expense. In addition, all holders of registrable securities are entitled to request the inclusion of any of their shares in any registration statement at our expense whenever we propose to register any of our securities under the Securities Act. In connection with all such registrations, we have 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 us against certain liabilities. As of November 15, 2003, parties to the registration rights agreement held 86,558,215 shares of our common stock and warrants to purchase 4,458,305 shares of our common stock. Options to purchase 6,533,720 shares of our common stock were outstanding at this time, which when exercised, will cause the holders thereof to become parties to the registration rights agreement. All of the 12,500,000 shares of common stock being sold in this offering by selling stockholders are held by parties to the registration rights agreement. After the offering, parties to the registration rights agreement will hold 78,516,520 shares of our common stock. Options to purchase 6,533,720 shares of our common stock will be outstanding after the offering, which when exercised, will cause the holders thereof to become parties to the registration rights agreement. Although we have no current plans to file another registration statement to register these shares, certain of these holders have demand registration rights under the registration rights agreement as described above.

Anti-takeover effects of Delaware law and certain charter and by-law provisions

Upon completion of this offering, we will not be subject to the provisions of Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 of the Delaware General Corporation Law prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the interested stockholder attained such status with approval of our board of directors or unless the business combination is approved in a prescribed manner. A "business combination" includes certain mergers, asset sales or other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within the past three years did own, 15% or more of the corporation's voting stock. The statute is intended to prohibit or delay mergers or other takeover or change in control attempts. Although we have elected out of the statute's provisions, we could elect to be subject to Section 203 in the future.

Some provisions in our certificate of incorporation and by-laws may be deemed to have an anti-takeover effect and may delay, defer, or prevent a tender offer or takeover attempt that a stockholder might deem to be in his or her best interest. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

Stockholder action; special meeting of stockholders. Our certificate of incorporation and by-laws provide that stockholders may not take action by written consent, but only at a duly called annual or special meeting of the stockholders, and that special meetings of our stockholders may be called only the chairman of the board of directors, the president, or a majority of the board of directors. Thus, without approval by the chairman of the board of directors, the president or a majority of the board of directors, stockholders may take no action between meetings. These provisions may have the effect of delaying until the next annual stockholders' meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities, including actions to remove directors. These provisions may also discourage another person or entity from making a tender offer for our common stock, because such person or entity, even if it acquired all or a majority of our outstanding voting securities, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders' meeting, and not by written consent.

Advance notice requirements for stockholder proposals and director nominations. Our certificate of incorporation and by-laws provide that a stockholder seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, provide timely notice of this intention in writing. To be timely, a stockholder's notice must be delivered to our secretary not less than 120 nor more than 150 days prior to the first anniversary of the date of our proxy statement delivered to stockholders in connection with the preceding year's annual meeting, or if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary, or if no proxy statement was delivered to our stockholders in connection with the preceding year's annual meeting, such notice must be delivered not earlier than 90 days prior to such annual meeting and not later than the later of (i) 60 days prior to the annual meeting or (ii) 10 days following the date on which public announcement of the date of such annual meeting was made. With respect to special meetings of stockholders, such notice must be delivered to our secretary not more than 90 days prior to such meeting and not later than the later of (i) 60 days prior to such meeting or (ii) 10 days following the date on which public announcement of the date of such meeting is first made. The notice must contain, among other things, certain information about the stockholder delivering the notice and, as applicable, background information about each nominee or a description of the proposed business to be brought before the meeting. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual or special meeting of stockholders.

Authorized but unissued shares. The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the New York Stock Exchange. These additional shares may be utilized for a variety of corporate acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger, or otherwise.

Super-majority voting. Delaware law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws require a greater percentage. Provisions in our certificate of incorporation require the affirmative vote of the holders of at least 67% of our authorized voting stock to amend or repeal certain provisions of our certificate of incorporation which include, but are not limited to provisions which would reduce or eliminate the number of authorized common or preferred shares and all indemnification provisions. Such 67% stockholder vote would in either case be in addition to any separate class vote that might in the future be required pursuant to the terms of any preferred stock at the time any such amendments are submitted to stockholders. Our by-laws may also be amended or repealed by a majority vote of our board of directors.

Board discretion in considering certain offers. Our certificate of incorporation empowers our board of directors, when considering a tender offer or merger or acquisition proposal, to take into account factors in addition to potential economic benefit to stockholders. Such factors may include (i) comparison of the proposed consideration to be received by stockholders in relation to the then-current market price of our capital stock, our estimated current value in a freely negotiated transaction, and our estimated future value as an independent entity, and (ii) the impact of such a transaction on our employees, suppliers, and customers and its effect on the communities in which we operate.

Limitation of liability. Our certificate of incorporation contains certain provisions permitted under Delaware General Corporation Law relating to the liability of directors. These provisions eliminate a director's personal liability for monetary damages resulting from a breach of fiduciary duty, except in certain circumstances involving certain wrongful acts, such as the breach of a director's duty of loyalty or acts or omissions that involve intentional misconduct or a knowing violation of law. These provisions do not limit or eliminate our rights or the rights of any stockholder to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a director's fiduciary duty. These provisions will not alter a director's liability under federal securities laws. Our certificate of incorporation and by-laws also contain provisions indemnifying our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

Transfer agent and registrar

Upon the closing of this offering, the transfer agent and registrar for the common stock will be EquiServe Trust Company, N.A.

New York Stock Exchange listing

We have applied to have our common stock listed on the New York Stock Exchange under the symbol “TPX.”

SHARES ELIGIBLE FOR FUTURE SALE

Sales of restricted shares

Upon the completion of this offering, based upon the number of shares of our common stock outstanding as of November 15, 2003, and assuming the automatic conversion of all outstanding shares of our convertible preferred stock and our convertible common stock into 91,016,520 shares of our common stock upon the completion of this offering, we will have 97,266,520 shares of our common stock outstanding. Of these shares, 18,750,000 shares of our common stock to be sold in this offering, will be freely tradeable without restriction or further registration under the Securities Act, except that any shares of our common stock purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 described below.

The remaining 78,516,520 shares of our common stock outstanding upon completion of this offering are deemed "restricted shares" under Rule 144 or Rule 701 under the Securities Act. None of these restricted shares of our common stock will be eligible for sale in the public market on the date of this prospectus. Ninety days from the date of this prospectus, 6,533,720 shares of our common stock will be eligible for sale in the public market pursuant to Rule 701, subject to the lock-up agreements. Upon expiration of the lock-up agreements described below, 180 days after the date of this prospectus, approximately 85 million shares of our common stock will be eligible for sale in the public market pursuant to Rule 144.

Rule 144 makes available an exemption from the registration requirements of the Securities Act. In general, under Rule 144, a person (or persons whose shares are aggregated) who owns shares that were acquired from the issuer or an affiliate of the issuer at least one year prior to the proposed sale will be entitled to sell in any three-month period a number of shares that does not exceed the greater of:

- one percent of the then-outstanding shares of our common stock (approximately shares of our common stock immediately after the completion of this offering); or
- the average weekly trading volume in our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of such sale is filed, provided certain requirements concerning availability of public information, manner of sale, and notice of sale are satisfied.

In addition, our affiliates must comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to publicly sell shares of our common stock which are not restricted securities. A stockholder who is not one of our affiliates and has not been our affiliate for at least three months prior to the sale and who has beneficially owned restricted shares of our common stock for at least two years may resell the shares without limitation. In meeting the one and two year holding periods described above, a holder of restricted shares of our common stock can include the holding periods of a prior owner who was not our affiliate. The one and two year holding periods described above do not begin to run until the full purchase price or other consideration is paid by the person acquiring the restricted shares of our common stock from the issuer or one of our affiliates.

Rule 701 provides that currently outstanding shares of our common stock acquired under our employee compensation plans may be resold beginning 90 days after the date of this prospectus by:

- persons, other than our affiliates, subject only to the manner of sale provisions of Rule 144; and
- our affiliates under Rule 144, without compliance with its one-year minimum holding period, subject to certain limitations.

Options

Rule 701 also provides that the shares of our common stock acquired upon the exercise of currently outstanding options or pursuant to other rights granted under our 2002 Stock Option Plan may be resold beginning 90 days after the date of this prospectus by:

- persons, other than our affiliates, subject only to the manner of sale provisions of Rule 144; and
- our affiliates under Rule 144, without compliance with its one-year minimum holding period, subject to certain limitations.

At November 15, 2003, no shares of our common stock were issuable pursuant to vested options under our 2002 Stock Option Plan.

Following the date of this prospectus, we intend to file one or more registration statements on Form S-8 under the Securities Act to register up to 14,533,720 shares of our common stock issuable under our 2002 Stock Option Plan and our 2003 Equity Incentive Plan and up to 500,000 shares of common stock issuable under our 2003 Employee Stock Purchase Plan. These registration statements will become effective upon filing.

Lock-up agreements

We and our executive officers, directors, and substantially all of our stockholders will enter into lock-up agreements with the underwriters in connection with the offering. For more information on the lock-up agreements see “Underwriting.”

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF OUR COMMON STOCK

The following is a general discussion of certain material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a "Non-U.S. Holder." For purposes of this discussion, a "Non-U.S. Holder" is a beneficial owner of our stock who holds our stock as a capital asset as determined for U.S. federal income tax purposes (generally, property held for investments) or who is treated for the relevant U.S. federal tax purposes as a non-resident alien, or a foreign partnership, corporation, estate, or trust. Because U.S. federal tax law uses different tests in determining whether an individual is a nonresident alien for income and estate tax purposes, some individuals may be "Non-U.S. Holders" for purposes of the federal income tax discussion below, but not for purposes of the federal estate tax discussion, and *vice versa*.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, and administrative regulations and interpretations in effect as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders in light of their particular circumstances, including, without limitation, Non-U.S. Holders that are controlled foreign corporations, passive foreign investment companies, pass-through entities, or U.S. expatriates, and Non-U.S. Holders that hold their common stock through pass-through entities, and Non-U.S. Holders who own, directly, indirectly, or constructively, five percent or more of our common stock. This discussion also does not address any tax consequences arising under the laws of any U.S. state or local, or non-U.S. jurisdiction.

You should consult your own tax advisor regarding the federal income and estate tax consequences of holding and disposing of our common stock in light of your particular situation, as well as any consequences under state, local or foreign law.

Dividends

Distributions on our common stock will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. In general, we will be required to withhold U.S. federal income tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty, on dividends paid to a Non-U.S. Holder. To obtain a reduced rate of withholding under a treaty, you must provide us with appropriate documentation (typically, a properly-executed IRS Form W-8BEN certifying your entitlement to benefits under the treaty). You will not be required to furnish a U.S. taxpayer identification number in order to claim treaty benefits with respect to our dividends if our common stock is traded on an "established financial market" for U.S. federal income tax purposes. Treasury Regulations provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a Non-U.S. Holder that is an entity should be treated as paid to the entity or to those holding an interest in that entity.

We generally will not be required to withhold income taxes from dividends that are effectively connected with your conduct of a trade or business within the United States, so long as you provide us with appropriate documentation (typically, a properly-executed IRS Form W-8ECI, stating that the dividends are so connected). Instead, such dividends will be subject to regular U.S. income tax, on a net income basis, generally at the same rates applicable to a comparable U.S. holder. If you are a foreign corporation, your effectively-connected dividends may also be subject to an additional "branch profits tax," which is imposed under certain circumstances at a rate of 30% (or such lower rate as may be specified by an applicable treaty), subject to certain adjustments.

Gain on disposition of common stock

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock. However, you will be taxable on such gain if (i) the gain is effectively connected with a trade or business that you conduct in the United States (in the event certain tax

treaty provisions apply, the gain must also be attributable to a permanent establishment in the U.S. in order to be subject to tax), (ii) you are a nonresident alien individual, you are present in the United States for 183 or more days in the taxable year of the disposition, and certain other conditions are met, or (iii) our stock is treated as a United States real property interest in your hands, within the meaning of Section 897(c) of the Code.

Subject to the exception noted below, our stock will generally be treated as a U.S. real property interest if we are or have been a "United States real property holding corporation" within the meaning of Section 897(c) at any time that you held the stock within five years before the disposition. We believe that we are not, and we do not anticipate becoming, a United States real property holding corporation. Moreover, even if we are treated as a United States real property holding corporation, so long as our common stock is regularly traded on an established securities market, the common stock will not be treated as a U.S. real property interest in the hands of a Non-U.S. Holder who has owned no more than five percent of the common stock (assuming for this purpose any options or shares of convertible preferred stock that you own have been exercised or converted and applying certain constructive ownership rules to determine your ownership) during the five years preceding a disposition.

Information reporting requirements and backup withholding

Generally, we must report to the U.S. Internal Revenue Service the amount of dividends we pay to you, your name and address, and the amount of any tax withheld. A similar report is sent to you. Pursuant to tax treaties or other information-sharing agreements, the U.S. Internal Revenue Service may make its reports available to tax authorities in your country of residence.

We generally will not be required to apply backup withholding to dividends we pay to you if you have provided an appropriate certification of your federal taxpayer identification number, or of the fact that you are not a U.S. person, unless we or our paying agent otherwise have knowledge that you are a U.S. person.

Under current U.S. federal income tax law, information reporting and backup withholding imposed at a rate of 28% (increasing to 31% in 2011) will apply to the proceeds of a disposition of our common stock effected by or through a U.S. office of a broker unless the disposing holder certifies as to its non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to a payment of disposition proceeds where the transaction is effected outside the United States by or through an office outside the United States of a broker that fails to maintain documentary evidence that the holder is a Non-U.S. Holder and that certain conditions are met, or that the holder otherwise is entitled to an exemption, and the broker is (i) a U.S. person, (ii) a foreign person which derived 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) a "controlled foreign corporation" for U.S. federal income tax purposes, or (iv) a foreign partnership (a) at least 50% of the capital or profits interest in which is owned by U.S. persons or (b) that is engaged in a U.S. trade or business. Backup withholding will apply to a payment of disposition proceeds if the broker has actual knowledge that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the amount of tax withheld will be treated as a payment against your actual U.S. federal income tax liability (if any), and if the withholding results in an overpayment of tax, a refund may be obtained, provided that the required information is timely furnished to the U.S. Internal Revenue Service.

Federal estate tax

An individual Non-U.S. Holder who is treated as the owner of, or has made certain lifetime transfers of, an interest in our common stock will be required to include the value thereof in his gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

UNDERWRITING

Under the terms of an underwriting agreement, which will be filed as an exhibit to the registration statement relating to this prospectus, each of Lehman Brothers Inc., Goldman, Sachs & Co., UBS Securities LLC, Citigroup Global Markets Inc., CIBC World Markets Corp. and U.S. Bancorp Piper Jaffray Inc. has severally agreed to purchase from us and the selling stockholders the respective number of shares of common stock opposite its name below:

Underwriters	Number of Shares
Lehman Brothers Inc.	
Goldman, Sachs & Co.	
UBS Securities LLC	
Citigroup Global Markets Inc.	
CIBC World Markets Corp.	
U.S. Bancorp Piper Jaffray Inc.	
Total	18,750,000

The underwriting agreement provides that the underwriters' obligations to purchase shares of our common stock depends on the satisfaction of the conditions contained in the underwriting agreement, including:

- the obligation to purchase all of the shares of our common stock, if any of the shares are purchased (other than those shares subject to the underwriters' over-allotment option, until that option is exercised);
- if an underwriter defaults, purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated;
- the representations and warranties made by us and the selling stockholders to the underwriters are true;
- there is no material change in the financial markets; and
- we and the selling stockholders deliver customary closing documents to the underwriters.

Over-Allotment Option

The selling stockholders have granted the underwriters a 30-day option to purchase up to 2,812,500 shares at the public offering price less underwriting discounts and commissions. This option may be exercised to cover over-allotments, if any. To the extent that the option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares proportionate to the underwriter's initial commitment as indicated in the preceding table, and the selling stockholders will be obligated, pursuant to the option, to sell these shares to the underwriters.

Commissions and Expenses

The underwriters have advised us that the underwriters propose to offer shares of common stock directly to the public at the public offering price on the cover of this prospectus and to selected dealers, who may include the underwriters, at such offering price less a selling concession not in excess of $ per share. The underwriters may allow, and the selected dealers may re-allow, a discount from the concession not in excess of $ per share to other dealers. After the offering, the underwriters may change the public offering price and other offering terms.

The following table summarizes the underwriting discounts and commissions we and the selling stockholders will pay to the underwriters in connection with the offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase up to 2,812,500 additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay us and the selling stockholders for the shares.

	No Exercise	Full Exercise
Tempur-Pedic International Inc.:		
Per share	$	$
Total	$	$
Selling stockholders:		
Per share	$	$
Total	$	$

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions paid by us, will be approximately $2,000,000.

Listing

We have applied to have our common stock listed on the New York Stock Exchange under the symbol "TPX." In connection with that listing, the underwriters have undertaken to sell the minimum number of shares to the minimum number of beneficial owners necessary to meet the New York Stock Exchange listing requirements.

Stabilization, Short Positions and Penalty Bids

The underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934, as amended:

- Over-allotment involves sales by the underwriter of shares in excess of the number of shares the underwriter is obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriter is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriter may close out any short position by either exercising its over-allotment option and/or purchasing shares in the open market.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriter sells more shares than could be covered by the over-allotment option, which is called a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase shares in the offering.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we, the selling stockholders nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we, the selling stockholders nor the underwriters make any representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Lock-Up Agreements

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of Lehman Brothers Inc. and Goldman, Sachs & Co., on behalf of the underwriters for a period of 180 days after the date of this prospectus, except pursuant to the exercise of options outstanding on the date hereof, grants of employee stock options pursuant to the terms of a plan in effect on the date hereof, issuances pursuant to the exercise of such options, the filing of registration statements on Form S-8 and amendments thereto in connection with those stock options or our employee stock purchase plans in existence on the date hereof and the issuance of shares or options in acquisitions in which the acquirer of such shares agrees to the foregoing restrictions.

Our executive officers and directors and stockholders holding substantially all of our common stock have entered into lock-up agreements under which they agreed, subject to certain exceptions, not to transfer or dispose of, directly or indirectly, including by way of any hedging or derivatives transaction, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock, except for shares sold in this offering by the selling stockholders, for a period of 180 days after the date of this prospectus without the prior written consent of Lehman Brothers Inc. and Goldman, Sachs & Co. on behalf of the underwriters.

Indemnification

We and the selling stockholders have agreed to indemnify the underwriters against liabilities relating to the offering including liabilities under the Securities Act and liabilities arising from breaches of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Directed Share Program

At our request, the underwriters have reserved for sale at the initial public offering price up to 937,500 shares offered hereby for officers, directors, employees and certain other persons associated with us. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby.

Stamp Taxes

Purchasers of the shares of our common stock offered by this prospectus may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover of this prospectus. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay those taxes or charges, as well as any other tax consequences that may arise under the laws of the country of purchase.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by the underwriters and/or one or more of the selling group members participating in this

offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the underwriter or the particular selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us and the selling stockholders to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on the underwriters' or any selling group member's web site and any information contained in any other web site maintained by the underwriter or any selling group member is not part of this prospectus or the registration statement of which this prospectus and the accompanying prospectus form a part, has not been approved and/or endorsed by us or the underwriters or any selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Our Relationships with the Underwriters

Certain of the underwriters and their respective affiliates have performed and expect to continue to perform financial advisory and investment and commercial banking services for us for which they have received and will receive compensatory compensation.

NOTICE TO CANADIAN INVESTORS

Offers and Sales in Canada

This prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of shares in Canada or any province or territory thereof. Any offer or sale of shares in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable provincial securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

This prospectus is for the confidential use of only those persons to whom it is delivered by the underwriters in connection with the offering of the shares into Canada. The underwriters reserve the right to reject all or part of any offer to purchase shares for any reason or allocate to any purchaser less than all of the shares for which it has subscribed.

Responsibility

Except as otherwise expressly required by applicable law or as agreed to in contract, no representation, warranty, or undertaking (express or implied) is made and no responsibilities or liabilities of any kind or nature whatsoever are accepted by any underwriter or dealer as to the accuracy or completeness of the information contained in this prospectus or any other information provided by us or the selling stockholders in connection with the offering of the shares into Canada.

Resale Restrictions

The distribution of the shares in Canada is being made on a private placement basis only and is exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the relevant Canadian regulatory authorities. Accordingly, any resale of the shares must be made in accordance with applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with exemptions from registration and prospectus requirements. Canadian purchasers are advised to seek legal advice prior to any resale of the shares.

Representations of Purchasers

Each Canadian investor who purchases shares will be deemed to have represented to us, the selling stockholders, the underwriters and any dealer who sells shares to such purchaser that: (i) the offering of the shares was not made through an advertisement of the shares in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (ii) such purchaser has reviewed the terms referred to above under "Resale Restrictions" above; (iii) where required by law, such purchaser is purchasing as principal for its own account and not as agent; and (iv) such purchaser or any ultimate purchaser for which such purchaser is acting as agent is entitled under applicable Canadian securities laws to purchase such shares without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (a) in the case of a purchaser located in a province other than Ontario and Newfoundland and Labrador, without the dealer having to be registered, (b) in the case of a purchaser located in a province other than Ontario or Quebec, such purchaser is an "accredited investor" as defined in section 1.1 of Multilateral Instrument 45-103—*Capital Raising Exemptions*, (c) in the case of a purchaser located in Ontario, such purchaser, or any ultimate purchaser for which such purchaser is acting as agent, is an "accredited investor", other than an individual, as that term is defined in Ontario Securities Commission Rule 45-501—*Exempt Distributions* and is a person to which a dealer registered as an international dealer in Ontario may sell shares, and (d) in the case of a purchaser located in Québec, such purchaser is a "sophisticated purchaser" within the meaning of section 44 or 45 of the *Securities Act* (Québec).

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this prospectus does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the shares. Canadian purchasers of shares should consult their own legal and tax advisers with respect to the tax consequences of an investment in the shares in their particular circumstances and with respect to the eligibility of the shares for investment by the purchaser under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission (Ontario)

Securities legislation in Ontario provides that every purchaser of shares pursuant to this prospectus shall have a statutory right of action for damages or rescission against us and any selling stockholder in the event this prospectus contains a misrepresentation as defined in the *Securities Act* (Ontario). Ontario purchasers who purchase shares offered by this prospectus during the period of distribution are deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase. Ontario purchasers who elect to exercise a right of rescission against us and any selling stockholder on whose behalf the distribution is made shall have no right of action for damages against us or the selling stockholders. The right of action for rescission or damages conferred by the statute is in addition to, and without derogation from, any other right the purchaser may have at law. Prospective Ontario purchasers should refer to the applicable provisions of Ontario securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights or other rights may be available to them.

The foregoing summary is subject to the express provisions of the *Securities Act* (Ontario) and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which we and the selling stockholders may rely. The enforceability of these rights may be limited as described herein under "Enforcement of Legal Rights".

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant dealer of the purchase price for the shares. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law. Similar rights may be available to investors in other Canadian provinces.

Enforcement of Legal Rights

We are organized under the laws of the State of Delaware in the United States of America. All, or substantially all, of our directors and officers, as well as of the selling stockholders and the experts named herein, may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or such persons. All or a substantial portion of our assets and the assets of such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgement against us or such persons in Canada or to enforce a judgement obtained in Canadian courts against us or such persons outside of Canada.

Language of Documents

Upon receipt of this document, you hereby confirm that you have expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, vous confirmez par les présentes que vous avez expressément exigé que tous les documents faisant foi ou se rappportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Bingham McCutchen LLP, Boston, Massachusetts. The underwriters will be represented by Weil, Gotshal & Manges LLP, New York, New York.

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 company 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 company 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 company 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 company 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 Securities and Exchange Commission a registration statement on Form S-1, including exhibits and schedules, under the Securities Act with respect to the shares of our common stock to be sold in the offering. This prospectus does not contain all the information contained in the registration statement. For further information with respect to us and the shares to be sold in the offering, reference is made to the registration statement and the exhibits and schedules attached to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to 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. As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and will file annual, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission.

You may read and copy all or any portion of the registration statement or any reports, statements, or other information that we file at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street NW, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are also available at the Securities and Exchange Commission'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

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)
CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
As of September 30, 2003

	Successor September 30, 2003 (Unaudited)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 12,511,847
Accounts receivable, net of allowance for doubtful accounts of $3,426,830	57,841,367
Inventories	55,199,831
Prepaid expenses and other current assets	4,671,547
Deferred income taxes	5,784,995
Total current assets	136,009,587
Property, plant and equipment, net	97,813,681
Goodwill	209,189,789
Other intangible assets, net of amortization of $4,701,000 as of September 30, 2003	81,270,711
Deferred financing costs and other non-current assets, net	10,898,932
Total assets	$ 535,182,700
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 24,927,318
Accrued expenses	43,015,375
Income taxes payable	16,809,719
Value added taxes payable	1,915,822
Current portion—long-term debt	12,318,580
Current portion—capital lease obligations and other	505,271
Total current liabilities	99,492,085
Long-term debt	369,678,359
Capital lease obligations	30,001
Deferred income taxes	38,394,694
Other long-term liabilities	2,064,834
Total Liabilities	509,659,973
Commitments and contingencies (see notes)	
Stockholders' Equity:	
Series A Convertible Preferred Stock, $.01 par value, 94,500,000 shares authorized, 76,893,416 shares issued and outstanding	157,185,595
Class A Common Stock, $.01 par value, 13,125,000 shares authorized, 7,353,150 shares issued and outstanding	140
Class B-1 Common Stock, $.01 par value, 157,500,000 shares authorized, 2,311,575 shares issued and outstanding	44
Additional paid in capital	20,815,186
Class B-1 Common Stock Warrants	2,347,788
Notes receivable	
Deferred stock-compensation, net of amortization of $13,140	(130,240)
Unearned stock-based compensation	(11,293,513)
Retained earnings	(147,979,874)
Accumulated other comprehensive income	4,577,601
Total Stockholders' Equity	25,522,727
Total Liabilities and Stockholders' Equity	$ 535,182,700

The accompanying notes to consolidated condensed interim financial statements
are an integral part of this statement.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
CONSOLIDATED CONDENSED INTERIM STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)
CONSOLIDATED CONDENSED INTERIM STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	Predecessor	Successor
	Nine Months Ended	
	September 30, 2002	September 30, 2003
	(Unaudited)	(Unaudited)
Net sales	$ 205,944,079	$ 342,358,507
Cost of sales	95,822,448	158,804,175
Gross profit	110,121,631	183,554,332
Selling expenses	51,851,751	75,229,044
General and administrative expenses	24,855,176	48,594,474
Research and development expenses	919,771	1,191,169
Operating income	32,494,933	58,539,645
Other income (expense), net:		
Interest expense, net	(5,713,052)	(13,741,242)
Foreign currency exchange losses	(734,698)	(2,177,585)
Other income, net	1,386,918	700,520
Total other expense	(5,060,832)	(15,218,307)
Income before income taxes	27,434,101	43,321,338
Income tax provision	12,493,231	17,331,875
Net income	14,940,870	25,989,463
Preferred stock dividends	1,108,904	8,763,743
Net income available to common stockholders	$ 13,831,966	$ 17,225,720
Basic earnings per share	N/A	$ 2.13
Diluted earnings per share	N/A	$ .28

The accompanying notes to consolidated condensed interim financial statements are an integral part of these statements.

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(Predecessor to Tempur-Pedic International Inc.)
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	Nine Months Ended	
	September 30, 2002	September 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 14,940,870	$ 25,989,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,066,345	14,437,071
Amortization of deferred financing fees	1,006,930	1,435,155
Write-off of deferred financing costs	—	7,988,468
Amortization of original issue discount	—	280,672
Write-off of original issue discount	—	1,982,943
Allowance for doubtful accounts	2,151,751	1,393,985
Amortization of non-cash stock-based compensation expense	—	1,879,212
Deferred income taxes	(1,162,197)	(4,077,892)
Foreign currency adjustments	(2,636,709)	(701,674)
(Gain)/Loss on sale of equipment	(299,172)	(138,230)
Changes in operating assets and liabilities:		
Accounts receivable—trade	(10,279,522)	(13,359,481)
Accounts receivable—related parties	17,715	—
Notes receivable—related parties	490,249	—
Inventories	(6,849,495)	(15,715,947)
Prepaid expenses and other current assets	(2,533)	(1,453,962)
Accounts payable	2,149,042	6,874,234
Accounts payable—related parties	(177,451)	—
Accrued expenses and other	3,512,307	5,300,367
Foreign exchange payable	—	(1,799,317)
Value added taxes payable and other	(263,274)	(63,220)
Income taxes payable	2,426,057	11,518,113
Net cash provided by operating activities	15,090,913	41,769,960
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired	(1,077,935)	—
Purchases of property, plant and equipment	(7,660,067)	(17,265,538)
Proceeds from sales of property, plant and equipment	5,203,971	720,979
Net cash used by investing activities	(3,534,031)	(16,544,559)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	16,430,105	433,235,877
Proceeds from issuance of long-term debt—related party		
Proceeds from issuance of notes payable—line of credit	2,903,421	46,750,667
Repayments of long-term debt	(27,888,072)	(248,727,896)
Repayments of long-term debt—related party	(1,286,848)	—
Repayments of notes payable—line of credit	(3,183,430)	(48,819,606)
Repayments of capital lease obligations	(384,600)	(27,630)
Payments of deferred financing costs	(122,195)	(10,722,771)
Proceeds from issuance of common stock	—	2,937,300
Proceeds from issuance of preferred stock	2,500,000	—
Payments to former owners	—	(39,434,039)
Payments of dividends to shareholders	—	(160,000,000)
Purchases of treasury stock	(2,298,005)	—
Net cash used by financing activities	(13,329,624)	(24,808,098)
Net Effect of Exchange Rate Changes on Cash	(247,265)	(559,631)
Decrease in cash and cash equivalents	(2,020,007)	(142,328)
CASH AND CASH EQUIVALENTS, beginning of period	7,538,178	12,654,175
CASH AND CASH EQUIVALENTS, end of period	$ 5,518,171	$ 12,511,847

The accompanying notes to consolidated condensed interim financial statements
are an integral part of these statements.

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NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

(1) The Company

On November 1, 2002, Tempur-Pedic International (the Company) acquired Tempur World (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, 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, the Company paid approximately $40,000,000 to the former shareholders of Tempur World as a deferred payment.

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (Issuers), wholly owned subsidiaries of the Tempur-Pedic International (Successor to Tempur World), issued $150 million of 10.25% Senior Subordinated Notes due 2010 (Senior Subordinated Notes). The Senior Subordinated Notes were sold in a private placement. In connection with the issuance of the Senior Subordinated Notes, the Issuers entered into a registration rights agreement with the initial purchasers that requires the filing of a registration statement under the Securities Act with respect to Senior Subordinated Notes. In conjunction with the issuance of the Senior Subordinated Notes, Tempur-Pedic International (Successor to Tempur World) amended and restated its senior secured credit facility, bringing total borrowings under the facility to $232.0 million as of September 30, 2003. As a result of the amendment to the senior credit facility Tempur-Pedic International (Successor to Tempur World) wrote-off approximately $8.0 million of deferred financing fees included in General and administrative expenses. The proceeds of the Senior Subordinated Notes, together with borrowings under the amended senior credit facilities were used to repay all of the outstanding borrowings under our United States and European Subordinated Debt Facilities (Mezzanine Debt), distribute approximately $40.0 million of earn-out payments to former shareholders of Tempur World (Predecessor to Tempur-Pedic International) and distribute approximately $160.0 million to equityholders of Tempur-Pedic International (Successor to Tempur World). In conjunction with the repayment of the Mezzanine Debt, the Company expensed approximately $3.6 million related to a prepayment penalty and wrote-off approximately $2.0 million of original issue discount associated with the Mezzanine Debt.

On October 17, 2003, Tempur-Pedic International filed a registration statement on Form S-1 with the Securities and Exchange Commission for an initial public offering of shares of its common stock. Tempur-Pedic International is offering 6,250,000 shares and certain selling stockholders are offering, in the aggregate, 12,500,000 shares and may sell an additional 2,812,500 shares if the underwriters exercise their overallotment option in full. The price range for this offering is currently estimated to be between $15 and $17 per share. Upon completion of the offering, all of the outstanding shares of Tempur-Pedic International's convertible preferred stock and all outstanding classes of its common stock will convert into common stock of Tempur-Pedic

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International and all of Tempur-Pedic International's outstanding warrants shall be exercised or converted. In addition, in connection with the offering, the Company's board of directors approved a 525-for-one stock split of the Company's common stock, in the form of a stock dividend, and increased the number of authorized shares of common stock to 300 million shares. All share and per share amounts, since the Tempur Acquisition, have been restated to retroactively reflect the stock split.

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 (Predecessor of Tempur-Pedic International). The accompanying financial statements present financial information for Tempur-Pedic International (Successor to Tempur World) and Tempur World (Predecessor to Tempur-Pedic International) and throughout these Consolidated Condensed Interim Financial Statements a distinction is made between Successor and Predecessor financial information.

Tempur-Pedic International (Successor to Tempur World) 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, Canada and Mexico. The Company sells its products in over 50 countries and extends credit based on the creditworthiness of its customers. The majority of the Company's revenues are derived from sales to retailers and to consumers through its direct response business.

These Consolidated Condensed Interim Financial Statements (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 Tempur-Pedic International (Successor to Tempur World) 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. 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.

(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 Tempur-Pedic International (Successor to Tempur World) has allocated the purchase price of Tempur World (Predecessor to Tempur-Pedic

International) 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 nine months ended September 30, 2003 approximated:

	Successor
Balance as of December 31, 2002	$ 164,644,200
Foreign currency translation adjustments	(190,700)
Purchase accounting adjustments	44,736,300
Balance as of September 30, 2003	$ 209,189,800

The purchase accounting adjustments primarily relate to approximately $40 million paid to former stockholders of Tempur World (Predecessor to Tempur-Pedic International) pursuant to the Agreement and Plan of Merger and Contribution Agreement, dated as of October 4, 2002.

The goodwill has been preliminarily allocated to the Domestic and International segments as follows:

Domestic	$ 95,787,600
International	$ 113,402,200

(3) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*—The Statements include the accounts of Tempur-Pedic International (Successor to Tempur World) and its subsidiaries and Tempur World (Predecessor to Tempur-Pedic International) 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.

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(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 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. Tempur-Pedic International (Successor to Tempur World) had approximately $4,747,200 of deferred revenue included in Accrued expenses as of September 30, 2003.

Tempur-Pedic International (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 $13,610,400 for the nine months ended September 30, 2003. Amounts included in Cost of sales for shipping and handling are approximately $31,256,700 for the nine months ended September 30, 2003.

Tempur World (Predecessor to Tempur-Pedic International) 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 $8,508,000 for the nine months ended September 30, 2002. Amounts included in Cost of sales for shipping and handling are approximately $17,319,400 for the nine months ended September 30, 2002.

(f) *Accrued Sales Returns*—Estimated sales returns are provided at the time of sale based on historical sales returns. Tempur-Pedic International (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. Tempur-Pedic International (Successor to Tempur World) had the following activity for sales returns for the nine months ended September 30, 2003 (approximated):

	Successor
Balance as of December 1, 2002	$ 4,072,100
Amounts accrued	27,425,700
Returns charged to accrual	(27,377,000)
Balance as of September 30, 2003	$ 4,120,800

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(g) *Advertising Costs*—Tempur-Pedic International (Successor to Tempur World) 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 $47,195,100 for the nine months ended September 30, 2003.

Tempur World (Predecessor to Tempur-Pedic International) 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 $32,348,500 for the nine months ended September 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 Tempur-Pedic International (Successor to Tempur World) Consolidated Condensed Interim Balance Sheet as of September 30, 2003 is approximately $2,883,333.

(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
	September 30, 2003
Finished goods	$ 34,131,700
Work-in-process	7,670,300
Raw materials and supplies	13,397,800
	$ 55,199,800

(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 Tempur-Pedic International (Successor to Tempur World) was approximately $10,615,000 for the nine months ended September 30, 2003.

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Depreciation expense relating to Tempur World (Predecessor to Tempur-Pedic International) was approximately $8,745,900 for the nine months ended September 30, 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 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).

Consistent with SFAS 141, the Company has used the allocation period to identify and measure the assets acquired and the liabilities assumed in the Tempur acquisition. The Company in all material respects has finalized their purchase accounting and do not anticipate the identification of other identifiable intangibles or revisions to the estimated useful life of those intangibles identified during the closing of the allocation period. The Company anticipates finalizing the purchase accounting allocation related to certain accrued liabilities (primarily warranties, sales returns and income taxes) during the fourth quarter. The Company does not anticipate there to be a material adjustment related to these open matters.

The following table summarizes information about the Company's preliminary allocation of other intangible assets (approximated):

		As of September 30, 2003	
	Useful Lives (years)	Gross Carrying Amount	Accumulated Amortization
Unamortized indefinite life intangible assets:			
Trademarks		$ 55,000,000	$ —
Amortized intangible assets:			
Technology	10	$ 16,000,000	$ 1,467,000
Patents and other	5	5,219,000	967,000
Customer database	5	4,200,000	770,000
Foam formula	10	3,700,000	339,000
Non-competition agreements and other	1.5	1,825,000	1,130,000
Total		$ 85,944,000	$ 4,673,000

Tempur-Pedic International (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 $3,790,000 for the nine months ended September 30, 2003.

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Based on identified intangible assets recorded as of September 30, 2003, the annual amortization expense is expected to be as follows (approximated):

Twelve Months Ending September 30,	
2004	$ 4,438,100
2005	3,813,700
2006	3,813,700
2007	3,813,700
2008	2,127,000

(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 Equipment on the Consolidated Condensed Interim Balance Sheet as of September 30, 2003.

(m) *Warranties*—The Company provides 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 Consolidated Condensed Interim Balance Sheet. Tempur-Pedic International (Successor to Tempur World) had the following activity for warranties for the nine months ended September 30, 2003 (approximated):

	Successor
Balance as of December 31, 2002	$ 2,881,100
Amounts accrued	2,302,300
Warranty charged to accrual	(1,361,300)
Balance as of September 30, 2003	$ 3,822,100

(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 statement of income in the period that included the enactment date. In accordance with SFAS 5, “Accounting for Contingencies”, the Company accrues for probable foreign and domestic tax obligations as required by facts and circumstances in the various regulatory environments.

In conjunction with the acquisition of Tempur World (Predecessor to Tempur-Pedic International) on November 1, 2002, Tempur-Pedic International (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, Tempur-Pedic International (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.

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Undistributed foreign earnings as of September 30, 2003 were approximately $68,435,000. 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; however, the Company's management does not intend to exercise these events.

(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. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

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, unvested options are forfeited upon separation of employment. In accordance with APB 25, the Company has recognized compensation expense based on its estimate of the numbers or options that the holders ultimately will retain that otherwise would have been forfeited, absent the notification.

Pro forma information in accordance with SFAS 123 is as follows:

	Successor 2003
Net income as Reported	$ 25,989,500
Add: Stock-based employee compensation expense included in reported net income	1,879,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,248,000)
Pro forma net income	$ 25,620,500
Earnings per share:	
Basic	$ 2.13
Diluted	$ .28
Basic—pro forma Net Income	$ 2.08
Diluted—pro forma Net Income	$ .28

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The Company has omitted Predecessor earnings per share as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur Acquisition.

In connection with stock option grants to certain employees, the Company recorded compensation expense during 2003 in the amount of approximately $1,879,000. The Company has recorded unearned stock-based compensation of $11,294,000 as of September 30, 2003. The unearned stock-based compensation will be amortized to compensation expense over the respective vesting term, based on the "graded vesting" methodology.

(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 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. On October 10, 2003, the FASB issued Staff Position (FSP) FIN 46-6, "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities," (the FSP). The FSP is a broad-based deferral of the effective date of FIN 46 for VIEs created or acquired prior to February 1, 2003 until the end of periods ending after December 15, 2003. Although we do not expect FIN 46 to have a material impact on our consolidated financial statements, we are continuing to evaluate our interest in other entities in accordance with this complex interpretation.

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. The Company adopted SFAS 145 during 2003.

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 (EITF 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 EITF 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, 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.

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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. The adoption of this Statement did not have a significant impact on our Consolidated Condensed Interim 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 SFAS 150. The adoption of SFAS 150 did not have a significant impact on our Consolidated Condensed Interim Financial Statements.

(5) Supplemental Cash Flow Information

Cash payments for interest and cash for income taxes are as follows (approximated):

	Nine Months Ended September 30,	
	Predecessor 2002	Successor 2003
Interest	$ 4,755,900	$ 13,178,800
Income taxes, net of refunds	$ 10,744,200	$ 8,874,900

(6) Long-term Debt

(a) *Secured Debt Financing*—Tempur-Pedic International (Successor to Tempur World) amended and restated its senior secured credit facility (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 team loans and revolving credit facilities. The Senior Facility consist 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 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.

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Borrowing availability under the U.S. and European revolving credit facilities is subject to a U.S. Borrowing Base and European Borrowing Base, each as defined in the Loan Agreement. At September 30, 2003, Tempur-Pedic International (Successor to Tempur World) had unused availability under the Senior Debt Financing of approximately $18,161,900 and $15,544,400, respectively.

The aggregate amount of letters of credit outstanding under the US Facility is approximately $100,000 as of September 30, 2003. The aggregate amount of letters of credit outstanding under the European Facility is approximately $4,455,600 as of September 30, 2003.

The Loan Agreement for the debt makes Tempur-Pedic International (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. Tempur-Pedic International (Successor to Tempur World) was in compliance with its covenants as of September 30, 2003.

(b) *Senior Subordinated Debt*—In conjunction with the issuance of the above notes, certain subsidiaries of Tempur-Pedic International (Successor to Tempur World), issued $150 million of 10.25% Senior Subordinated Notes due 2010. The notes were sold in a private placement to "qualified institutional buyers" under Rule 144A. Pursuant to the terms of the issuance, on September 23, 2003, the Company filed a registration statement to register the notes with the Securities and Exchange Commission. Interest on the notes is payable on February 15 and August 15 of each year, beginning February 15, 2004.

The notes are unsecured senior subordinated indebtedness of the Issuers and are guaranteed on an unsecured senior subordinated basis by Tempur-Pedic International (Successor to Tempur World) as defined. The notes have no mandatory redemption or sinking fund requirements; however, they do provide for partial redemption at the Issuer's option under certain circumstances prior to August 15, 2006 and full redemption at the Issuer's option on or after August 15, 2007.

The notes contain certain covenants that restrict, among other things, the ability of the Company to incur additional indebtedness and issue preferred stock; pay dividends or make other distributions other than the recapitalization dividend; 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. In addition, the Company is subject to certain financial covenants, including: minimum interest coverage ratio; minimum fixed charge coverage ratio; maximum leverage ratio; and a limitation on capital expenditures, as defined. The Company is not in compliance with certain non-financial covenants as of September 30, 2003, but has obtained a waiver from its lenders.

Proceeds from the Senior Facility were used to simultaneously repay indebtedness in an aggregate principal amount of $50,000,000, and all interest and prepayment premiums. In addition, 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 $39,434,000 to the former stockholders of Tempur World (Predecessor to Tempur-Pedic International) pursuant to the Agreement and Plan of Merger and the Contribution Agreement, dated as of October 4, 2002, and (b) to pay a special dividend of approximately $160,000,000 to all equityholders of record as of August 21, 2003.

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(c) *Long-term Debt*—Long-term debt for Tempur-Pedic International (Successor to Tempur World) at September 30, 2003 consisted of the following (approximated):

	Successor
	September 30, 2003
United States Term Loan A payable to a lender, interest at the IBOR plus margin (4.4%), principal payments due quarterly through September 30, 2008 with a final payment on November 1, 2008	$ 29,169,000
United States Term Loan B payable to a lender, interest at the IBOR plus margin (4.6%), principal payments due quarterly through June 30, 2009	134,662,500
European Term Loan A (USD Denominated) payable to a lender, interest at IBOR plus margin (4.4%), principal payments due quarterly through September 30, 2008 with a final payment on November 1, 2008	38,892,000
European Term Loan A (EUR Denominated) payable to a lender, interest at IBOR plus margin (5.4%), principal payments due quarterly through September 30, 2008 with a final payment on November 1, 2008	25,434,200
United States Long-Term Revolving Credit Facility payable to a lender, interest at IBOR and index Rate plus margin (5.6%), commitment through and due November 1, 2008	1,738,100
United States Subordinated Notes payable to institutional investors, interest at 10.25%, commitment through and due August 15, 2010	150,000,000
Mortgages payable to a bank, secured by certain property, plant and equipment and other assets, bearing fixed interest at 4.4% to 5.1%	2,101,200
	381,997,000
Less: Current portion	12,318,600
Long-term debt	$ 369,678,400

The long-term debt of Tempur-Pedic International (Successor to Tempur World) is scheduled to mature as follows (approximated):

12 Months Ending September 30,	
2004	$ 12,318,600
2005	14,924,400
2006	15,777,200
2007	21,108,700
2008	26,003,200
Thereafter	291,864,900
Total	$ 381,997,000

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(7) Stockholders' Equity

The changes to Tempur-Pedic International (Successor to Tempur World) Stockholders' equity for the nine months ended September 30, 2003 primarily consisted of an increase of approximately $8.8 million of accrued and unpaid dividends to the Convertible Preferred Series A stockholders, an increase to Additional Paid in Capital of approximately $4.7 million related to the conversion of 1,850,625 options into Common Stock—Class B-1 shares and the recognition of compensation expense related to nominal stock option issuances during 2003, and a $160 million decrease to retained earnings for dividends declared and paid to equityholders of Tempur-Pedic International (Successor to Tempur World).

Comprehensive income for Tempur-Pedic International (Successor to Tempur World) was approximately $32,247,300 for the nine months ended September 30, 2003.

Comprehensive income for Tempur World (Predecessor to Tempur-Pedic International) was approximately $21,574,300 for the nine months ended September 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 2008. Such leases also contain renewal and purchase options. Tempur-Pedic International (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 $2,574,100 for the nine months ended September 30, 2003 for Tempur-Pedic International (Successor to Tempur World).

Operating lease expenses were approximately $1,420,900 for the nine months ended September 31, 2002 for Tempur World (Predecessor to Tempur-Pedic International).

(b) *Contingencies*—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.

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 foreign currency forward contracts held by the Company are for the exchange in United States dollars, British Pound Sterling and Japanese Yen for the Danish Krone.

A sensitivity analysis indicates that if the exchange rates between the United States dollar and foreign currencies at September 30, 2003 increased 10%, the Company would incur losses of approximately $638,400 on foreign currency forward contracts outstanding at September 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 $21,508,003 and an initial value in excess of fair value of approximately $183,400 included in other current assets on the Consolidated Condensed Interim Balance Sheet as of September 30, 2003. Tempur-Pedic International (Successor to Tempur World) incurred foreign exchange losses on derivative financial instruments of approximately $3,599,200 for the nine months ended September 30, 2003, which are included in the Consolidated Condensed Interim Statements of Operations. These losses are offset primarily by gains in the underlying hedged items.

Tempur World (Predecessor to Tempur-Pedic International) incurred foreign exchange losses on derivative financial instruments of approximately $859,400 for the nine months ended September 30, 2002, which are included in the accompanying Consolidated Condensed Interim Statements of Operations.

During January 2003, Tempur-Pedic International (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 September 30, 2003 of approximately $237,300 is included in the accompanying Consolidated Condensed Interim Balance Sheet, and the changes in fair value are charged to expense.

(10) Income Taxes

The effective tax rate for Tempur-Pedic International (Successor to Tempur World) for the nine months ended September 30, 2003 was 40.0%. Reconciling items between the federal statutory income tax rate of 35% and the effective tax rate include state income taxes and differences in United States statutory rates and foreign taxes rates, and certain other permanent differences.

The effective tax rate for Tempur World (Predecessor to Tempur-Pedic International) for the nine months ended September 30, 2002 was 45.5%. 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.

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During 2003, the Danish taxing authority commenced an examination of years 1999 to 2001. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax have been provided for any adjustments that are expected to result for these years and does not anticipate any material adverse effects on its consolidated financial position or results of operations in the event of an unfavorable resolution.

(11) Major Customers

The five largest customers by net sales accounted for approximately 22.40% of net sales for the nine months ended September 30, 2003, one of which accounted for approximately 7.86% of net sales, all of which was in the Domestic segment. These same customers also accounted for approximately 17.78% of accounts receivable as of September 30, 2003. The loss of one or more of these customers could have a material adverse effect on Tempur-Pedic International (Successor to Tempur World).

(12) Earnings Per Share

	For the Nine Months Ended September 30, 2003
Numerator:	
Net income	$ 25,989,000
Preferred stock dividends	(8,764,000)
Net income (loss) available to common stockholders—numerator for basic earnings per share	17,225,000
Effect of dilutive securities:	
Preferred stock dividends	8,764,000
Net income available to common stockholders after assumed conversion—numerator for diluted earnings per share	$ 25,989,000
Denominator:	
Denominator for basic earnings per share—weighted average shares	8,091,023
Effect of dilutive securities:	
Employee stock options	3,700,298
Warrants	4,458,305
Convertible preferred stock	76,893,417
Dilutive potential common shares	85,052,020
Denominator for diluted earnings per share—adjusted weighted average shares	93,143,043
Basic earnings per share	$ 2.13
Diluted earnings per share	$ .28

The Company has omitted Predecessor earnings per share as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur Acquisition.

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(13) Business Segment Information

SFAS 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 Nine Months Ended September 30,	
	Predecessor 2002	Successor 2003
Net sales to external customers:		
Corporate	$ —	$ —
Domestic	114,080,000	199,655,000
International	91,864,000	142,704,000
	$ 205,944,000	$ 342,359,000
Intercompany sales:		
Corporate	$ —	$ —
Domestic	—	—
International	(14,957,000)	(33,729,000)
Intercompany eliminations	14,957,000	33,729,000
	$ —	$ —
Operating income:		
Corporate	$ (3,586,000)	$ (8,444,000)
Domestic	20,781,000	36,098,000
International	15,300,000	30,886,000
Intercompany eliminations	—	—
	$ 32,495,000	$ 58,540,000
Total assets:		
Corporate	$ 70,126,000	$ 168,855,000
Domestic	122,823,000	403,326,000
International	130,058,000	331,910,000
Intercompany eliminations	(129,574,000)	(368,908,000)
	$ 193,433,000	$ 535,183,000

The Company's revenues are generated by selling a group of related products through four distribution channels: direct, retail, healthcare and third party. The following table sets forth net sales by significant product group:

	Nine Months ended September 30,	
	2002	2003
Mattresses	$ 108,830,000	$ 181,112,700
Pillows	57,198,000	95,275,900
All other	39,916,100	65,969,900
	$ 205,944,100	$ 342,358,500

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 $2,899,400 for Tempur World (Predecessor to Tempur-Pedic International) for the nine months ended September 30, 2002 are allocated to operating income in the Domestic segment. These profits amounting to approximately $9,297,700 for Tempur-Pedic International (Successor to Tempur World) for the nine months ended September 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 Condensed Interim Financial Statements herein present all of the required disclosures for a single segment.

(14) Condensed Consolidating Interim Financial Information

On August 15, 2003, Tempur-Pedic, Inc. and Tempur Production USA, Inc. (Issuers) issued $150 million aggregate principal amount of 10.25% Senior Subordinated Notes due 2010 (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, Tempur-Pedic International (Successor to Tempur World), and two intermediate parent corporations (referred to as the "Combined Guarantor Parents" and all of Tempur-Pedic International (Successor to Tempur World) current and future domestic subsidiaries (referred to collectively as the Combined Guarantor Subsidiaries), other than the Issuers. The Issuers and subsidiary guarantors are indirectly 100% owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are 100% owned subsidiaries of the Issuers. The foreign subsidiaries (referred to as Combined Non-Guarantor Subsidiaries) represent the foreign operations of the Company and will not guarantee this debt. The following financial information presents condensed consolidating balance sheets for September 30, 2003, statement of operations and statements of cash flows for the nine months ended September 30, 2003 and September 30, 2002 for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet
As of September 30, 2003

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets	$ 3,060,000	$ 94,011,000	$ 5,944,000	$ 4,359,000	$ 115,759,000	$ (87,123,000)	$ 136,010,000
Property, plant and equipment, net	—	42,950,000	164,000	1,558,000	53,142,000	—	97,814,000
Other noncurrent assets	21,061,000	260,448,000	138,626,000	—	163,009,000	(281,785,000)	301,359,000
Total assets	24,121,000	397,409,000	144,734,000	5,917,000	331,910,000	(368,908,000)	535,183,000
Current liabilities	127,000	58,875,000	37,631,000	36,383,000	53,608,000	(87,132,000)	99,492,000
Noncurrent liabilities	32,000,000	479,851,000	94,468,000	162,000	229,749,000	(426,062,000)	410,168,000
Equity (deficit)	(8,006,000)	(141,317,000)	12,635,000	(30,628,000)	48,553,000	144,286,000	25,523,000
Total liabilities and equity (deficit)	$ 24,121,000	$ 397,409,000	$ 144,734,000	$ 5,917,000	$ 331,910,000	$ (368,908,000)	$ 535,183,000

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Condensed Consolidating Statement of Operations
For the Nine Months Ended September 30, 2003

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net Sales	$	$ 136,964,000	$ —	$ 62,691,000	$ 176,433,000	$ (33,729,000)	$ 342,359,000
Cost of goods sold		78,125,000	(426,000)	27,021,000	87,814,000	(33,729,000)	158,805,000
Gross profit	—	58,839,000	426,000	35,670,000	88,619,000	—	183,554,000
Operating Expenses	1,835,000	37,322,000	7,035,000	30,387,000	48,436,000	—	125,015,000
Operating Income	(1,835,000)	21,517,000	(6,609,000)	5,283,000	40,183,000	—	58,539,000
Interest income (expense) net	1,000	(5,351,000)	(5,738,000)	(46,000)	(2,608,000)	—	(13,742,000)
Other income (loss)	(6,000)	8,956,000	(497,000)	(9,089,000)	(840,000)	—	(1,476,000)
Income Taxes	(5,000)	6,659,000	(2,898,000)	—	13,576,000	—	17,332,000
Net income (loss)	$ (1,835,000)	$ 18,463,000	$ (9,946,000)	$ (3,852,000)	$ 23,159,000	$ —	$ 25,989,000

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2003

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (1,835,000)	$ 18,463,000	$ (9,946,000)	$ (3,852,000)	$ 23,159,000	$ —	$ 25,989,000
Non-cash expenses	1,803,000	15,479,000	2,113,000	236,000	4,690,000	—	24,321,000
Changes in working capital	199,464,000	(211,019,000)	9,443,000	4,011,000	(10,439,000)	—	(8,540,000)
Net cash provided by operating activities	199,432,000	(177,077,000)	1,610,000	395,000	17,410,000	—	41,770,000
Net cash used for investing activities	—	(13,048,000)	(321,000)	—	(3,175,000)	—	(16,544,000)
Net cash provided by financing activities	(196,497,000)	190,765,000	(1,421,000)	—	(17,655,000)		(24,808,000)
Effect on exchange rate changes on cash	—	—	—	—	(560,000)	—	(560,000)
Net increase (decrease) in cash and cash equivalents	2,935,000	640,000	(132,000)	395,000	(3,980,000)	—	(142,000)
Cash and cash equivalent at beginning of the of the year	—	654,000	610,000	—	11,390,000	—	12,654,000
Cash and cash equivalents at end of period	$ 2,935,000	$ 1,294,000	$ 478,000	$ 395,000	$ 7,410,000	$ —	$ 12,512,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES
(Successor to Tempur World, Inc.)
NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)—(Continued)

Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$ 73,758,000	$ —	$ 40,322,000	$ 106,461,000	$ (14,597,000)	$ 205,944,000
Cost of goods sold		39,390,000	(253,000)	17,256,000	54,026,000	(14,597,000)	95,822,000
Gross profit	—	34,368,000	253,000	23,066,000	52,435,000	—	110,122,000
Operating expenses		17,336,000	3,839,000	22,216,000	34,236,000	—	77,627,000
Operating income	—	17,032,000	(3,586,000)	850,000	18,199,000	—	32,495,000
Interest income (expense), net		(2,356,000)	(1,438,000)	(64,000)	(1,855,000)	—	(5,713,000)
Other income (loss)		6,230,000	(6,000)	(6,125,000)	553,000	—	652,000
Income taxes		6,133,000	(1,788,000)	—	8,148,000	—	12,493,000
Net income (loss)	$ —	$ 14,773,000	$ (3,242,000)	$ (5,339,000)	$ 8,749,000	$ —	$ 14,941,000

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ —	$ 14,773,000	$ (3,242,000)	$ (5,339,000)	$ 8,749,000	$ —	$ 14,941,000
Non-cash expenses	—	6,882,000	314,000	487,000	1,444,000	—	9,127,000
Changes in working capital	—	(12,741,000)	3,261,000	6,198,000	(5,695,000)	—	(8,977,000)
Net cash provided by operating activities	—	8,914,000	333,000	1,346,000	4,498,000	—	15,091,000
Net cash used for investing activities	—	(2,797,000)	(116,000)	(1,381,000)	760,000	—	(3,534,000)
Net cash provided by financing activities	—	(6,650,000)	80,000	—	(6,760,000)	—	(13,330,000)
Effect on exchange rate changes on cash	—	—	—	—	(247,000)	—	(247,000)
Net increase (decrease) in cash and cash equivalents	—	(533,000)	297,000	(35,000)	(1,749,000)	—	(2,020,000)
Cash and cash equivalents at beginning of the year	—	2,001,000	7,000	35,000	5,495,000	—	7,538,000
Cash and cash equivalents at end of period	$ —	$ 1,468,000	$ 304,000	$ —	$ 3,746,000	$ —	$ 5,518,000

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Tempur-Pedic International Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Tempur-Pedic International 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 Tempur-Pedic International 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, except for Note 11a, as to
which the date is November 20, 2003

TEMPUR-PEDIC INTERNATIONAL 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*	164,644,236
Other intangible assets, net of amortization of $880,000	*2, 3k*	85,064,754
Deferred financing costs and other non-current assets, net	*2*	9,315,530
Total assets		$ 448,592,814
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*	42,499,840
Other long-term liabilities		2,226,541
Total liabilities		296,986,706
Commitments and contingencies	*9*	
Stockholders' Equity:		
Series A Convertible Preferred Stock, $.01 par value, 94,500,000 shares authorized, 76,893,416 shares issued and outstanding	*11b*	148,421,852
Class A Common Stock, $.01 par value, 13,125,000 shares authorized, 7,353,150 shares issued and outstanding	*2*	140
Class B-1 Common Stock, $.01 par value, 157,500,000 shares authorized, 461,286 shares issued and outstanding		9
Additional paid in capital		4,864,496
Class B-1 Common Stock Warrants	*11c*	2,347,788
Notes receivable	*2*	(100,000)
Deferred stock compensation, net of amortization of $2,390		(140,993)
Retained deficit		(5,205,595)
Accumulated other comprehensive income		1,418,411
Total stockholders' equity		151,606,108
Total liabilities and stockholders' equity		$ 448,592,814

The accompanying notes to consolidated financial statements are an integral part of this statement.

Tempur-Pedic International 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		8,330,745
Research and development expenses	*3o*	163,024
Operating loss		(983,459)
Other income (expense), net:		
Interest income		91,424
Interest expense		(3,046,460)
Foreign currency exchange gains	*3d, 10*	783,682
Other income, net		547,151
Total other expense		(1,624,203)
Loss before income taxes		(2,607,662)
Income tax provision	*12*	639,734
Net loss		(3,247,396)
Preferred stock dividends		1,958,199
Net loss attributable to common stockholders		$ (5,205,595)
Basic and diluted net loss per share	*15*	$ (.67)

The accompanying notes to consolidated financial statements are an integral part of this statement.

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	76,893,416	$146,463,653	7,353,150	$ 140	461,286	$ 9	$ 4,864,496	$2,347,788	$ (100,000)	$ (143,383)	$ —	$ —	$ 153,432,703
Net loss plus changes in accumulated comprehensive income:													
Net Loss		—		—		—	—	—	—	—	(3,247,396)	—	(3,247,396)
Foreign currency translation adjustments, net of tax		—		—		—	—	—	—	—	—	1,418,411	1,418,411
Dividends on Preferred Stock		1,958,199		—		—	—	—	—	—	(1,958,199)	—	—
Amortization of deferred stock compensation		—		—		—	—	—	—	2,390	—	—	2,390
Balance, December 31, 2002	76,893,416	$148,421,852	7,353,150	$ 140	461,286	$ 9	$ 4,864,496	$2,347,788	$ (100,000)	$ (140,993)	$ (5,205,595)	$ 1,418,411	$ 151,606,108

The accompanying notes to consolidated financial statements are an integral part of this statement.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Two Months Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (3,247,396)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	3,305,967
Amortization of deferred financing costs	286,796
Amortization of original issue discount	84,173
Allowance for doubtful accounts	500,531
Deferred income taxes	(2,483,421)
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	827,291
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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company

Tempur-Pedic International Inc. (collectively with its subsidiaries, Tempur-Pedic International 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, Tempur-Pedic International acquired Tempur World (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	86,260,700
Other assets	9,245,300
Accounts payable	(17,069,900)
Accrued expenses	(27,515,400)
Deferred taxes	(41,423,100)
Other current liabilities	(4,812,400)
Long term debt	(88,816,500)
Other non-current liabilities and other	(2,215,300)
	94,548,500
Adjustment for carryover basis of continuing stockholders	9,384,700
Goodwill	164,550,600
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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

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 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	5,597,900
Returns charged to accrual	(5,163,000)
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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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 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).

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about the Company's allocation of other intangible assets (approximated):

		As of December 31, 2002	
	Useful Lives (years)	Gross Carrying Amount	Accumulated Amortization
Unamortized indefinite life intangible assets:			
Trademarks		$ 55,000,000	$ —
Amortized intangible assets:			
Technology	10	$ 16,000,000	$ 267,000
Patents and other	5	5,219,000	182,000
Customer database	5	4,200,000	140,000
Foam Formula	10	3,700,000	62,000
Non-competition agreements and other	1.5	1,825,000	229,000
Total		$ 85,944,000	$ 880,000

The Company recognized approximately $317,000 related to sales backlog and was amortized over the two month period ended December 31, 2002.

Based on identified intangible assets recorded as of December 31, 2003, the annual amortization expense is expected to be as follows (approximated):

Twelve Months Ending December 31,	
2003	$ 5,053,500
2004	4,123,500
2005	3,810,000
2006	3,810,000
2007	3,503,300

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
Purchase accounting adjustments	(1,159,000)
Foreign currency translation adjustments	93,600
Balance as of December 31, 2002	$ 164,644,200

(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

(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)(e)). 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)	$ (3,247,400)
Add: additional stock-based employee compensation, net of tax	(200)
Pro forma net loss	$ (3,247,600)
Earnings (loss) per share:	
Basic and diluted (as reported)	$ (.67)
Basic and diluted (pro forma)	$ (.67)

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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 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), "Tempur-Pedic International 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 SFAS 150. The company does not believe that the adoption of SFAS 150 will have a significant impact on the 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 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 Tempur-Pedic International and each of its direct and indirect United States subsidiaries and (ii) a pledge of all of the capital stock of each of Tempur-Pedic International'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 Tempur-Pedic International'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 Tempur-Pedic International and each of its direct and indirect United States subsidiaries. In addition, the European portion of the Sub Debt is guaranteed by certain of Tempur-Pedic International'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.

(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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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) On October 17, 2003, Tempur-Pedic International filed a registration statement on Form S-1 with the Securities and Exchange Commission for an initial public offering of shares of its common stock. Tempur-Pedic International is offering 6,250,000 shares and certain selling stockholders are offering an aggregate of, 12,500,000 shares and may sell an additional 2,812,500 shares if the underwriters exercise their overallotment in full. The price range for this offering is currently estimated to be between $15 and $17 per share. Upon completion of the offering, all of the outstanding shares of Tempur-Pedic International's convertible preferred stock and all outstanding classes of its common stock will convert into common stock of Tempur-Pedic International and all of Tempur-Pedic International's outstanding warrants shall be exercised or converted. In addition, in connection with the offering, the Company's board of directors approved a 525-for-one stock split of the Company's common stock, in the form of a stock dividend, and increased the number of authorized shares of common stock to 300,000,000 shares. All share and per share amounts, since the Tempur Acquisition, have been restated to retroactively reflect the stock split.

(b) *Equity Transaction*—In connection with the Tempur Acquisition, Tempur-Pedic International was formed. The authorized capital stock of Tempur-Pedic International consists of 131,250,000 shares of Preferred Stock, $.01 par value per share, of which 94,500,000 shares are further designated as Series A Convertible Preferred Stock (the "Series A Preferred Stock"), 13,125,000 shares of Class A Common Stock, $.01 par value per share (the "Class A Common Stock"), 157,500,000 shares of Class B-1 Voting Common Stock, $.01 par value per share (the "Class B-1 Common Stock"), and 13,125,000 shares of Class B-2 Non-Voting Common Stock, $.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.

(c) *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.

(d) *Stockholder Notes*—In connection with the organization of the Company, on November 1, 2002, the Company issued an aggregate of 461,286 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.

(e) *Tempur-Pedic International 2002 Stock Option Plan*—In connection with the Tempur Acquisition, on November 1, 2002, the Company adopted the Tempur-Pedic International 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 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, 58,800 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 6,053,250 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	6,053,250	$ 1.53
Granted	—	—
Exercised	—	—
Terminated	—	—
December 31, 2002	6,053,250	$ 1.53

Options outstanding at December 31, 2002 had exercise prices ranging from $1.52 – $1.90 per share and expire on November 1, 2012. The weighted average fair value at date of grant for options granted during 2002 was $.004. The weighted-average remaining contractual life is 10 years.

(f) *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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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	(1,967,900)
State	(309,400)
Foreign	(206,100)
Total deferred	(2,483,400)
Total provision for income taxes	$ 639,700

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	$ (912,700)	35.0%
State income taxes, net of federal benefit	(39,100)	1.5
Foreign tax differential	(35,000)	1.3
Change in valuation allowance	2,077,500	(79.7)
Foreign tax credit, net of Section 78 gross up	(112,300)	4.3
Subpart F income	163,200	(6.3)
Permanent and other	(501,900)	19.2
Effective income tax provision	$ 639,700	(24.5%)

TEMPUR-PEDIC INTERNATIONAL 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 Tempur-Pedic International as if, in effect, earned directly by Tempur-Pedic International.

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	(7,217,300)
Intangible assets	(32,650,000)
Total deferred tax liabilities	(41,124,300)
Net deferred tax liability	$ (37,698,000)

(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.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(15) Earnings Per Share

	Two Months Ended December 31, 2002
Numerator:	
Net loss	$ (3,247,400)
Preferred stock dividends	(1,958,200)
Net income (loss) available to common shareholders—numerator for basic earnings per share	(5,205,600)
Effect of dilutive securities:	
Preferred stock dividends	—
	—
Net income (loss) available to common shareholders after assumed conversion—numerator for diluted earnings per share	(5,205,600)
Denominator:	
Denominator for basic earnings per share—weighted average shares	7,814,625
Effect of dilutive securities:	
Employee stock options	—
Warrants	—
Convertible preferred stock	—
Dilutive potential common shares	—
Denominator for diluted earnings per share—adjusted weighted average shares	7,814,625
Basic loss per share	$ (.67)
Diluted loss per share	$ (.67)

In accordance with SFAS 128, “Earnings per Share,” 76,650,000 common stock equivalent shares upon conversion of Series A Convertible Preferred Stock in 2002 have been excluded from the computation of diluted earnings per share because their effect would be antidilutive. In addition, the impact of 6,300,000 employee stock options in 2002 were not included in the computation of diluted earnings per share because their effect would be antidilutive.

(16) 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

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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 loss:	
Corporate	$ (1,136,000)
Domestic	2,140,000
International	(1,987,000)
	$ (983,000)
Depreciation and amortization:	
Corporate	$ 597,000
Domestic	1,318,000
International	1,391,000
	$ 3,306,000
Total assets:	
Corporate	$ 91,180,000
Domestic	311,312,000
International	314,471,000
Intercompany eliminations	(268,370,000)
	$ 448,593,000
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

TEMPUR-PEDIC INTERNATIONAL 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.

(17) Condensed Consolidating Financial Information

Certain unsecured debt obligations (Senior Subordinated Notes) will be issued by Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the Issuers). 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, Tempur-Pedic International, (Successor to Tempur World) and two intermediate parent corporations (referred to as the Combined Guarantor Parents) and all of Tempur-Pedic International's (Successor to Tempur World) current and future domestic subsidiaries (referred to collectively as the Combined Issuer Subsidiaries), other than the Issuers. The Issuers and subsidiary guarantors are indirectly 100% owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are 100% 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 two months ended December 31, 2002 for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet
As of December 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets	$ —	$ 50,271,000	$ 2,883,000	$ 2,239,000	$ 85,688,000	$ (39,799,000)	$ 101,282,000
Property, plant and equipment, net	—	33,707,000	199,000	1,308,000	53,072,000	—	88,286,000
Other noncurrent assets	152,569,000	223,787,000	88,098,000	—	175,711,000	(381,140,000)	259,025,000
Total assets	$ 152,569,000	$ 307,765,000	$ 91,180,000	$ 3,547,000	$ 314,471,000	$ (420,939,000)	$ 448,593,000
Current liabilities	$ —	$ 21,477,000	$ 21,075,000	$ 29,932,000	$ 37,108,000	$ (39,650,000)	$ 69,942,000
Noncurrent liabilities	—	132,019,000	147,459,000	392,000	96,184,000	(149,009,000)	227,045,000
Equity(deficit)	152,569,000	154,269,000	(77,354,000)	(26,777,000)	181,179,000	(232,280,000)	151,606,000
Total liabilities and equity (deficit)	$ 152,569,000	$ 307,765,000	$ 91,180,000	$ 3,547,000	$ 314,471,000	$ (420,939,000)	$ 448,593,000

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Consolidating Statement of Operations
For the Two Months Ended December 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$	$ 21,578,000	$ —	$ 12,282,000	$ 29,010,000	$ (2,226,000)	$ 60,644,000
Cost of goods sold		15,491,000	(73,000)	5,031,000	19,588,000	(2,226,000)	37,811,000
Gross profit	—	6,087,000	73,000	7,251,000	9,422,000	—	22,833,000
Operating expenses	3,000	5,063,000	1,205,000	6,785,000	10,759,000	—	23,815,000
Operating income	(3,000)	1,024,000	(1,132,000)	466,000	(1,337,000)	—	(982,000)
Interest income (expense) net		(644,000)	(1,944,000)	(20,000)	(348,000)	—	(2,956,000)
Other income (loss)		2,116,000	420,000	(1,833,000)	628,000	—	1,331,000
Income taxes		584,000	(875,000)	—	931,000	—	640,000
Net income (loss)	$ (3,000)	$ 1,912,000	$ (1,781,000)	$ (1,387,000)	$ (1,988,000)	$ —	$ (3,247,000)

Condensed Consolidating Statement of Cash Flows
For the Two Months Ended December 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ (3,000)	$ 1,912,000	$ (1,781,000)	$ (1,387,000)	$ (1,988,000)	$ —	$ (3,247,000)
Non-cash expenses		(29,000)	(8,472,000)	(48,000)	7,826,000	—	(723,000)
Changes in working capital		(8,931,000)	12,729,000	1,411,000	11,146,000	—	16,355,000
Net cash provided by operating activities	(3,000)	(7,048,000)	2,476,000	(24,000)	16,984,000	—	12,385,000
Net cash used for investing activities		(354,000)	(7,000)	—	(1,498,000)	—	(1,859,000)
Net cash provided by financing activities	3,000	9,012,000	(2,267,000)	—	(10,968,000)		(4,220,000)
Effect on exchange rate changes on cash		—		—	596,000	—	596,000
Net increase (decrease) in cash and cash equivalents	—	1,610,000	202,000	(24,000)	5,114,000	—	6,902,000
Cash and cash equivalent at beginning of the of the year		(932,000)	407,000	—	6,277,000	—	5,752,000
Cash and cash equivalents at end of period	$	$ 678,000	$ 609,000	$ (24,000)	$ 11,391,000	$ —	$ 12,654,000

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 Tempur-Pedic International 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 the disclosures 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

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International 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 Tempur-Pedic International 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 Tempur-Pedic International 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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International 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 Tempur-Pedic International 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, Tempur-Pedic International 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 Tempur-Pedic International.

(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 Tempur-Pedic International 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	25,204,900
Returns charged to accrual	(23,488,300)
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.

The amounts of advertising costs deferred and included in the Consolidated Balance Sheets as of October 31, 2002 were approximately $1,112,500.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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.

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.

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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 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, Tempur-Pedic International 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., Tempur-Pedic International 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.

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

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(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 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

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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 SFAS 150. The company does not believe that the adoption of SFAS 150 will have a significant impact on the 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.

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(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

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 Tempur-Pedic International.

(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 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

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 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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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:

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 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 Tempur-Pedic International 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

Certain unsecured debt obligations (Senior Subordinated Notes) will be issued by Tempur-Pedic, Inc. and Tempur Production USA, Inc. (the Issuers). 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, Tempur-Pedic International (Successor to Tempur World) and two intermediate parent corporations (referred to as the Combined Guarantor Parents) and all of Tempur-Pedic International's (Successor to Tempur World) current and future domestic subsidiaries (referred to collectively as the Combined Guarantor Subsidiaries), other than the Issuers. The Issuers and subsidiary guarantors are indirectly 100% owned subsidiaries of the Combined Guarantor Parents and the subsidiary guarantors are 100% 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 ten months ended October 31, 2002 for the Combined Guarantor Parents, Issuers and their Subsidiary Guarantors and Combined Non-Guarantor Subsidiaries.

Condensed Consolidating Balance Sheet
As of October 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor	Consolidating Adjustments	Consolidated
Current assets	$ —	$ 47,085,000	$ 2,372,000	$ 2,659,000	$ 84,507,000	$ (40,397,000)	$ 96,226,000
Property, plant and equipment, net	—	33,238,000	448,000	1,387,000	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	$ —	$ 119,569,000	$ 54,196,000	$ 4,046,000	$ 137,058,000	$ (115,228,000)	$ 199,641,000
Current liabilities	$ —	$ 28,871,000	$ 10,756,000	$ 29,008,000	$ 30,470,000	$ (40,393,000)	$ 58,712,000
Noncurrent liabilities	—	48,881,000	28,197,000	427,000	35,455,000	(27,257,000)	85,703,000
Redeemable preferred stock	—	—	15,331,000	—	—	—	15,331,000
Equity (deficit)	—	41,817,000	(88,000)	(25,389,000)	71,133,000	(47,578,000)	39,895,000
Total liabilities and equity (deficit)	$ —	$ 119,569,000	$ 54,196,000	$ 4,046,000	$ 137,058,000	$ (115,228,000)	$ 199,641,000

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Consolidating Statement of Operations
For the Ten Months Ended October 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net Sales	$ —	$ 86,730,000	$ —	$ 44,669,000	$ 122,592,000	$ (16,677,000)	$ 237,314,000
Cost of goods sold	—	46,997,000	(293,000)	19,850,000	60,351,000	(16,677,000)	110,228,000
Gross profit	—	39,733,000	293,000	24,819,000	62,241,000	—	127,086,000
Operating Expenses	—	20,598,000	3,542,000	25,191,000	37,363,000		86,694,000
Operating Income	—	19,135,000	(3,249,000)	(372,000)	24,878,000	—	40,392,000
Interest income (expense) net	—	(2,599,000)	(1,603,000)	(79,000)	(2,011,000)		(6,292,000)
Other income (loss)	—	7,015,000	(819,000)	(6,907,000)	(1,013,000)		(1,724,000)
Income Taxes	—	6,599,000	(3,359,000)	—	9,195,000		12,435,000
Net income (loss)	$ —	$ 16,952,000	$(2,312,000)	$ (7,358,000)	$ 12,659,000	$ —	$ 19,941,000

Condensed Consolidating Statement of Cash Flows
For the Ten Months Ended October 31, 2002

	Ultimate Parent	Combined Issuer Subsidiaries	Combined Guarantor Parents	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$ —	$ 16,952,000	$ (2,312,000)	$ (7,358,000)	$ 12,659,000	$ —	$ 19,941,000
Non-cash expenses	—	4,637,000	3,190,000	482,000	2,829,000	—	11,138,000
Changes in working capital	—	(13,689,000)	1,531,000	8,203,000	(4,418,000)	—	(8,373,000)
Net cash provided by operating activities	—	7,900,000	2,409,000	1,327,000	11,070,000	—	22,706,000
Net cash used for investing activities	—	(1,269,000)	(120,000)	(1,363,000)	(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	—	(2,269,000)	400,000	(36,000)	747,000	—	(1,158,000)
Cash and cash equivalents at beginning of the year	—	2,001,000	7,000	36,000	5,494,000	—	7,538,000
Cash and cash equivalents at end of period	$ —	$ (268,000)	$ 407,000	$ —	$ 6,241,000	$ —	$ 6,380,000

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

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.

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

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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(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

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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.

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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

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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.

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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.

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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)).

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(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

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(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)).

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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.

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(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to TWI Holdings, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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

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TEMPUR-PEDIC International Inc.

Changing the way the world sleeps!™

18,750,000 Shares

Common Stock

PROSPECTUS

, 2003

LEHMAN BROTHERS

GOLDMAN, SACHS & CO.

UBS INVESTMENT BANK

CITIGROUP

CIBC WORLD MARKETS

U.S. BANCORP PIPER JAFFRAY

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. ***Other Expenses of Issuance and Distribution***

Expenses of the Registrant in connection with the issuance and distribution of the securities being registered, other than the underwriting discount and commissions, are estimated as follows:

SEC Registration Fee	$ 29,655
NASD Fees	$ 30,500
New York Stock Exchange Listing Fees	$ 255,000
Printing and Engraving Expenses	$ 535,000
Legal Fees and Expenses	$ 500,000
Accountant's Fees and Expenses	$ 535,000
Expenses of Qualification Under State Securities Laws, including Attorneys' Fees	$ 3,000
Transfer Agent and Registrar's Fees	$ 18,000
Miscellaneous Costs	$ 93,845
Total	$ 2,000,000

Item 14. ***Indemnification of Directors and Officers***

Tempur-Pedic International 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.

Tempur-Pedic International's certificate of incorporation, as amended, eliminates 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 Tempur-Pedic International provides for indemnification of directors, officers, employees and agents to the fullest extent permitted by Delaware law and authorizes the 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.

Item 15. ***Recent Sales of Unregistered Securities***

Tempur-Pedic International was incorporated on September 17, 2002. Since that date, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, except as set forth below with respect to the senior subordinated notes due 2010, or any public offerings, and we believe that each of these transactions was exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended, Regulation D promulgated thereunder, or Rule 701 of the Securities Act pursuant to compensatory benefit plans and contracts related to compensation as provided under Rule 701. The recipients of the securities in these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in these transactions.

In November 2002, pursuant to a Contribution Agreement among us and certain holders of our capital stock, we issued:

- 146,463.65 shares of our Series A preferred stock to certain investors for cash in an aggregate amount of $146,463,653.33;
- 13,831.00 shares of our Class A common stock to certain former stockholders of Tempur World, Inc. in exchange for their then-outstanding shares of Tempur World, Inc. having an aggregate value of $13,830,981.18; and
- 878.64 shares of our Class B-1 common stock to certain members of management in exchange for promissory notes (which have since been either forgiven and cancelled or repaid and cancelled).

These securities were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

In November 2002, pursuant to a Stock Purchase Agreement between us and a certain investor, we issued 175.00 shares of our Class A common stock in exchange for cash in the amount of $175,000. These securities were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

In November 2002, pursuant to a Warrant Agreement between us and certain mezzanine lenders, we issued warrants to purchase an aggregate of 8,492.01 shares of our Class B common stock at an exercise price of $0.01 per share. Pursuant to the Warrant Agreement, an aggregate of $603,179.68 was allocated to the purchase price of the warrants. Although the mezzanine facility has been repaid in full, the warrants remain outstanding. These securities were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

Between November 2002 and September 2003, we granted to certain of our employees and a member of our board of directors, stock options to purchase an aggregate of 8,817,732 shares of our Class B-1 common stock at exercise prices ranging from $800 per share to $1,500 per share. These options were granted in reliance on the exemption from registration pursuant to Rule 701 of the Securities Act.

In July 2003, an officer purchased 354.00 shares of our Class B-1 common stock for cash in the amount of $283,200 pursuant to a stock option exercise. These securities were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act.

In August 2003, in connection with stock option exercises and pursuant to Stock Repurchase Agreements between us and each exercising optionee, certain of our employees and a member of our board of directors purchased an aggregate of 3,170.50 shares of our Class B-1 common stock for cash in the aggregate amount of $2,753,656. These securities were issued in reliance on the exemption from registration pursuant to Rule 701 of the Securities Act.

In August 2003, pursuant to the terms of an indenture, Tempur-Pedic, Inc. and Tempur Production USA, Inc., our indirect, wholly-owned subsidiaries, issued and sold to a group of underwriters 10 1/4% senior subordinated notes due 2010 (the "Notes") in an aggregate principal amount of $150,000,000. The Notes were guaranteed by Tempur-Pedic International, and certain of its other subsidiaries. These securities were issued in reliance on the exemptions from registration pursuant to Section 4(2) of the Securities Act. The underwriters subsequently resold these Notes to qualified institutional buyers, non-U.S. persons and certain institutional accredited investors pursuant to Rule 144A, Regulation S and Rule 501(a)(1), (2), (3) and (7) under the Securities Act.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) Exhibits

1.1	Form of Underwriting Agreement.
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, Tempur-Pedic International 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 Tempur-Pedic International Inc. **
3.1	Amended and Restated Certificate of Incorporation of Tempur-Pedic International Inc.
3.2	Amended and Restated By-laws of Tempur-Pedic International Inc.
4.1	Specimen certificate for shares of common stock.
5.1	Opinion of Bingham McCutchen LLP.
10.1	Indenture dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International 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.**
10.2	Form of 10¼% Senior Subordinated Notes Due 2010 (included in Exhibit 10.1).**
10.3	Registration Rights Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International 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.**
10.4	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.**
10.5	Registration Rights Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**
10.6	Stockholder Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**

10.7	Series A Preferred Stock Stockholder Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**
10.8	Tempur-Pedic International Inc. 2002 Stock Option Plan.**
10.9	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Robert B. Trussell, Jr.**
10.10	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and David C. Fogg.**
10.11	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and H. Thomas Bryant.**
10.12	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Jeffrey P. Heath.**
10.13	Separation Agreement dated as of July 3, 2003, among Tempur-Pedic International Inc., Tempur World, Inc. and Jeffrey P. Heath.**
10.14	Consultant's Agreement effective as of July 12, 2003, among Tempur-Pedic, Inc., Tempur World, Inc. and Jeffrey P. Heath.**
10.15	Employment and Noncompetition Agreement dated as of July 11, 2003, between Tempur World, Inc. and Dale E. Williams.**
10.16	Employment Agreement dated September 12, 2003, between Tempur International Limited and David Montgomery.***
10.17	Tempur-Pedic International Inc. 2003 Equity Incentive Plan.
10.18	Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan.
10.19	Letter Agreement dated October 20, 2003 from Tempur-Pedic International Inc. and Tempur World, Inc. to Mikael Magnusson and Dag Landvik, as Seller Representatives under the Merger Agreement, and their affiliates.****
21.1	Subsidiaries of Tempur-Pedic International 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).
24.1	Power of Attorney of Tempur-Pedic International Inc.*

* Previously filed.
** Incorporated by reference from the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on September 23, 2003.
*** Incorporated by reference from Amendment No. 1 to the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on October 30, 2003.
**** Incorporated by reference from Amendment No. 2 to the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on November 25, 2003.

(b) Financial Statement Schedules

The following financial statement schedule is included in this registration statement:

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 17. ***Undertakings.***

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions described in Item 14 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant 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 Registrant 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 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) To provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(2) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(3) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus 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.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Tempur-Pedic International 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 12th day of December, 2003.

TEMPUR-PEDIC INTERNATIONAL 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	December 12, 2003
/s/ DALE E. WILLIAMS **Dale E. Williams**	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)	December 12, 2003
* **Jeffrey B. Johnson**	Corporate Controller, Chief Accounting Officer, Vice President and Assistant Secretary (Principal Accounting Officer)	December 12, 2003
* **Jeffrey S. Barber**	Director	December 12, 2003
* **Christopher A. Masto**	Director	December 12, 2003
* **Francis A. Doyle**	Director	December 12, 2003
* **P. Andrews McLane**	Director	December 12, 2003
* **Tully M. Friedman**	Director	December 12, 2003

*By: /s/ DALE E. WILLIAMS

Dale E. Williams
Attorney-in-Fact

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of Tempur-Pedic International Inc. and Subsidiaries

We have audited the consolidated financial statements of Tempur-Pedic International 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 Tempur-Pedic International 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

TEMPUR WORLD, INC. AND SUBSIDIARIES
(Predecessor to Tempur-Pedic International Inc.)
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 2001
FOR THE TEN MONTHS ENDED OCTOBER 31, 2002
SCHEDULE II

TEMPUR-PEDIC INTERNATIONAL 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
TEMPUR-PEDIC INTERNATIONAL 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	Form of Underwriting Agreement.
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, Tempur-Pedic International 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 Tempur-Pedic International Inc.**
3.1	Amended and Restated Certificate of Incorporation of Tempur-Pedic International Inc.
3.2	Amended and Restated By-laws of Tempur-Pedic International Inc.
4.1	Specimen certificate for shares of common stock.
5.1	Opinion of Bingham McCutchen LLP.
10.1	Indenture dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International 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.**
10.2	Form of 10¼% Senior Subordinated Notes Due 2010 (included in Exhibit 10.1).**
10.3	Registration Rights Agreement dated as of August 15, 2003, among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International 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.**
10.4	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.**
10.5	Registration Rights Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**
10.6	Stockholder Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**
10.7	Series A Preferred Stock Stockholder Agreement dated as of November 1, 2002, among Tempur-Pedic International 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.**
10.8	Tempur-Pedic International Inc. 2002 Stock Option Plan.**

10.9	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Robert B. Trussell, Jr.**
10.10	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and David C. Fogg.**
10.11	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and H. Thomas Bryant.**
10.12	Amended and Restated Employment and Noncompetition Agreement effective as of November 1, 2002, between Tempur World, Inc. and Jeffrey P. Heath.**
10.13	Separation Agreement dated as of July 3, 2003, among Tempur-Pedic International Inc., Tempur World, Inc. and Jeffrey P. Heath.**
10.14	Consultant's Agreement effective as of July 12, 2003, among Tempur-Pedic, Inc., Tempur World, Inc. and Jeffrey P. Heath.**
10.15	Employment and Noncompetition Agreement dated as of July 11, 2003, between Tempur World, Inc. and Dale E. Williams.**
10.16	Employment Agreement dated September 12, 2003, between Tempur International Limited and David Montgomery.***
10.17	Tempur-Pedic International Inc. 2003 Equity Incentive Plan.
10.18	Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan.
10.19	Letter Agreement dated October 20, 2003 from Tempur-Pedic International Inc. and Tempur World, Inc. to Mikael Magnusson and Dag Landvik, as Seller Representatives under the merger agreement, and their affiliates.****
21.1	Subsidiaries of Tempur-Pedic International 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).
24.1	Power of Attorney of Tempur-Pedic International Inc.*

* Previously filed.

** Incorporated by reference from the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on September 23, 2003.

*** Incorporated by reference from Amendment No. 1 to the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on October 30, 2003.

**** Incorporated by reference from Amendment No. 2 to the Registrant's registration statement on Form S-4 (File No. 333-109054) filed with the Commission on November 25, 2003.

Exhibit 1.1

18,750,000 Shares

TEMPUR-PEDIC INTERNATIONAL INC.

Common Stock

UNDERWRITING AGREEMENT

December , 2003

LEHMAN BROTHERS INC.
GOLDMAN, SACHS & CO.
UBS SECURITIES LLC
CITIGROUP GLOBAL MARKETS INC.
CIBC WORLD MARKETS CORP.
U.S. BANCORP PIPER JAFFRAY INC.
c/o Lehman Brothers Inc.
745 Seventh Avenue, 19th Floor
New York, New York 10019

Ladies and Gentlemen:

Tempur-Pedic International Inc., a Delaware corporation (the **"Company"**), and certain stockholders of the Company named in Schedule 2 hereto (the **"Selling Stockholders"**), propose to sell an aggregate of 18,750,000 shares (the **"Firm Stock"**) of the Company's common stock par value $0.01 per share (the **"Common Stock"**). Of the 18,750,000 shares of the Firm Stock, 6,250,000 are being sold by the Company and 12,500,000 are being sold by the Selling Stockholders. In addition, the Selling Stockholders propose to grant to the Underwriters named in Schedule 1 hereto (the **"Underwriters"**) an option to purchase up to an aggregate of 2,812,500 additional shares of the Common Stock on the terms and for the purposes set forth in Section 3 (the **"Option Stock"**). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the **"Stock."** This is to confirm the agreement concerning the purchase of the Stock from the Company and the Selling Stockholders by the Underwriters.

1. *Representations, Warranties and Agreements of the Company.* The Company represents, warrants and agrees that:

(a) A registration statement on Form S-1, and amendments thereto, with respect to the Stock have (i) been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the **"Securities Act"**) and the rules and regulations (the **"Rules and Regulations"**) of the Securities and Exchange Commission (the **"Commission"**) thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act. Copies

of such registration statement and each of the amendments thereto have been delivered by the Company to you as the representatives (the "**Representatives**") of the Underwriters. As used in this Agreement, "**Effective Time**" means the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission; "**Effective Date**" means the date of the Effective Time; "**Preliminary Prospectus**" means each prospectus included in such registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Representatives pursuant to Rule 424(a) of the Rules and Regulations; "**Registration Statement**" means such registration statement, as amended at the Effective Time, including all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations, and including any registration registering additional shares of Common Stock filed with the Commission pursuant to Rule 462(b) of the Rules and Regulations; and "**Prospectus**" means such final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will, when they become effective or are filed with the Commission, as the case may be, conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable effective date (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any Underwriter specifically for inclusion therein.

(c) The Company and each of its subsidiaries (as defined in Section 18) have been duly organized, are validly existing and are in good standing under the laws of their respective jurisdictions of organization and are duly qualified to do business and are in good standing in each jurisdiction in which their respective ownership or lease of property or the

conduct of their respective businesses requires such qualification, except where the failure to be so organized, existing in good standing or duly qualified would not reasonably be expected to have a material adverse effect on the general affairs, management, consolidated financial position, stockholders' equity, results of operations or business of the Company and its subsidiaries taken as a whole (a "**Material Adverse Effect**"). The Company and each of its subsidiaries have all corporate power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged. The subsidiaries of the Company listed on Schedule 3 hereto are the only subsidiaries of the Company.

(d) The Company has an authorized capitalization as set forth in the Prospectus; all of the issued shares of capital stock of the Company and its subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable; and all of the issued shares of capital stock of each subsidiary of the Company are owned directly or indirectly by the Company (other than the directors' qualifying shares for foreign subsidiaries), free and clear of all liens, encumbrances, equities or claims, other than liens, encumbrances, equities or claims contemplated under the amended and restated senior credit facilities dated as of August 15, 2003, entered into by and among Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur World Holding Company ApS and Dan-Foam ApS, as the borrowers, the guarantors named therein and the agents and lenders party thereto, or such as are otherwise described in the Prospectus, and none of such shares of capital stock were issued in violation in any material respect of preemptive or other similar rights arising by operation of law, under the charter and bylaws of the Company and each of its subsidiaries or under any agreement to which the Company and each of its subsidiaries is a party or otherwise.

(e) The shares of the Stock to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be validly issued, fully paid and non-assessable; the shares of the Stock to be sold by the Selling Stockholders to the Underwriters hereunder have been duly and validly authorized and, when issued upon the automatic conversion of the existing shares of preferred stock or common stock held by such Selling Stockholders or the exercise or conversion of warrants or the exercise of options held by such Selling Stockholders, will be validly issued and fully paid and non-assessable; and the Stock will conform to the descriptions thereof contained in the Prospectus.

(f) The Company has all requisite corporate power and authority to execute, deliver and perform its respective obligations under this Agreement.

(g) This Agreement has been duly and validly authorized, executed and delivered by the Company.

(h) The execution, delivery and performance of this Agreement by the Company, and the consummation of the transactions contemplated hereby will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company and its subsidiaries, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement, license or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the charter or bylaws of the Company or any of its subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or (iii) assuming the accuracy of the Underwriters' representations herein and compliance by the Underwriters with their obligations hereunder, result in any violation of any of their properties or assets; and, except for filings under the Securities Act and applicable state or foreign securities laws in connection with the purchase and sale of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby.

(i) The historical financial statements (including the related notes) included in the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved. The other financial data, selected pro forma ratios and other pro forma financial information, operating data and statistical information and data included in the Prospectus is presented fairly and has been prepared on a basis consistent in all material respects (except for, with respect to the pro forma information, the pro forma adjustments described in the Prospectus) with such financial statements and the books and records of the Company.

(j) Except as set forth in the Prospectus, there are no legal or governmental proceedings pending to the Company of any of its subsidiaries is a party or of which any property or assets of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any such subsidiary would reasonably be expected to have a Material Adverse Effect, and to the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or others.

(k) Except as set forth in the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities to be registered pursuant to the Registration Statement or in any securities registered or to be registered pursuant to any other registration statement filed by or required to be filed by the Company under the Securities Act.

(l) Except as disclosed in the Prospectus, since the date of the latest audited consolidated financial statements of the Company and its subsidiaries included in the Prospectus, none of the Company nor any of its subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction, in each case not in the ordinary course of business, that is material to the Company and each of its subsidiaries taken as a whole, and there has not occurred, to the knowledge of the Company, any development or event involving or reasonably likely to result in a Material Adverse Effect and, except as disclosed in or contemplated by the Prospectus, there has been no (i) dividend or distribution of any kind declared, paid or made by the Company or its affiliates on any class of their respective capital stock, (ii) issuance of securities by the Company or its affiliates (other than pursuant to an issuance by the Company or its affiliates of options to purchase the capital stock of the Company or its affiliates or exercise of any such options) or (iii) material increase in short-term or long-term debt of the Company.

(m) The Company and its subsidiaries (i) make and keep accurate books and records and (ii) maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets, (C) access to the Company's assets is permitted only in accordance with management's authorization and (D) the recorded

accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(n) (i) Each of the Company and its subsidiaries has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company and each of its subsidiaries in the reports they file or submit under the Exchange Act is accumulated and communicated to the management of the Company and each of its subsidiaries, including their respective principal executive officers and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure; and (iii) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(o) Since the date of the most recent balance sheet of the Company and its consolidated subsidiaries reviewed or audited by, Ernst & Young LLP and the audit committee of the board of directors of the Company (or persons fulfilling the equivalent function), the Company has not been advised of (i) any significant deficiencies in the design or operation of internal controls which could adversely affect the ability of the Company and each of its subsidiaries to record, process, summarize and report financial data, or any material weaknesses in internal controls; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls of the Company and each of its subsidiaries.

(p) Since the date of the most recent balance sheet of the Company and its consolidated subsidiaries reviewed or audited by Ernst & Young LLP, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

(q) Ernst & Young LLP, who have certified certain financial statements of the Company and its consolidated subsidiaries, whose report appears in the Prospectus and who have delivered the initial letter referred to in Section 10(j) hereof, are independent public accountants as required by the Securities Act and the rules and regulations promulgated thereunder.

(r) The statistical and market-related data included in the Prospectus are based on or derived from sources which the Company believes to be reliable and accurate in all material respects.

(s) Each of the Company and its subsidiaries has such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities (**"Permits"**) as are necessary under applicable law to own its properties and to conduct its businesses in the manner described in the Prospectus and except as disclosed in or specifically contemplated by the Prospectus and except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect; each of the Company and its subsidiaries has fulfilled and performed in all material respects, all of its material obligations with respect to the Permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such Permits, except as disclosed in the Prospectus; except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(t) The Company and each of its subsidiaries carry, or are covered by, insurance from insurers of recognized financial responsibility in such amounts and covering such risks as is, in the judgment of the Company, adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar businesses in similar industries; all policies of insurance insuring the Company and each of its subsidiaries or their respective businesses, assets, employees, officers and directors are in full force and effect in all material respects.

(u) The Company and each of its subsidiaries own or possess adequate rights to use all patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses necessary for the conduct of their respective businesses, except where the failure to own or have rights to use would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and have not received any notice of any claim of conflict with, any such rights of others, and the Company is not aware of any pending or threatened claim to the contrary or any pending or threatened challenge by any other person to the rights of the Company and its subsidiaries with respect to the foregoing which, if determined adversely to any of the Company or its subsidiaries would have a Material Adverse Effect.

(v) There are no contracts which are required to be described in the Prospectus or filed as exhibits to the Registration Statement that have

not been described in the Prospectus or filed as exhibits to the Registration Statement.

(w) No relationship, direct or indirect, exists between or among the Company on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company on the other hand, which are required to be described in a prospectus included in a registration statement on Form S-1 which is not so described in the Prospectus.

(x) No labor disturbance by the employees of the Company or its subsidiaries exists or, to the knowledge of the Company, is imminent, that would reasonably be expected to have a Material Adverse Effect.

(y) Each of the Company and its subsidiaries is in compliance with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder (**"ERISA"**), except for such instances of non-compliance that would not individually or in the aggregate reasonably be expected to have a Material Adverse Effect; no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of its subsidiaries would have any liability; the Company and its subsidiaries have not incurred and do not expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the **"Code"**); each "pension plan" for which the Company and each of its subsidiaries would have any liability that is intended to be qualified under Section 401(a) of the Code is to the Company's knowledge so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification; and the Company and each of its subsidiaries have not incurred any unpaid liability to the Pension Benefit Guaranty Corporation (other than for payment of premiums in the ordinary course of business).

(z) The Company and each of its subsidiaries have filed all foreign, federal, state and local income and franchise tax returns required to be filed through the date hereof, subject to any permitted extensions, and paid all taxes due thereon, and (x) no tax deficiency has been determined adversely to the Company or any of its subsidiaries, nor (y) does the Company have any knowledge of any tax deficiency, which, in case of (x) or (y), if determined adversely to the Company or any of its subsidiaries would reasonably be expected to have a Material Adverse Effect.

(aa) Neither the Company nor any of its subsidiaries (i) is in violation of its charter and bylaws (or similar organizational documents), (ii) is in default, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject, except for any of the foregoing that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, or (iii) is in violation of any law, ordinance, governmental rule, regulation or court decree to which it or its property or assets may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except for any of the foregoing that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(bb) Neither the Company nor any of its subsidiaries, nor any director, officer, agent, employee or other person associated with or acting on behalf of the Company or any of its subsidiaries, has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(cc) The Company and each of its subsidiaries are (i) in compliance with any and all applicable foreign, federal, state and local laws, regulations, ordinance, rule, order, judgment, decree, permit or other legal requirement relating to the protection of human health and safety, the environment, natural resources or hazardous or toxic substances or wastes, pollutants or contaminants (**"Environmental Laws"**), which compliance includes obtaining, maintaining and complying with all permits and authorizations and approvals required by Environmental Laws to conduct their respective businesses and (ii) have not received notice of any actual or potential liability for the investigation or remediation of any disposal or release of hazardous or toxic substances or wastes, pollutants or contaminants, except in the case of clause (i) or (ii) where such non-compliance with or liability under Environmental Laws would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and neither the Company nor any of its subsidiaries has been named as a "potentially responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, except with respect to any matters that, individually or in the

aggregate, would not reasonably be expected to have a Material Adverse Effect.

(dd) The Company and each of its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case, free and clear of all liens, encumbrances and defects except for Permitted Liens (as defined in the Indenture dated August 15, 2003, relating to the 10 1/4% Senior Subordinated Notes due 2010 issued by certain subsidiaries of the Company) and such as do not materially affect the value of the property and do not materially interfere with the use made and proposed to be made of such property by the Company and each of its subsidiaries taken as a whole and all assets held under lease by the Company and each of its subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere in any material respect with the use made and proposed to be made of such assets by the Company and each of its subsidiaries.

(ee) Neither the Company nor any subsidiary is, or, as of any Delivery Date (as defined in Section 6) after giving effect to the offer and sale of the Stock and the application of the proceeds as described herein, will be, an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended (the **"*Investment Company Act*"**).

(ff) The Company has not distributed or, prior to the later to occur of any Delivery Date and completion of the distribution of the Stock, will distribute any offering material in connection with the offering and sale of the Stock other than the Preliminary Prospectus and the Prospectus and, in connection with the Directed Share Program described in Section 5, the enrollment materials prepared by Lehman Brothers Inc.

(gg) The Company has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the shares of the Stock.

(hh) The Stock has been approved for listing subject to notice of issuance on the New York Stock Exchange.

(ii) The Company understands that the Underwriters and, for purposes of the opinions to be delivered to the Underwriters pursuant to Section 7 hereof, counsel to the Company and counsel to the Underwriters will rely upon the accuracy and truth of the foregoing representations and hereby consents to such reliance.

2. *Representations, Warranties and Agreements of the Selling Stockholders.* Each Selling Stockholder severally and not jointly represents, warrants and agrees that:

(a) The Selling Stockholder has good and valid title to the shares of the Stock to be sold by the Selling Stockholder hereunder or good and valid title to the warrants or options pursuant to which the shares of Stock to be sold by the Selling Stockholder hereunder will be issued, and immediately prior to the applicable Delivery Date the Selling Stockholder will have, good and valid title to the shares of Stock to be sold by the Selling Stockholder hereunder on such date, free and clear of all liens, encumbrances, equities or claims, except for any liens, encumbrances, equities or claims arising under the Custody Agreement (as hereinafter defined); and upon delivery of such shares and payment therefor pursuant hereto, good and valid title to such shares, free and clear of all liens, encumbrances, equities or claims, will pass to the several Underwriters.

(b) The Selling Stockholder has placed in custody under a custody agreement (the **"Custody Agreement"**) with the other Selling Stockholders and EquiServe LLC, as custodian (the **"Custodian"**), and Messrs. Trussell, Williams and Johnson, as Attorneys-in-fact (the **"Attorneys-in-Fact"**) for delivery under this Agreement, (i) certificates in negotiable form (with signature guaranteed by a commercial bank or trust company having an office or correspondent in the United States or a member firm of the New York Stock Exchange) representing the shares of Stock to be sold by the Selling Stockholder hereunder, (ii) if such Selling Stockholder is selling shares of Stock issuable upon exercise or conversion of warrants, a warrant exercise or conversion form and, in connection with warrants being exercised, the original warrant and a check for the payment of the exercise price, and (iii) if such Selling Stockholder is selling shares of Stock issuable upon exercise of stock options, an option exercise form and a check for the option exercise price.

(c) Pursuant to the Custody Agreement, the Selling Stockholder has duly and irrevocably executed and delivered a power of attorney appointing the Attorneys-in-Fact with full power of substitution, and with full authority to execute and deliver this Agreement and to take such other action as may be necessary or desirable to carry out the provisions hereof on behalf of the Selling Stockholder.

(d) The Selling Stockholder has full right, power and authority to enter into this Agreement and the Custody Agreement; the execution, delivery and performance of this Agreement and the Custody Agreement by the Selling Stockholder and the consummation by the Selling Stockholder of the transactions contemplated hereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Selling Stockholder is a party or by which the Selling Stockholder is bound or to which any of the

property or assets of the Selling Stockholder is subject, nor will such actions result in any violation of the provisions of the constituent documents of the Selling Stockholder (with respect to any Selling Stockholder that is not a natural person) or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Selling Stockholder or the property or assets of the Selling Stockholder; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as will have been obtained prior to the date hereof as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the Custody Agreement by the Selling Stockholder and the consummation by the Selling Stockholder of the transactions contemplated hereby.

(e) The Registration Statement and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus, when they become effective or are filed with the Commission, as the case may be, do not and will not, as of the applicable effective date (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any Underwriter specifically for inclusion therein, and *provided further* that this paragraph (e) shall apply to each Selling Stockholder only to the extent that the statements or omissions from the Registration Statement or the Prospectus were made in reliance upon and in conformity with written information relating to such Selling Stockholder provided by such Selling Stockholder specifically for inclusion therein, it being understood and agreed that for purposes of this Section 2 and the indemnification obligations in Section 11, the only information provided by such Selling Stockholder consists of information relating to such Selling Stockholder under the caption “Principal and Selling Stockholders” in the Prospectus.

(f) Except as provided in this Agreement and in the Lock Up Agreement (as hereinafter defined), the Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or which

has constituted or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the shares of the Stock.

3. *Purchase of the Stock by the Underwriters.* On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell 6,250,000 shares of the Firm Stock and each Selling Stockholder hereby agrees to sell the number of shares of the Firm Stock set opposite such Selling Stockholder's name in Schedule 2 hereto, severally and not jointly, to the several Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that Underwriter's name in Schedule 1 hereto. Each Underwriter shall be obligated to purchase from the Company and from each Selling Stockholder, that number of shares of the Firm Stock which represents the same proportion of the number of shares of the Firm Stock to be sold by the Company and by each Selling Stockholder, as the number of shares of the Firm Stock set forth opposite the name of such Underwriter in Schedule 1 represents of the total number of shares of the Firm Stock to be purchased by all of the Underwriters pursuant to this Agreement. The respective purchase obligations of the Underwriters with respect to the Firm Stock shall be rounded among the Underwriters to avoid fractional shares, as the Representatives may determine.

In addition, each Selling Stockholder identified on Schedule 2 grants to the Underwriters an option to purchase up to the number of shares of Option Stock set opposite such Selling Stockholder's name in Schedule 2 hereto, severally and not jointly, to the several Underwriters. Such option is exercisable as provided in Section 6 hereof. Shares of Option Stock shall be purchased severally for the account of the Underwriters in proportion to the number of shares of Firm Stock set opposite the name of such Underwriters in Schedule 1 hereto. The respective purchase obligations of each Underwriter with respect to the Option Stock shall be adjusted by the Representatives so that no Underwriter shall be obligated to purchase Option Stock other than in 100 share amounts. If less than all the shares of Option Stock are purchased by the Underwriters pursuant to this Section 3, the shares of Option Stock so purchased shall be sold first by those Selling Stockholders identified on Schedule 2 as selling on a priority basis and thereafter by all the remaining Selling Stockholders identified on Schedule 2 on a pro rata basis.

The price of both the Firm Stock and any Option Stock shall be $ per share.

The Company and the Selling Stockholders shall not be obligated to deliver any of the Stock to be delivered on any Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as provided herein.

4. *Offering of Stock by the Underwriters.* Upon authorization by the Representatives of the release of the Firm Stock, the several Underwriters propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus.

5. *Directed Share Program*. It is understood that approximately 937,500 shares of the Firm Stock ("**Directed Shares**") will initially be reserved by the several Underwriters for offer and sale to employees and persons having business relationships with the Company and its subsidiaries ("**Directed Share Participants**") upon the terms and conditions set forth in the Prospectus and in accordance with the rules and regulations of the National Association of Securities Dealers, Inc. (the "**Directed Share Program**"). Under no circumstances will Lehman Brothers Inc. or any Underwriter be liable to the Company or to any Directed Share Participant for any action taken or omitted to be taken in good faith in connection with such Directed Share Program. To the extent that any Directed Shares are not affirmatively reconfirmed for purchase by any Directed Share Participant on or immediately after the date of this Agreement, such Directed Shares may be offered to the public as part of the public offering contemplated hereby.

The Company agrees to pay all fees and disbursements incurred by the Underwriters in connection with the Directed Share Program, and any stamp duties or other taxes incurred by the Underwriters in connection with the Directed Share Program.

6. *Delivery of and Payment for the Stock.* Delivery of and payment for the Firm Stock shall be made at the offices of Bingham McCutchen LLP, 399 Park Avenue, New York, New York 10022, at 10:00 A.M., New York City time, on the third full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representatives and the Company. This date and time are sometimes referred to as the "**First Delivery Date**." On the First Delivery Date, the Company and the Selling Stockholders shall deliver or cause to be delivered certificates representing the Firm Stock to the Representatives for the account of each Underwriter against payment to or upon the order of the Company and the Selling Stockholders of the purchase price by wire transfer in immediately available funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Representatives shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company and the Selling Stockholders shall make the certificates representing the Firm Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

The option granted in Section 3 will expire 30 days after the date of this Agreement and may be exercised in whole or in part from time to time by written notice being given to the Company by the Representatives. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the

names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Representatives, when the shares of Option Stock are to be delivered; *provided, however*, that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the shares of Option Stock are delivered are sometimes referred to as a "**Second Delivery Date**" and the First Delivery Date and any Second Delivery Date are sometimes each referred to as a "**Delivery Date**").

Delivery of and payment for the Option Stock shall be made at the place specified in the first sentence of the first paragraph of this Section 6 (or at such other place as shall be determined by agreement between the Representatives and the Custodian) at 10:00 A.M., New York City time, on such Second Delivery Date. On such Second Delivery Date, the Custodian shall deliver or cause to be delivered the certificates representing the Option Stock to the Representatives for the account of each Underwriter against payment to or upon the order of the Custodian of the purchase price by wire transfer in immediately available funds. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Representatives shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates for the Option Stock, the Custodian shall make the certificates representing the Option Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to such Second Delivery Date.

7. *Further Agreements of the Company.* The Company agrees:

(a) To prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus except as permitted herein; to advise the Representatives, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representatives with copies thereof; to advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such

purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its commercially reasonable best efforts to obtain its withdrawal;

(b) To furnish promptly to each of the Representatives and to counsel for the Representatives a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Representatives such number of the following documents as the Representatives shall reasonably request: (i) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement), and (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus; and, if the delivery of a prospectus is required at any time after the Effective Time in connection with the offering or sale of the Stock and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representatives and, upon their request, to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Prospectus which will correct such statement or omission or effect such compliance;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission any amendment to the Registration Statement or supplement to the Prospectus or any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof to the Representatives and counsel for the Underwriters and obtain the consent of the Representatives to the filing, which consent may not be unreasonably withheld or delayed;

(f) As soon as practicable after the Effective Date, to make generally available to the Company's security holders and to deliver to the Representatives an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158) (it being understood that such delivery requirements shall be deemed met by the Company's reporting requirements pursuant to the Exchange Act and the Rules and Regulations);

(g) For a period of five years following the Effective Date, to furnish to the Representatives copies of all materials furnished by the Company to its shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which the Common Stock may be listed pursuant to requirements of or agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;

(h) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Stock for offering and sale under the securities laws of such jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock; *provided* that in connection therewith the Company shall not be required to qualify as a foreign corporation in any jurisdiction in which it is not now so qualified or to take any action that would subject it to general consent to service of process or taxation in any jurisdiction in which it is not now so subject;

(i) For a period of 180 days from the date of the Prospectus, not to, directly or indirectly, (1) (A) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock or securities convertible into or exchangeable for Common Stock (other than the Stock and shares issued pursuant to employee benefit plans, stock option plans or other employee compensation plans and employee stock purchase plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or (B) sell or grant options, rights or warrants with respect to any shares of Common Stock or securities convertible into or exchangeable for Common Stock (other than the grant of options pursuant to option plans existing on the date hereof or subsequently adopted by the Board of Directors of the Company), or (2) enter into any swap or other derivatives transaction that transfers to

another, in whole or in part, any of the economic benefits or risks of ownership of such shares of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, in each case without the prior written consent of Lehman Brothers Inc. and Goldman, Sachs & Co., on behalf of the Underwriters; and to cause each executive officer and director of the Company to furnish to the Representatives, prior to the First Delivery Date, a letter or letters, substantially in the form of Exhibit A hereto (the "**Lock Up Agreement**"), to which each such person shall agree not to, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock or securities convertible into or exchangeable for Common Stock or (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such shares of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, in each case for a period of 180 days from the date of the Prospectus (the "**Lock-Up Period**"), without the prior written consent of Lehman Brothers Inc. and Goldman, Sachs & Co., on behalf of the Underwriters; *provided, however,* that nothing in the Lock-Up Agreement is intended to, or shall prevent, the executive officers or directors from (i) transferring any shares, options or warrants to any family members, or affiliates or for estate planning purposes, provided that (A) the transferee agrees in writing to be bound by the terms of the Lock-Up Agreement, and (B) such transfer does not require the transferee to make a filing under Section 16 of the Securities Exchange Act of 1934 reflecting such transfer with the Securities and Exchange Commission during the Lock-Up Period, (ii) putting in place a so-called "10b-5-1 plan" or setting up a brokerage account, provided no sales shall be made thereunder prior to the end of the Lock-Up Period, or (iii) exercising any options or warrants held by the undersigned, provided that any shares so issued shall be subject to the Lock-Up Agreement.

(j) Prior to the Effective Date, to apply for the listing of the Stock on the New York Stock Exchange and to use its commercially reasonable best efforts to complete that listing, subject only to official notice of issuance and evidence of satisfactory distribution, prior to the First Delivery Date;

(k) To apply the net proceeds from the sale of the Stock being sold by the Company as set forth in the Prospectus; and

(l) To take such steps as shall be necessary to ensure that neither the Company nor any of its subsidiaries shall become an

"investment company" within the meaning of such term under the Investment Company Act of 1940, as amended.

8. *Further Agreements of the Selling Stockholders.* Each Selling Stockholder agrees:

(a) To execute and deliver to the Representatives, on or prior to the date hereof, the Lock-up Agreement.

(b) To deliver to the Representatives prior to the First Delivery Date a properly completed and executed United States Treasury Department Form W-8 (if the Selling Stockholder is a non-United States person or Form W-9 (if the Selling Stockholder is a United States person.)

9. *Expenses.* The Company agrees, whether or not the transactions contemplated by this Agreement are consummated or this Agreement becomes effective or is terminated, to pay all costs, expenses, fees and taxes incident to and in connection with (a) the authorization, issuance, sale and delivery of the Stock and any stamp duties or other taxes payable in that connection; (b) the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto; (c) the distribution of the Registration Statement as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, all as provided in this Agreement; (d) any required review by the National Association of Securities Dealers, Inc. of the terms of sale of the Stock; (e) the listing of the Stock on the New York Stock Exchange and/or any other exchange; (f) the qualification of the Stock under the securities laws of the several jurisdictions as provided in Section 7(h), (g) the preparation, printing (including, without limitation, word processing and duplication costs) and distribution of this Agreement, all Blue Sky Memoranda and all other agreements, memoranda, correspondence and other documents printed and delivered in connection herewith (excluding, however, legal fees and expenses of counsel to the Underwriters incurred in connection with any of the foregoing other than reasonable fees of such counsel plus reasonable disbursements incurred in connection with the preparation, printing and distribution of such Blue Sky Memoranda); (h) the offer and sale of shares of the Stock by the Underwriters in connection with the Directed Share Program as described in Section 5, including the reasonable fees and disbursements of counsel for the Underwriters related thereto; (i) the costs and expenses relating to investor presentations on any "road show" undertaken in connection with the marketing of the Stock, including the cost of any plane chartered for this "road show" but excluding other travel expenses of the Underwriters, (j) the fees and expenses of the Custodian (and any other attorney-in-fact) and (k) the performance of all other obligations of the Company and the Selling Stockholders under this Agreement; *provided* that, except as provided in this Section 9 and in Section 14, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the Underwriters, and the Selling Stockholders shall pay the fees and expenses of their

counsel and any transfer taxes payable in connection with their respective sales of Stock to the Underwriters.

10. *Conditions of Underwriters' Obligations*. The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company and the Selling Stockholders contained herein, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 7(a); no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) The Prospectus shall have been printed and copies distributed to you not later than 9:00 A.M., New York City time, on December , 2003, or at such later date and time as you may approve in writing, and no stop order suspending the qualification or exemption from qualification of the Stock in any jurisdiction shall have been issued and no proceeding for that purpose shall have been commenced or shall be pending or threatened.

(c) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Prospectus or any amendment or supplement thereto contains an untrue statement of a fact which, in the reasonable opinion of Weil, Gotshal & Manges LLP, counsel for the Underwriters, is material or omits to state a fact which, in the reasonable opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(d) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, Custody Agreements, the Powers of Attorney, the Stock, the Registration Statement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(e) (i) Bingham McCutchen LLP shall have furnished to the Representatives its written opinion, as counsel to the Company and the Individual Selling Stockholders identified therein, addressed to

the Underwriters and dated such Delivery Date, substantially in the form attached hereto as Exhibit B-1; and (ii) the Company shall have requested and caused one or more special counsel for certain of the subsidiaries listed on Schedule 3 hereto, as indicated on such Schedule, to furnish to the Representatives its or their opinion, dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters and Weil, Gotshal & Manges LLP, substantially in the form of Exhibit B-2.

(f) The counsel for each of the Selling Stockholders other than those referred to in paragraph (e)(i) above shall have furnished to the Representatives their written opinion, as counsel to each of the Selling Stockholders for whom they are acting as counsel, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters and Weil, Gotshal & Manges LLP, substantially in the form of Exhibit C.

(g) The Representatives shall have received from Weil, Gotshal & Manges LLP, counsel for the Underwriters, such opinion or opinions, dated such Delivery Date, with respect to the issuance and sale of the Stock, the Registration Statements, each Prospectus and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(h) At the time of execution of this Agreement, the Underwriters shall have received from Ernst & Young LLP, a letter, in form and substance satisfactory to the Underwriters, addressed to the Underwriters and dated the date hereof (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings.

(i) With respect to the letter of Ernst & Young LLP, referred to in the preceding paragraph and delivered to the Underwriters concurrently with the execution of this Agreement (the "**initial letter**"), the Underwriters shall have received a letter (the "**bring-down letter**") of such accountants, addressed to the Underwriters and dated as of each Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five days prior to the date of the bring-down letter), the conclusions and findings of

such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(j) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, executed on behalf of the Company by its Chief Executive Officer and Chief Financial Officer stating that:

(A) The representations and warranties of the Company contained herein, as applicable, are true and correct as if made on and as of such Delivery Date (other than to the extent any such representation or warranty is made expressly to a certain date), and the Company has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Delivery Date;

(B) At such Delivery Date, since the date hereof or since the date of the most recent financial statements in the Prospectus, except as described in the Prospectus to the knowledge of such person after reasonable inquiry, no event or events have occurred, nor has any information become known that, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and each of its subsidiaries;

(C) They have carefully examined the Preliminary Prospectus and the Prospectus and, in their opinion, the Preliminary Prospectus and Prospectus, as of their respective dates, did not, and the Prospectus, as of such Delivery Date, does not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and since the date of the Prospectus, no event has occurred which should have been set forth in a supplement to the Prospectus; and

(D) To the knowledge of such persons after due inquiry, the issuance and sale of the Stock by the Company hereunder has not been enjoined (temporarily or permanently) by any court or governmental body or agency.

(k) Each Selling Stockholder (or the Custodian or one or more attorneys-in-fact on behalf of the Selling Stockholders) shall have furnished to the Representatives on such Delivery Date a certificate, dated such Delivery Date, signed by, or on behalf of, the Selling Stockholder (or

the Custodian or one or more attorneys-in-fact) stating that the representations, warranties and agreements of the Selling Stockholder contained herein are true and correct as of such Delivery Date and that the Selling Stockholder has complied with all agreements contained herein to be performed by the Selling Stockholder at or prior to such Delivery Date.

(l) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, executed on behalf of the Company by its Chief Executive Officer stating that (a) the financial statements as of and for the Company's predecessors the years ended December 31, 2000 and 2001, as well as the financial data derived therefrom, contained in the Prospectus were audited by Arthur Andersen LLP, as set forth in the reports of such accountants with respect to such periods, and (b) at all relevant times during such periods, Arthur Andersen LLP were accountants independent from the Company's predecessors within the meaning of the Securities Act and the Rules and Regulations.

(m) (i) The Company and its subsidiaries shall not have sustained since the date of the latest audited financial statements included in the Prospectus (exclusive of any amendment or supplement thereto after the date hereof) any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus and (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company and its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of Lehman Brothers Inc. and Goldman, Sachs & Co., so material and adverse as to make it impracticable or inadvisable to proceed with the offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated herein and in the Prospectus.

(n) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or the settlement of such trading generally shall have

been materially disrupted or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) or there shall have occurred any other calamity or crisis, including without limitation as a result of terrorist activities after the date hereof, as to make it, in the judgment of Lehman Brothers Inc. and Goldman, Sachs & Co., impracticable or inadvisable to proceed with the offering or delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(o) The New York Stock Exchange shall have approved the Stock for listing, subject only to official notice of issuance and evidence of satisfactory distribution.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

11. *Indemnification and Contribution*.

(a) The Company shall indemnify and hold harmless each Underwriter, its directors, officers and employees and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (B) in any Blue Sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company for use therein) specifically for the purpose of qualifying any or all of the Stock under the securities laws of any state or other jurisdiction (any such application, document or

information being hereinafter called a "**Blue Sky Application**") or (C) in any materials or information provided to investors by, or with the written approval of, the Company in connection with the marketing of the offering of the Stock ("**Marketing Materials**"), including any road show or investor presentations made to investors by the Company (whether in person or electronically), (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto, or in any Blue Sky Application or Marketing Materials, any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made not misleading or (iii) any act or failure to act or any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Stock or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (*provided* that the Company shall not be liable under this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus, or in any such amendment or supplement, in reliance upon and in conformity with written information concerning such Underwriters furnished to the Company through the Underwriters by or on behalf of any Underwriters specifically for inclusion therein which information consists solely of the information specified in Section 11(g); and provided further that with respect to any such untrue statement or omission made in the Preliminary Prospectus, the foregoing indemnity shall not inure to the benefit of any Underwriter (or any person who controls any Underwriter or any officer or director thereof) from whom the person asserting such loss, claim, damage, liability or action purchased the Stock, to the extent that such sale was an initial resale by such Underwriter and any such loss, claim, damage, liability or action of such Underwriter is a result of the fact that both (i) to the extent required by applicable law, a copy of the Prospectus was not sent or given to such person at or prior to the written confirmation

of the sale of such Stock to such person and (ii) the untrue statement or omission in the Preliminary Prospectus was corrected in the Prospectus unless, in either case, such failure to deliver the Prospectus was a result of noncompliance by the Company with Section 7(c). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) The Company shall indemnify and hold harmless Lehman Brothers Inc. (including its directors, officers and employees) and each person, if any, who controls Lehman Brothers Inc. within the meaning of the Securities Act (**"Lehman Brothers Entities"**), from and against any loss, claim, damage or liability or any action in respect thereof to which any of the Lehman Brothers Entities may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon the failure of any Directed Share Participant to pay for and accept delivery of the Directed Shares sold pursuant to the Directed Share Program which, immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase or (ii) the Directed Share Program, *provided* that, the Company shall not be responsible under this subparagraph (ii) for any loss, claim, damage, liability or action that is finally judicially determined to have resulted from the gross negligence or willful misconduct of the Lehman Brothers Entities. The Company shall reimburse the Lehman Brothers Entities promptly upon demand for any reasonable legal or other expenses reasonably incurred by them in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred.

(c) Each of the Selling Stockholders, severally and not jointly in proportion to the number of shares of Stock to be sold by them hereunder, shall indemnify and hold harmless each Underwriter, its directors, officers and employees, and each person, if any, who controls any Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state in any Preliminary Prospectus, Registration Statement or the

Prospectus, or in any amendment or supplement thereto, any material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each Underwriter, its directors, officers and employees and each such controlling person for any legal or other expenses reasonably incurred by that Underwriter, its directors, officers and employees or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; *provided*, *however*, that each Selling Stockholder shall be liable in any such case only to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement in reliance upon and in conformity with written information concerning such Selling Stockholder furnished to the Company by such Selling Stockholder specifically for inclusion therein; *provided, further,* that with respect to any such untrue statement or omission made in the Preliminary Prospectus, the foregoing indemnity shall not inure to the benefit of the Underwriters (or any person who controls any Underwriter or any officer or director thereof) from whom the person asserting such loss, claim, damage, liability or action purchased the Stock, to the extent that such sale was an initial resale by such Underwriter and any such loss, claim, damage, liability or action of such Underwriter is a result of the fact that both (i) to the extent required by applicable law, a copy of the Prospectus was not sent or given to such person at or prior to the written confirmation of the sale of such Stock to such person and (ii) the untrue statement or omission in the Preliminary Prospectus was corrected in the Prospectus unless, in either case, such failure to deliver the Prospectus was a result of noncompliance by the Company with Section 7(c); *provided*, *further*, the aggregate amount of any Selling Stockholder's indemnity and contribution obligations under this Section 11(c) and Section 11(f) shall not exceed the cash proceeds received by such Selling Stockholder from its sale of Stock. The foregoing indemnity agreement is in addition to any liability which the Selling Stockholders may otherwise have to any Underwriter or any officer, employee or controlling person of that Underwriter.

(d) Each Underwriter shall, severally and not jointly, indemnify and hold harmless the Company, each Selling Stockholder, each of their respective officers and employees, each of its directors, and each person, if any, who controls the Company or such Selling Stockholder within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company, such Selling Stockholder or any such director, officer or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability

or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto, or in any Blue Sky Application or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto, or in any Blue Sky Application any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company through Lehman Brothers Inc. by or on behalf of that Underwriter specifically for inclusion therein, and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any Underwriter may otherwise have to the Company or any such director, officer or controlling person of the Company.

(e) Promptly after receipt by an indemnified party under this Section 11 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 11, notify the indemnifying party in writing of the claim or the commencement of that action; *provided, however*, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 11, except to the extent it has been materially prejudiced by such failure and, *provided further,* that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 11. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 11 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; *provided, however*, that Lehman Brothers shall have the right to employ counsel to

represent jointly Lehman Brothers and those other Underwriters and their respective directors, officers, employees and controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Underwriters against the Company or any Selling Stockholders under this Section 11 if, in the reasonable judgment of Lehman Brothers, it is advisable for Lehman Brothers and those Underwriters, directors, officers, employees and controlling persons to be jointly represented by separate counsel, and in that event the fees and expenses of such separate counsel shall be paid by the Company and the Selling Stockholders. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to Section 11(b) hereof in respect of a claim or action referred to in Section 11(b), then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the fees and expenses of not more than one separate firm (in addition to any local counsel) for the Lehman Brothers Entities for the defense of any loss, claim, damage, liability or action arising out of the Directed Share Program. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and does not include any findings of fact or admissions of fault or culpability as to the indemnified party or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with the consent of the indemnifying party or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(f) If the indemnification provided for in this Section 11 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 11(a), 11(b), 11(c) or 11(d) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Stock or (ii) if the allocation provided by

clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Selling Stockholders, on the one hand, and the Underwriters on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company and the Selling Stockholders, on the one hand, and the total discounts and commissions received by the Underwriters with respect to the shares of the Stock purchased under this Agreement, on the other hand, bear to the total gross proceeds from the offering of the shares of the Stock under this Agreement. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Stockholders or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 11(f) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 11(f) shall be deemed to include, for purposes of this Section 11(f), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending or preparing to defend any such action or claim. Notwithstanding the provisions of this Section 11(f), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission and the contribution obligations of the Selling Stockholders shall be subject to the aggregate limitation provided in Section 11(c). No person guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as

provided in this Section 11(f) are several in proportion to their respective underwriting obligations and not joint.

(g) The Underwriters severally confirm and the Company acknowledges that the statements with respect to the public offering of the Stock by the Underwriters set forth on the cover page of, the concession and reallowance figures appearing under the caption "Underwriting" in the Prospectus are correct and constitute the only information concerning such Underwriters furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in the Registration Statement and the Prospectus.

12. *Defaulting Underwriters*. If, on any Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting Underwriters shall be obligated to purchase the Firm Stock or Option Stock, as applicable, that the defaulting Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock or Option Stock, as applicable, set forth opposite the name of each remaining non-defaulting Underwriter in Schedule 1 hereto bears to the total number of shares of the Firm Stock or Option Stock, as applicable, set opposite the names of all the remaining non-defaulting Underwriters in Schedule 1 hereto; *provided, however*, that the remaining non-defaulting Underwriters shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed but failed to purchase on such date exceeds 10% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting Underwriter shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 3. If the foregoing maximums are exceeded, the remaining non-defaulting Underwriters, or those other Underwriters satisfactory to Lehman Brothers who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all of the Stock to be purchased on such Delivery Date. If the remaining Underwriters or other Underwriters satisfactory to Lehman Brothers Inc. and Goldman, Sachs & Co. do not elect to purchase the Stock which the defaulting Underwriter or Underwriters agreed but failed to purchase on such Delivery Date, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company of the Selling Stockholders, except that the Company will continue to be liable to the non-defaulting Underwriters for the payment of expenses to the extent set forth in Sections 9 and 14. As used in this Agreement, the term "**Underwriter**" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto who, pursuant to this Section 12, purchases Firm Stock which a defaulting Underwriter agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company and the Selling Stockholders for damages caused by

its default, including liability of any defaulting Underwriter for the expenses referred to in Section 14. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing Underwriter, either Lehman Brothers Inc. and Goldman, Sachs & Co. or the Company may postpone a Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

13. *Termination.* The obligations of the Underwriters hereunder may be terminated by the Representatives by notice given to and received by the Company and the Selling Stockholders prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Sections 10(l) or 10(m), shall have occurred or if the Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement.

14. *Reimbursement of Underwriters' Expenses.* If the Company or any Selling Stockholder shall fail to tender the Stock for delivery to the Underwriters by reason of any failure, refusal or inability on the part of the Company or the Selling Stockholders to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled by the Company or the Selling Stockholders is not fulfilled, the Company will reimburse the Underwriters for all reasonable out-of-pocket expenses (including fees and disbursements of counsel) incurred by the Underwriters in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 12 by reason of the default of one or more Underwriters, neither the Company nor any Selling Stockholder shall be obligated to reimburse any defaulting Underwriter on account of those expenses.

15. *Notices, etc.* All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to the care of Lehman Brothers Inc., 745 Seventh Avenue, 19th Floor, New York, New York 10019, Attention: Syndicate Registration Group (Fax: (212) 526-0943), with a copy to Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, Attention: Jeremy Dickens, Esq. (Fax: 212-310-8007) and, in the case of any notice pursuant to Section 11(e), to the Director of Litigation, Office of the General Counsel, Lehman Brothers Inc., 399 Park Avenue, New York, New York (Fax: (212) 526-2648);

(b) if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the Company, 1713 Jaggie Fox Way, Lexington, Kentucky 40511, Attention: Thomas Bryant (Fax: (859) 514-4422), with a copy to Bingham McCutchen LLP, 150 Federal Street,

Boston, Massachusetts 02110-1726, Attention: John Utzschneider, Esq. (Fax: (617) 951-8736);

(c) if to any Selling Stockholders, shall be delivered or sent by mail, or facsimile transmission to such Selling Stockholder at the address set forth on Schedule 2 hereto;

provided, *however,* that any notice to an Underwriter pursuant to Section 11(e) shall be delivered or sent by mail, or facsimile transmission to such Underwriter at its address set forth in its acceptance to the Representatives, which address will be supplied to any other party hereto by the Representatives upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company and the Selling Stockholders shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by Lehman Brothers Inc. on behalf of the Representatives and the Company and the Underwriters shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Selling Stockholders by the Custodian.

16. *Persons Entitled to Benefit of Agreement.* This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, the Selling Stockholders and their respective personal representatives and successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (a) the representations, warranties, indemnities and agreements of the Company and the Selling Stockholders contained in this Agreement shall also be deemed to be for the benefit of the directors, officers, employees of the Underwriters and each person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (b) the indemnity agreement of the Underwriters contained in Section 11(c) of this Agreement shall be deemed to be for the benefit of directors of the Company, officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act and any person controlling a Selling Stockholder within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 16, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

17. *Survival.* The respective indemnities, representations, warranties and agreements of the Company, the Selling Stockholders and the Underwriters contained in this Agreement or made by or on behalf on them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Stock and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

18. *Definition of the Terms "Business Day" and "Subsidiary."* For purposes of this Agreement, (a) "**business day**" means each Monday, Tuesday, Wednesday, Thursday or Friday which is not a day on which banking institutions in New

York are generally authorized or obligated by law or executive order to close and (b) **"subsidiary"** has the meaning set forth in Rule 405 of the Rules and Regulations.

19. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of New York.

20. *Counterparts.* This Agreement may be executed in multiple counterparts and, if executed in counterparts, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

21. *Headings.* The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement among the Company the Selling Stockholders and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

TEMPUR-PEDIC INTERNATIONAL INC.

By _____
Name:
Title:

The Selling Stockholders named in Schedule 2
to this Agreement

By _____
Attorney-in-Fact

Accepted:

LEHMAN BROTHERS INC.
GOLDMAN, SACHS & CO.
UBS SECURITIES LLC
CITIGROUP GLOBAL MARKETS INC.
CIBC WORLD MARKETS CORP.
U.S. BANCORP PIPER JAFFRAY INC.

For themselves and as Representatives
of the several Underwriters named
in Schedule 1 hereto

By LEHMAN BROTHERS INC.

By:_____
Authorized Representative

By GOLDMAN, SACHS & CO.

By:_____
(Goldman, Sachs & Co.)

SCHEDULE 1

Underwriters	Number of Shares
Lehman Brothers Inc.	
Goldman, Sachs & Co.	
UBS Securities LLC	
Citigroup Global Markets Inc.	
CIBC World Markets Corp.	
U.S. Bancorp Piper Jaffray Inc.	
Total	

SCHEDULE 2

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
TA IX L.P. 125 High Street Suite 2500 Boston, MA 02110	4,876,600	902,475
TA/Atlantic and Pacific IV, L.P. 125 High Street, Suite 2500 Boston, MA 02110	1,219,152	225,619
TA/Advent VII, L.P. 125 High Street, Suite 2500 Boston, MA 02110	1,210,348	223,990
TA/Strategic Partners Fund A, L.P. 125 High Street, Suite 2500 Boston, MA 02110	99,845	18,477
TA/Strategic Partners Fund B, L.P. 125 High Street, Suite 2500 Boston, MA 02110	17,922	3,317
TA Investors LLC 125 High Street, Suite 2500 Boston, MA 02110	131,138	24,268
TA Subordinated Debt Fund, L.P. 125 High Street, Suite 2500 Boston, MA 02110	470,252	87,026
Bryant, H. Thomas* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		51,476
Lynda Davey and Alan Schiffres, Tenants in Common 1375 Broadway Avenue, 6th Floor New York, NY 10018	1,211	224
Jean H. Downey Living Trust 214 Ridge Road Winnetka, IL 60093	25,203	4,664

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
Keansburg Investment Limited Attn: Rob Eichhorn Wijnhaven 3B 3011 WG Rotterdam, The Netherlands	13,659	2,528
Falourd, Alain 69 Boulevard de l'Atlantique Pyla-Sur-Mer, France 33115	20,173	3,734
David C. Fogg c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		102,543
Guerin, Joel* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		13,583
Hoeller, Robert On The Rocks Farm 4865 Tates Creek Road Lexington, KY 40515	2,102	389
Johnson, Jeffrey B.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		21,000
Jameson, Thomas 1235 Eldemere Road Lexington, KY 40502	7,221	1,337
Gleacher Mezzanine Fund I, LP 660 Madison Avenue, 17th Floor New York, NY 10021	329,836	61,040
Gleacher Mezzanine Fund P, LP 660 Madison Avenue, 17th Floor New York, NY 10021	117,798	21,800
Khouri, George 421 Field Point Road Greenwich, CT 06830	3,228	598

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
Magnusson, Christian* Tempur House, 5 Caxton Trading Estate, Printing House Lane, Hayes Middlesex, United Kingdom UB31BE		23,204
Friedman Fleisher & Lowe Capital Partners, LP One Maritime Plaza, Suite 1000 San Francisco, CA 94111	3,860,176	714,373
FFL Executive Partners, LP One Maritime Plaza, Suite 1000 San Francisco, CA 94111	69,830	12,923
Robert & Mary Mulcahy, JTWROS Michael Best & Friedrich LLP 100 E. Wisconsin Avenue Milwaukee, WI 53202	1,453	269
Passante, Frank N22 W24226 B East Parkway Meadow Circle Pewaukee, WI 53072	404	75
Pucek, John Paul 1300 E. New Circle Drive, Suite 111 Lexington, KY 40505	748	139
Antares Capital Corporation 311 S. Wacker Drive, Suite 6400 Chicago, IL 60606	20,173	3,733
Robert B. and Martha O. Trussell, Tenants in Common* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		125,000
Wright, David 12277 Sage View Road Poway, CA 92064	1,528	283
Hansen, Lars* Holmelund 43 Aarup, 5560 Denmark		11,916

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
Lillich, Jeffrey T.* 5 Caxton Trading Estate Printing House Lane Hayes, Middlesex, UB3 1BE United Kingdom		526
Tauchert, Charles W.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		5,391
Zander, Richard D.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		4,987
Cagle, Johnny* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		3,151
Lucy, Beat* Hausimollstrasse 8 Egerkingen, 4622 Switzerland		2,626
Siljedahl, Paer Roland* Chodari 21 West, Ikuta-cho Chuo-ku Kobe, 651-0092 Japan		11,860
Key, Paul* Tempur Production 4700 Boone Trail Road South Duffield, VA 24244		5,250
Ingvarsson, Mathias* Odelberg vag 19 Gustavsberg, 134 82 Sweden		9,590

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
Henry, Frank* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		2,101
Mitchell, Kenneth* Tempur Production 4700 Boone Trail Road South Duffield, VA 24244		9,079
Smith, Michael* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		2,101
Miller, John* 3526 SW 310 Ct. Federal Way, WA 98023		3,806
Peak, Rick* Tempur Production 4700 Boone Trail Road South Duffield, VA 24244		6,242
Searl, Miguel Lorenzo* Gran Via 6, 5 Decha Madrid, 28013 Spain		8,569
Poche, William H.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		2,626
Dam Mikkelson, Tom* Holmelund 43 Aarup, 5560 Denmark		5,391
Palman, Jean Paul* Maxwellstraat 47 BX Ede, 6716 The Netherlands		526

Name and address of Selling Stockholder	Number of Firm Stock	Number of Option Stock*
Broyles, Jason P.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		4,725
Walsh, Simon* 222 Tagore Lane, #04-01, TG Building Singapore, 787603 Singapore		4,725
Stokkeland, Harald* Holmelund 43 Aarup, 5560 Denmark		4,725
Sfeir, Dany* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		26,250
Williams, Dale E.* c/o Tempur-Pedic International Inc., 1713 Jaggie Fox Way Lexington, KY 40511		26,250
Total	12,500,000	2,812,500

* In the event that the over-allotment option is not exercised in full, those Selling Stockholders with an asterisk next to their name in this column will sell their Option Shares on a pro rata basis. After these Selling Stockholders have sold their Option Shares, all other Selling Stockholders with Option Shares shall sell Option Shares on a pro rata basis.

SCHEDULE 3

Subsidiaries

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
Dawn Sleep Technologies, Inc.	Delaware
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

* Local counsel opinion to be provided.

Exhibit A

LOCK-UP LETTER AGREEMENT

Lehman Brothers Inc.
Goldman, Sachs & Co.
UBS Securities LLC
Citigroup Global Markets Inc.
CIBC World Markets Corp.
U.S. Bancorp Piper Jaffray Inc.
As Representatives of the several
Underwriters,
c/o Lehman Brothers Inc.
790 Seventh Avenue
New York, NY 10019

Ladies and Gentlemen:

The undersigned understands that you and certain other firms propose to enter into an Underwriting Agreement (the **"Underwriting Agreement"**) providing for the purchase by you and such other firms (the **"Underwriters"**) of shares (the **"Shares"**) of Common Stock, par value $.01 per share (the **"Common Stock"**), of Tempur-Pedic International Inc., a Delaware corporation (the **"Company"**), and that the Underwriters propose to reoffer the Shares to the public (the **"Offering"**).

In consideration of the execution of the Underwriting Agreement by the Underwriters, and for other good and valuable consideration, the undersigned hereby irrevocably agrees that, without the prior written consent of Lehman Brothers Inc. and Goldman, Sachs & Co., on behalf of the Underwriters, the undersigned will not, directly or indirectly, (1) offer for sale, sell, pledge, or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock (including, without limitation, shares of Common Stock that may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations of the Securities and Exchange Commission and shares of Common Stock that may be issued upon exercise of any option or warrant) or securities convertible into or exchangeable for Common Stock (other than the Shares) owned by the undersigned on the date of execution of this Lock-Up Letter Agreement or on the date of the completion of the Offering, or (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such shares of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, for a period of 180 days after the date of the final Prospectus relating to the Offering (the **"Lock-Up Period"**). However, nothing in this Lock-Up Letter Agreement

is intended to, or shall prevent, the undersigned from (i) transferring any shares, options or warrants to any family members or affiliates or for estate planning purposes, provided that (A) the transferee agrees in writing to be bound by the terms of this Lock-Up Letter Agreement, and (B) such transfer does not require the transferee to make a filing under Section 16 of the Securities Exchange Act of 1934 reflecting such transfer with the Securities and Exchange Commission during the Lock-Up Period, (ii) putting in place a so-called "10b-5-1 plan" or setting up a brokerage account, provided no sales shall be made thereunder prior to the end of the Lock-Up Period, or (iii) exercising any options or warrants held by the undersigned, provided that any shares so issued shall be subject to this Lock-Up Letter Agreement.

In furtherance of the foregoing, the Company and its Transfer Agent are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Lock-Up Letter Agreement.

It is understood that, if the Company notifies you that it does not intend to proceed with the Offering, if the Underwriting Agreement does not become effective on or before February 15, 2004, or if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Shares, we will be released from our obligations under this Lock-Up Letter Agreement.

The undersigned understands that the Company and the Underwriters will proceed with the Offering in reliance on this Lock-Up Letter Agreement.

Whether or not the Offering actually occurs depends on a number of factors, including market conditions. Any Offering will only be made pursuant to an Underwriting Agreement, the terms of which are subject to negotiation between the Company and the Underwriters.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Lock-Up Letter Agreement and that, upon request, the undersigned will execute any additional documents necessary in connection with the enforcement hereof. Any obligations of the undersigned shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

Very truly yours,

By: _____

Name:
Title:

Dated: _____

Form of Bingham McCutchen LLP Opinion

[Subject to Review and Approval
of Bingham McCutchen Opinion
Clearance Committee]

December , 2003

Lehman Brothers Inc.
Goldman, Sachs & Co.
UBS Warburg LLC
Citigroup Global Markets Inc.
CIBC World Markets Corp.
U.S. Bancorp Piper Jaffray
c/o Lehman Brothers Inc.
745 7th Avenue, 19th Floor
New York, NY 10019

Re: Tempur-Pedic International Inc.

Ladies and Gentlemen:

We have acted as counsel to Tempur-Pedic International Inc., a Delaware corporation (the "Company"), in connection with the issuance and sale by the Company of 6,250,000 shares of Common Stock, $.01 par value per share, of the Company (the "Common Stock") and the sale by certain selling stockholders (the "Selling Stockholders") of 12,500,000 shares of Common Stock, pursuant to the Underwriting Agreement, dated December , 2003 (the "Underwriting Agreement") by and among the Company, the Selling Stockholders and you, as representatives of the several underwriters named therein (the "Underwriters"). This opinion is furnished to you pursuant to Section 10(e)) of the Underwriting Agreement. Capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Underwriting Agreement.

We do not act as general counsel to the Company, and our representation is limited to matters individually referred to us by the Company. Accordingly, there may be matters affecting the Company as to which we have not been consulted.

We are also delivering this opinion with respect to the selling stockholders listed on AnnexA hereto (the "Designated SellingStockholders").

We have examined such documents as we have considered necessary for purposes of rendering our opinions set forth in this letter, including the following:

(i) The registration statement on Form S-1 (Registration No. 333-109798), filed with the Securities and Exchange Commission (the "Commission") on October 17, 2003, pursuant to the Securities Act of 1933, as amended (the "Securities Act"), as amended by Amendment No. 1 thereto filed with the Commission on November 20, 2003, and Amendment No. 2 thereto filed with the Commission on December 4, 2003, and Amendment No. 3 thereto filed with the Commission on , 2003 (such registration statement, as so amended by such amendments and the information deemed by virtue of Rule 430A(b) of the Rules and Regulations to be part of such registration statement at the time it was declared effective, the "Registration Statement");

(ii) the final Prospectus of the Company dated December , 2003, with respect to the Shares (the "Prospectus");

(iii) the Underwriting Agreement;

(iv) the Custody Agreement, dated as of December , 2003, by and among the Selling Stockholders, the Company and EquiServe, Inc. and EquiServe Trust Company, N.A., as custodian;

(v) the Certificate of Incorporation of the Company as in effect up to the date hereof as certified by the Secretary of the Company;

(vi) the By-Laws of the Company as in effect up to the date hereof as certified by the Secretary of the Company;

(vii) the Amended and Restated Certificate of Incorporation of the Company, as filed today with the Secretary of State of the State of Delaware, as certified by the Secretary of the Company (the "Amended and Restated Certificate of Incorporation");

(viii) the Amended and Restated By-laws of the Company, as in effect on the date hereof as certified by the Secretary of the Company (the "Amended and Restated By-Laws," and together with the documents referred to in (v)-(vii) collectively referred to as the "Governing Documents");

(ix) copies certified by the Secretary of the Company of certain resolutions adopted by each of the Board of Directors and the stockholders of the Company;

(x) Officers' certificates from certain officers of Friedman Fleischer & Lowe GP, LLC, [the General Partner] of Friedman Fleischer & Lowe Capital Partners, L.P. and FFL Executive Partners, LP (collectively, the FFL Funds");

(xi) the Consent, Amendment and Waiver, dated as of December , 2003, by and among the Company and the stockholder parties thereto and the Second Consent and Amendment dated as of December , 2003 by and among the Company and the stockholder parties thereto;

(xii) the certificates of public officials attached hereto as Exhibit 1; and

(xii) the certificate of the Company, attached hereto as Exhibit 2.

We have examined the documents listed in the preceding paragraph and 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. In all such examinations, 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 capacity and competence of each individual executing any document.

As to all matters of fact (including factual conclusions and characterizations and descriptions of purpose, intention or other state of mind), we have relied entirely upon: (i) the representations of the Company set forth in Sections 1(d), (j), (k), (l), (o), (p), (v) and (w) of the Underwriting Agreement, and (ii) certificates contemporaneously delivered to us by officers of the Company, and we have assumed, without independent inquiry, the accuracy of those representations, certificates and other documents referred to in clauses (i) and (ii) above.

As to any opinion below relating to the existence, qualification or standing in any jurisdiction of the Company and Tempur World Holdings, Inc., a Delaware corporation and Tempur World, Inc., a Delaware corporation (collectively, the "Delaware Subsidiaries"), our opinion relies entirely upon and is limited by those certificates of public officials attached hereto as Exhibit 1.

When an opinion or statement set forth below is given to the best of our knowledge, or to our knowledge, or with reference to matters of which we are aware or which are known to us, or with another similar qualification, the relevant knowledge or awareness is limited to the actual knowledge or awareness of the individual lawyers in the firm who have participated directly in the specific transactions to which this opinion relates after consultation with such other lawyers in our firm as such lawyers deemed appropriate.

For purposes of our opinion set forth in paragraphs 5 and 18 below with respect to the issued and outstanding capital stock of the Company, we have relied upon our review of the stock records and minutes of the meetings and actions of the Board of Directors and stockholders of the Company, and we have further relied on the presumption of regularity and continuity to the extent necessary to enable us to render such opinions.

As used in this opinion, the "UCC" means the Uniform Commercial Code as adopted and in effect in the State of New York, or another relevant, specified jurisdiction, as the case may be, and the "New York UCC" means the UCC of the State of New York.

Subject to the limitations set forth below, we have made such examination of law as we have deemed necessary for the purposes of expressing the opinions set forth in this letter. Such opinions are limited solely to the laws of the Commonwealth of Massachusetts as applied by courts located in Massachusetts, the laws of the State of New York as applied by courts located in New York ("New York Law"), the General Corporation Law of the State of Delaware as applied by courts located in Delaware (the "DGCL"), and 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 except as expressly set forth in paragraph 12 below with respect to Federal income tax laws and in paragraphs 7, 8, 10, 11 and 13 with respect to Federal securities laws ("Federal Law")), in each case to the extent that the same may apply to or govern such transactions. No opinion is given herein with respect to the choice of law or the internal substantive rules of law that any tribunal may apply to the transactions referred to herein or as to the applicability of, compliance with, or the effect of, the securities or "Blue Sky" laws of any state.

Our opinion in paragraphs 17 and 19 below is subject to the following general qualifications:

(a) We have assumed without any independent investigation (i) that the Designated Selling Stockholders have

received the agreed to and stated consideration for the incurrence of the obligations applicable to them under the terms of the Custody Agreement, (ii) that the Custody Agreement is a valid and binding obligation of each party thereto other than the Company and the Designated Selling Stockholders and (iii) that the Custody Agreement is a valid and binding obligation of the Company and the Designated Selling Stockholders to the extent that laws other than New York Law are relevant thereto.

(b) The enforceability of any obligation of, or transfer of any property by, the Designated Selling Stockholders may be subject to, affected by or limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, marshaling or other laws, rules of law or regulations affecting the enforcement generally of creditors' rights and remedies (including such as may deny giving effect to waivers of debtors' 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 transfer of any property by, the Designated Selling Stockholders or any other person, whether under the Custody Agreement or Underwriting Agreement or otherwise.

(c) No opinion is given herein as to the availability of any specific or equitable relief of any kind.

(d) The enforcement of any of your rights may in all cases be subject to an implied duty of good faith and to general principles of equity, including, without limitation, concepts of materiality and reasonableness (whether such enforcement is considered in a proceeding at law or in equity).

(e) No opinion is given herein as to the enforceability of any particular provision of the Custody Agreement relating to or constituting (i) waivers of rights to object to jurisdiction or venue, consents to jurisdiction or venue, or waivers of rights to (or methods of) service of process, (ii) waivers or variations of provisions which are not capable of waiver or variation under Sections 1-102 or other applicable provisions of the applicable UCC, (iii) provisions in the Custody Agreement rendered ineffective or unenforceable by Part 4 of Article 9 of the applicable UCC or (iv) exculpation clauses, clauses relating to releases or waivers of unmatured claims or rights, or any indemnification or contribution obligations or obligations in lieu of indemnification, to the extent that such obligations may be considered by a court

having jurisdiction thereover to violate any laws or matters of public policy.

(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 Custody Agreement could be affected by any failure of any party seeking enforcement not organized in New York to become authorized, under Article 13 of the New York Business Corporation Law, to do business in the New York.

(g) Except as provided in paragraph 18 below, we have made no examination of, and no opinion is given herein as to, any Selling Stockholder's title to or other ownership rights in, the accuracy or sufficiency of the descriptions of, or the existence of any liens, charges, encumbrances, restrictions or limitations on, or adverse claims against, any of the property or assets of any Selling Stockholder. Except as provided in paragraph 18 below, we have assumed without any independent investigation that each Selling Stockholder has rights in the Stock which purports to transfer under the Underwriting Agreement.

(h) We call to your attention that under Section 8-303 of the applicable UCC, a "protected purchaser" (as defined in such Section 8-303) of a security, or of an interest therein, may acquire its interest in such security free of any adverse claim thereto; we point out that, under Section 8-110(c) of the applicable UCC, the local law of the jurisdiction in which the security certificates evidencing the Stock are delivered to the securities intermediary governs whether an adverse claim with respect thereto may be asserted against the securities intermediary; and we point out that under Section 8-110(b)(4) of the applicable UCC, the law of the securities intermediary's jurisdiction governs whether an adverse claim with respect to the Stock may be asserted against a person acquiring a securities entitlement from the securities intermediary with respect thereto;

(i) We assume that the "securities intermediary's jurisdiction" (as determined pursuant to Section 8-110(e) of the applicable UCC) is within the State of New York;

(j) We assume that delivery (within the meaning given such term in the applicable UCC) of stock certificates representing the Stock, indorsed to Depositary Trust Company ("DTC") or in

blank by an effective indorsement, will be made to DTC (or its nominee) within the State of New York;

(k) We assume that the Stock constitute "certificated securities" (within the meaning given such terms in the applicable UCC); and

(l) We assume that none of the restrictions referred to in any legend set forth on the stock certificates representing the Stock constitutes an adverse claim nor will a violation of any of such restrictions give rise to an adverse claim.

Our opinion in paragraph 12 below is limited solely to the federal income tax laws of the United States, does not cover matters arising under the laws of any other jurisdiction, and is based on our analysis of the current provisions of the Internal Revenue Code of 1986, as amended, existing case law, existing Treasury Regulations, and existing published revenue rulings and procedures of the Internal Revenue Service that are in effect as of the date hereof, all of which are subject to change and new interpretation, both prospectively and retroactively. Any such changes or new interpretations, as well as changes in the facts as they have been represented to us, could affect our analysis and conclusions.

We understand that all of the foregoing assumptions, limitations and qualifications are acceptable to you.

Based upon the foregoing, we are of the opinion that:

(1) The Company is a corporation validly existing and in good standing under the laws of the State of Delaware, and has the corporate power and authority to own its property and to conduct the business as described in the Prospectus, and to execute, deliver and perform the Underwriting Agreement.

(2) Each of the Delaware Subsidiaries is validly existing and in good standing under the laws of its jurisdiction of organization, and has the corporate or other power and authority to own its property and to conduct its business as described in the Prospectus.

(3) The Company has the requisite corporate power and authority to execute, deliver and perform the Underwriting Agreement.

(4) The Underwriting Agreement has been duly authorized, executed and delivered by the Company.

(5) Prior to the effectiveness of the Amended and Restated Certificate of Incorporation, the authorized capital stock of the Company consists of (a) 25,000 shares of Class A common stock, par value $ 0.01 per share, (b) 300,000 shares of Class B-1 voting common stock, par value $ 0.01 per share, (c) 25,000 shares of Class B-2 non-voting common stock, par value $ 0.01 per share, and (d) 250,000 shares of preferred stock, par value $ 0.01 per share, of which 180,000 shares are further designated as Series A convertible preferred stock. Prior to the effectiveness of the Amended and Restated Certificate of Incorporation, as of the date hereof, there are (a) 14,006.00 shares of Class A common stock, (b) 4,403.14 shares of Class B-1 voting common stock, (c) no shares of Class B-2 non-voting common stock, and (d) 146,463.65 shares of Series A convertible preferred stock which are issued and outstanding of record. All of such outstanding shares of the Company capital stock are duly authorized, validly issued, fully paid and nonassessable.

(6) Upon the effectiveness of the Amended and Restated Certificate of Incorporation, the authorized capital stock of the Company will consist of 300,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock, par value $.01 per share ("New Preferred Stock"). Upon the effectiveness of the Amended and Restated Certificate of Incorporation, there will be shares of Common Stock outstanding of record and no shares of Preferred Stock issued and outstanding. All of such outstanding shares of Common Stock are duly authorized and upon the effectiveness of the Amended and Restated Certificate of Incorporation will have been validly issued and will be fully paid and non-assessable. The shares of Common Stock to be issued and sold by the Company pursuant to the Underwriting Agreement have been duly authorized, and when delivered to the Underwriters and paid for pursuant to the Underwriting Agreement will have been validly issued and will be fully paid and non-assessable.

(7) No consent, approval, authorization or order of, or filing with, any governmental agency, public body or any court of the State of New York or of the United States of America is required under New York Law or Federal Law for the execution, delivery or performance of the Underwriting Agreement by the Company, except (A) such as may be required under state securities laws, (B) for the filing of the Registration Statement with the Commission and the receipt of the order of the Commission declaring such Registration Statement effective, or (C) any consent, approval, authorization, filing, notification or other action that has been obtained or made or which, if not obtained or made, would not individually or in the aggregate be reasonably likely to have a Material Adverse Effect.

(8) To our knowledge and except as disclosed in the Prospectus, but without having investigated any governmental records or court dockets, and without having made any other independent investigation, there is no action, suit or proceeding pending or overtly threatened in writing against the Company before any court or arbitrator or any governmental body, agency or official located in the State of New York, which if determined adversely to the Company, would be reasonably likely to have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under the Underwriting Agreement.

(9) The execution, delivery and performance by the Company of the Underwriting Agreement and compliance by the Company with the provisions thereof and the issuance and sale of the Stock pursuant to and in accordance with the provisions of the Underwriting Agreement will not (i) to our knowledge result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under any material agreement or instrument to which the Company is a party, and (ii) will not violate any of the provisions of the Governing Documents of the Company or any Federal Law or New York Law, or, to our knowledge, any judgment, order, writ, injunction or decree of any court or other tribunal located in the State of New York of which we are aware and that is applicable to the Company.

(10) The Company is not and, immediately after giving effect to the offering and sale of the Stock and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(11) The Registration Statement, as of its effective date, and the Prospectus, as of its date (other than the financial statements, the notes thereto and the related schedules and other financial and accounting information included therein or omitted therefrom, as to which we express no opinion) complied as to form in all material respects with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder.

(12) The statements in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of our Common Stock", insofar as such statements constitute a summary of the United States federal income tax laws referred to therein, are accurate summaries in all material respects of the United States federal income tax laws referred to therein.

(13) We have been informed that the Registration Statement was declared effective under the Securities Act as of p.m. on , 2003, the Prospectus was filed with the Commission pursuant to subparagraph (1) of Rule 424(b) under the Securities Act, on , 2003 and to our knowledge no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose is pending or threatened by the Commission.

(14) The statements in the Prospectus under the captions "Description of Capital Stock," "Business—Legal Proceedings," "Certain Relationships and Related Party Transactions, "Shares Eligible for Future Sale" and "Underwriting," insofar as such statements constitute summaries of the legal matters or documents referred to therein, are accurate descriptions or summaries in all material respects.

(15) The Underwriting Agreement has been duly authorized, executed and delivered by or on behalf of the FFL Funds.

(16) The use of facsimile signatures affixed in the name and on behalf of EquiServe Trust Company, N.A. as transfer agent and registrar, as applicable, on the certificates evidencing the shares of Common Stock to be issued and sold by the Company pursuant to the Underwriting Agreement and to be sold by the Selling Stockholders is permitted under the DGCL. Such use of facsimile signatures is not inconsistent with any provision of the Amended and Restated Certificate of Incorporation or the Amended and Restated By-Laws.

(17) The Custody Agreement constitutes the valid and legally binding obligation of the Designated Selling Stockholders enforceable against each Designated Selling Stockholder in accordance with its terms.

(18) Each Selling Stockholder is the owner of record of the securities of the Company listed on AnnexA.

(19) Our opinions in this paragraph 19 are limited to Article 8 of the New York UCC. Upon (i) receipt, in the State of New York, by DTC or a nominee (other than a securities intermediary) acting on its behalf, of each of the stock certificates representing the Stock, indorsed in blank by an effective indorsement of the Designated Selling Stockholder or together with properly completed and effective stock powers endorsing the Stock and duly executed by the Designated Selling Stockholder in blank, (ii) the crediting by DTC of such Stock to "securities accounts" (as that term is defined in Section 8-501(a) of the New York UCC) of each of the Underwriters by making appropriate book entries with respect to the account of each Underwriter, and (iii) payment for the Stock by each of

the Underwriters pursuant to the Underwriting Agreement, and assuming that (x) neither DTC nor any of the Underwriters, at any relevant time, has notice (within the meaning of Section 8-105 of the New York UCC) of any "adverse claim" (within the meaning of Section 8-102(a)(1) of the New York UCC) to the Stock and (y) DTC is a "clearing corporation" (as that term is defined in
Section 8-102 of the New York UCC), then (A) DTC will be a "protected purchaser" of such Stock (as that term is defined in Section 8-303 of the New York UCC), (B) each Underwriter will acquire a valid "security entitlement" (within the meaning of subsection (b) of Section 8-501 of the New York UCC) in respect of such Stock credited to its securities account, except as otherwise provided in (and subject to the provisions of) subsections (d) and (e) of Section 8-501 of the New York UCC, and (C) no action based on an adverse claim (within the meaning of Section 8-102(a)(1) of the New York UCC) to a share of Stock credited to its account may be asserted against such Underwriter with respect to such securities entitlement.

In addition, we have participated in conferences with officers and representatives of the Company and with representatives of its independent accountants at which conferences the contents of the Registration Statement and the Prospectus and any amendment and supplement thereto and related matters were discussed and, although we are not passing upon and do not assume any responsibility for, nor have we independently verified, the accuracy, completeness or fairness of the Registration Statement, the Prospectus and any amendment or supplement thereto (except as expressly provided above in paragraphs 11, 12 and 14), on the basis of the foregoing we hereby confirm that no facts have come to our attention that have caused us to believe that the Registration Statement, at the time of its effective date, [including the information, if any, deemed pursuant to Rule 430A to be part of the Registration Statement at the time of effectiveness] (except with respect to the financial statements, the notes thereto and the related schedules and other financial and accounting information included therein or omitted therefrom, as to which we express no belief), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus [or any amendment or supplement thereto] (except with respect to the financial statements, the notes thereto and the related schedules and other financial and accounting information included therein or omitted therefrom, as to which we express no belief) as of its date and as of the Closing Date contains any untrue statement of a material fact or omits to state a material fact necessary to

make the statements therein, in the light of the circumstances under which they were made, not misleading.

This letter speaks as of the date hereof and we assume no obligation to update this letter or inform you in the future of any facts or circumstances that occur after the date hereof and that may affect our opinion in any way.

This letter has been delivered solely for your use in connection with the transactions contemplated by the Underwriting Agreement and may not be referred to or used for any other purpose or relied upon by any other person other than the Underwriters, except with our prior consent, except that EquiServe, Inc. and EquiServe Trust Company, N.A., in their capacity as transfer agent and registrar may rely on this opinion as if they were an addressee hereof.

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Very truly yours,

BINGHAM McCUTCHEN LLP

ANNEX A

List of Designated Selling Shareholders

Name of Shareholder	Record Ownership
Robert Hoeller	
Alain Falourd	
George Khouri	
Frank Passante	
Lynda Davey and Alan Schiffres, Tenants in Common	
David Wright	
John Paul Pucek	
Thomas Jameson	
Robert W. and Mary M. Mulcahy, JTWROS	
Robert B. Trussell and Martha O. Trussell, Tenants in Common	
H. Thomas Bryant	
David C. Fogg	
Dale E. Williams	
Joel Guerin	
Christian Magnusson	
Dany Sfeir	
Lars Hansen	
Paer Roland Siljedahl	
Paul Key	
Mathias Ingvarsson	
Jeffrey B. Johnson	
Michael Smith	
Kenneth Mitchell	
Frank Henry	
Jeffrey T. Lillich	
Miguel Lorenzo Searl	
Rick Peak	
John Miller	
Charles W. Tauchert	
William H. Poche	
Tom Dam Mikkelson	
Jean Paul Palman	
Richard D. Zander	
Harald Stokkeland	
Simon Walsh	
Jason P. Broyles	
Johnny Cagle	
Beat Lucy	
Friedman Fleischer & Lowe Capital Partners, LP	
FFL Executive Partners, LP	

Exhibit B-2

Form of Local Counsel Opinion

1. [Subsidiary] is validly existing and in good standing under the laws of its jurisdiction of organization[, and has the corporate or other power and authority to own its property and to conduct its business as described in the Prospectus.][1]

2. All outstanding shares of [Subsidiary's] stock are duly authorized, validly issued, fully paid and nonassessable, and are of record by and are beneficially owned, directly or indirectly, by the Company.[2]

3. To our knowledge and except as disclosed in the Prospectus, but without having investigated any governmental records or court dockets, and without having made any other independent investigation, there is no action, suit or proceeding pending or overtly threatened in writing against [Subsidiary] before any court or arbitrator or any governmental body, agency or official located in the State of New York, which if determined adversely to [Subsidiary], would be reasonable likely to have a Material Adverse Effect.[3]

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[1] Opinion to be delivered with respect to Virginia and Kentucky subsidiaries only.

[2] Opinion to be delivered with respect to Virginia and Kentucky subsidiaries only.

[3] Opinion to be delivered with respect to Virginia and Kentucky subsidiaries only.

Exhibit C

Form of Selling Stockholder Opinion

1. The Underwriting Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder;

2. The Power-of-Attorney and a Custody Agreement have been duly authorized, executed and delivered by the Selling Stockholder and constitute valid and binding agreements of the Selling Stockholder, enforceable in accordance with their respective terms;

3. Immediately prior to the applicable Delivery Date, the Selling Stockholder had good and valid title to the shares of Stock to be sold by such Selling Stockholder under the Underwriting Agreement, free and clear of all liens, encumbrances, equities or claims, and full right, power and authority to sell, assign, transfer and deliver such shares to be sold by such Selling Stockholder hereunder; and

4. Good and valid title to the shares of Stock to be sold by each Selling Stockholder under the Underwriting Agreement, free and clear of all liens, encumbrances, equities or claims, has been transferred to each of the several Underwriters.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF TEMPUR-PEDIC INTERNATIONAL INC.

Tempur-Pedic International Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "General Corporation Law"), hereby certifies as follows:

FIRST: The name of the Corporation is Tempur-Pedic International Inc. The Corporation was formed on September 17, 2002 under the name TWI Holdings, Inc. An Amendment to the Certificate of Incorporation (as amended, the "Certificate of Incorporation") was filed with the Secretary of State of Delaware on October 31, 2002.

SECOND: This Amended and Restated Certificate of Incorporation: (i) was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law; and (ii) was approved by written consent of a majority of the stockholders of the Corporation given in accordance with the provisions of Section 228 of the General Corporation Law.

THIRD: The text of the Certificate of Incorporation of the Corporation is hereby further restated and amended to read in its entirety as follows:

ARTICLE I
Name

The name of the corporation (the "Corporation") is Tempur-Pedic International Inc.

ARTICLE II
Registered Agent

The address of the Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, State of Delaware. The name of its registered agent is Corporation Service Company.

ARTICLE III
Purpose

The nature of the business or purposes to be conducted or promoted by the Corporation is as follows:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV
Capital Stock

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is 310,000,000 shares, consisting solely of:

- 300,000,000 shares of common stock, par value $0.01 per share ("Common Stock"); and
- 10,000,000 shares of preferred stock, par value $0.01 per share ("Preferred Stock").

The following is a statement of the powers, designations, preferences, privileges, and relative rights in respect of each class of capital stock of the Corporation.

A. COMMON STOCK.

1. Voting Rights

Except as otherwise expressly provided by law, and subject to any voting rights that may be granted to the holders of any class or series of Preferred Stock designated by the Board of Directors, all the voting power of the corporation shall be vested, as to all matters requiring stockholder approval, in the Common Stock. Each holder of record of a share or shares of Common Stock shall have the right to one vote per share held at all meetings of stockholders. There shall be no cumulative voting.

2. Other Rights

Each share of Common Stock issued and outstanding shall be identical in all respects one with the other. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor if, as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding shares of Preferred Stock. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding shares of Preferred Stock. Except for and subject to those rights expressly granted to the holders of the Preferred Stock (including, without limitation, any dividend and liquidation rights), or except as may be provided by the laws of the State of Delaware, the holders of Common Stock shall have exclusively all rights of stockholders.

3. Conversion of Outstanding Stock

Upon the effectiveness of this Amended and Restated Certificate of Incorporation, all outstanding shares, if any, of (1) Series A Convertible Preferred Stock of the Corporation, $0.01 par value per share, (2) Class A Common Stock of the Corporation, $0.01 par value

per share, (3) Class B-1 Voting Common Stock of the Corporation, $0.01 par value per share, and (4) Class B-2 Non-Voting Common Stock of the Corporation, $0.01 par value per share, shall automatically convert (on a one-for-one basis) to shares of Common Stock.

B. PREFERRED STOCK.

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized to establish and designate the different series and to fix and determine the voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, as shall be stated in a resolution or resolutions providing for the issue of such series adopted by the Board of Directors, which powers, preferences, rights, qualifications, limitations and restrictions need not be uniform among series. Any of the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of any such series of stock may be made dependent upon facts ascertainable outside the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors, provided that the manner in which such facts shall operate upon the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such series of stock is clearly and expressly set forth in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors.

Any resolution or resolutions adopted by the Board of Directors pursuant to the authority vested in them by this Article IV shall be set forth in a certificate of designations along with the number of shares of stock of such series as to which the resolution or resolutions shall apply and such certificate shall be executed, acknowledged, filed, recorded, and shall become effective, in accordance with Section 103 of the General Corporation Law of the State of Delaware. Unless otherwise provided in any such resolution or resolutions, the number of shares of stock of any such series to which such resolution or resolutions apply may be increased (but not above the total number of authorized shares of the class) or decreased (but not below the number of shares thereof then outstanding) by a certificate likewise executed, acknowledged, filed and recorded, setting forth a statement that a specified increase or decrease therein has been authorized and directed by a resolution or resolutions likewise adopted by the Board of Directors. In case the number of such shares shall be decreased, the number of shares so specified in the certificate shall resume the status which they had prior to the adoption of the first resolution or resolutions. When no shares of any such class or series are outstanding, either because none were issued or because none remain outstanding, a certificate setting forth a resolution or resolutions adopted by the Board of Directors that none of the authorized shares of such class or series are outstanding, and that none will be issued subject to the certificate of designations previously filed with respect to such class or series, may be executed, acknowledged, filed and recorded in the same manner as previously described and it shall have the effect of eliminating from the Amended and Restated Certificate of Incorporation all matters set forth in the certificate of designations with respect to such class or series of stock. If no shares of any such class or series established by a resolution or resolutions adopted by the Board of Directors have been issued, the voting powers, designations, preferences and relative, participating, optional or other rights, if any, or the qualifications,

limitations or restrictions thereof, may be amended by a resolution or resolutions adopted by the Board of Directors. In the event of any such amendment, a certificate which (l) states that no shares of such class or series have been issued, (2) sets forth the copy of the amending resolution or resolutions and (3) if the designation of such class or series is being changed, indicates the original designation and the new designation, shall be executed, acknowledged, filed, recorded, and shall become effective, in accordance with Section l03 of the General Corporation Law of the State of Delaware.

ARTICLE V
Board of Directors

The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for defining and regulating the powers of the Corporation and its directors and stockholders and are in furtherance and not in limitation of the powers conferred upon the Corporation by statute:

(a) The number of directors constituting the full Board of Directors shall be as determined by the Board of Directors from time to time. Members of the Board of Directors shall hold office until the annual meeting of the Corporation's stockholders at which their respective successors are elected and qualified or until their earlier death, incapacity resignation or removal. Members of the Board of Directors may be removed, with or without cause, only by the vote of the holders of a majority of the shares of the Corporation's stock entitled to vote for the election of directors. Except as the General Corporation Law may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director.

(b) The Board of Directors shall have the power and authority: (i) to adopt, amend or repeal By-Laws of the Corporation, subject only to such limitations, if any, as may be from time to time imposed by other provisions of this Certificate, by law, or by the By-Laws; and (ii) to the full extent permitted or not prohibited by law, and without the consent of or other action by the stockholders, to authorize or create mortgages, pledges or other liens or encumbrances upon any or all of the assets, real, personal or mixed, and franchises of the Corporation, including after-acquired property, and to exercise all of the powers of the Corporation in connection therewith.

ARTICLE VI
Limitation of Liability

No director of the Corporation shall be personally liable to the Corporation or to any of its stockholders for monetary damages for breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability; provided, however, that to the extent required from time to time by applicable law, this Article VI shall not eliminate or limit the liability of a director, to the extent such liability is provided by applicable law, (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of Title 8 of the Delaware Code, or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article VI shall eliminate or limit the liability or alleged liability of a director for or with respect to any act or omission of such director occurring prior to the effective date of such amendment or repeal.

ARTICLE VII
Indemnification

The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of Delaware, as amended from time to time, and as further provided in the By-Laws, but subject to the limitations and procedures set forth in the By-Laws, indemnify each person who was or is a party or is threatened to be made a party 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 the Corporation), by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom.

ARTICLE VIII
Compromises and Arrangements

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such a

manner as the said court directs. If a majority of the number representing three-fourths (3/4ths) in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all creditors or class of creditors, and/or all the stockholders or class of stockholders of the Corporation, as the case may be, and also on the Corporation.

ARTICLE IX
Stockholder Action

Any action required or permitted to be taken by the stockholders of the Corporation may be taken only at a duly called annual or special meeting of the stockholders, and not by written consent in lieu of such a meeting, and special meetings of stockholders may be called only by the Chairman of the Board of Directors, the President, or a majority of the Board of Directors.

ARTICLE X
Business Combinations with Interested Stockholders

The Corporation hereby expressly elects not to be governed by Section 203 of the General Corporation Law.

ARTICLE XI
Board Discretion in Considering Offers

The Board of Directors, when considering a tender offer or merger or acquisition proposal, may take into account factors in addition to potential economic benefits to stockholders, including without limitation (i) comparison of the proposed consideration to be received by stockholders in relation to the then current market price of the Corporation's capital stock, the estimated current value of the Corporation in a freely negotiated transaction, and the estimated future value of the Corporation as an independent entity and (ii) the impact of such a transaction on the employees, suppliers, and customers of the Corporation and its effect on the communities in which the Corporation operates.

ARTICLE XII
Amendments

The affirmative vote of the holders of at least 67% of the outstanding voting stock of the Corporation (in addition to any separate class vote that may in the future be required pursuant to the terms of any outstanding Preferred Stock) shall be required to amend or repeal the provisions of Articles IV (to the extent it relates to the authority of the Board of Directors to issue shares of Preferred Stock in one or more series, the terms of which may be determined by the Board of Directors), V, IX, X, or XII of this Amended and Restated Certificate of Incorporation or to reduce the numbers of authorized shares of Common Stock or Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be duly executed by its Chief Executive Officer and President this day of December, 2003.

TEMPUR-PEDIC INTERNATIONAL INC.

By: _____

Robert B. Trussell, Jr.
Chief Executive Officer & President

Exhibit 3.2

TEMPUR-PEDIC INTERNATIONAL INC.

AMENDED AND RESTATED BY-LAWS

TABLE OF CONTENTS

TEMPUR-PEDIC INTERNATIONAL INC.

AMENDED AND RESTATED BY-LAWS

Article I.—General.

1.1. Offices. The registered office of Tempur-Pedic International Inc. (the "Company") shall be in the City of Wilmington, County of New Castle, State of Delaware. The Company may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Company may require.

1.2. Seal. The seal, if any, of the Company shall be in the form of a circle and shall have inscribed thereon the name of the Company, the year of its organization and the words "Corporate Seal, Delaware."

1.3. Fiscal Year. Except as otherwise determined by the Board of Directors, the fiscal year of the Company shall be the period from January 1 through December 31.

Article II.—Stockholders.

2.1. Place of Meetings. Each meeting of the stockholders shall be held only upon notice as hereinafter provided, at such place as the Board of Directors shall have determined and as shall be stated in the relevant notice of meeting.

2.2. Annual Meeting. The annual meeting of the stockholders shall be held each year on such date and at such time as the Board of Directors may determine. At each annual meeting the stockholders entitled to vote shall elect such members of the Board of Directors as are standing for election, by plurality vote by ballot, and they may transact such other corporate business as may properly be brought before the meeting. At the annual meeting any business may be transacted, irrespective of whether the notice calling such meeting shall have contained a reference thereto, except where notice is required by law, the Company's Amended and Restated Certificate of Incorporation (as amended and in effect from time to time, the "Charter"), or these by-laws.

2.3. Quorum. At all meetings of the stockholders the holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum requisite for the transaction of business except as otherwise provided by law, the Charter, or these by-laws. Whether or not there is such a quorum at any meeting, the chairman of the meeting or the stockholders entitled to vote thereat, present in person or by proxy, by a majority vote, may adjourn the meeting from time to time without notice other than announcement at the meeting. If the adjournment

is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting, at which the requisite amount of voting stock shall be represented, any business may be transacted that might have been transacted if the meeting had been held as originally called. The stockholders present in person or by proxy at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.4. Right to Vote; Proxies. Subject to the provisions of the Charter, each holder of a share or shares of capital stock of the Company having the right to vote at any meeting shall be entitled to one vote for each such share of stock held by him. Any stockholder entitled to vote at any meeting of stockholders may vote either in person or by proxy, but no proxy that is dated more than three years prior to the meeting at which it is offered shall confer the right to vote thereat unless the proxy provides that it shall be effective for a longer period. A proxy may be granted by a writing executed by the stockholder or his authorized agent or by transmission or authorization of transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization, or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, subject to the conditions set forth in Section 212 of the Delaware General Corporation Law, as it may be amended from time to time (the "DGCL").

2.5. Voting. At all meetings of stockholders, except as otherwise expressly provided for by statute, the Charter, or these by-laws, (i) in all matters other than the election of directors, the affirmative vote of a majority of shares present in person or by means of remote communication or represented by proxy at the meeting and entitled to vote on such matter shall be the act of the stockholders and (ii) directors shall be elected by a plurality of the votes of the shares present in person or by means of remote communication or represented by proxy at the meeting and entitled to vote on the election of directors.

2.6. Notice of Annual Meetings. Written notice of the annual meeting of the stockholders shall be mailed to each stockholder entitled to vote thereat at such address as appears on the stock books of the Company at least ten (10) days (and not more than sixty (60) days) prior to the meeting. The Board of Directors may postpone any annual meeting of the stockholders at its discretion, even after notice thereof has been mailed, for any reason or for no reason. It shall be the duty of every stockholder to furnish to the Secretary of the Company or to the transfer agent, if any, of the class of stock owned by him and his post-office address, and to notify the Secretary or transfer agent of any change therein. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of

objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

2.7. Stockholders' List. A complete list of the stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order and showing the address of each stockholder, and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary and shall be open to examination of any stockholder, for any purpose germane to the meeting for a period of at least ten days before such meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) at the place of said meeting and said list shall be open to examination during the whole time of said meeting, or, if the meeting held is by remote communication, on a reasonably accessible electronic network and the information required to access such list shall be provided with the notice of the meeting.

2.8. Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise provided by statute, may be called only by the Chairman of the Board of Directors, the President, or a majority of the Board of Directors. Any such person or persons may postpone any special meeting of the stockholders at its or their discretion, for any reason or for no reason, even after notice thereof has been mailed.

2.9. Notice of Special Meetings. Written notice of a special meeting of stockholders, stating the time, the place, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting and the and object thereof, shall be sent not less than ten (10) nor more than sixty (60) days before such meeting, to each stockholder entitled to vote thereat, either in paper form or electronic form pursuant to each stockholder's instructions on record with the Company. No business may be transacted at such meeting except that referred to in said notice, or in a supplemental notice given also in compliance with the provisions hereof, or such other business as may be germane or supplementary to that stated in said notice or notices. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

2.10. Inspectors.

1. One or more inspectors may be appointed by the Board of Directors before or at any meeting of stockholders, or, if no such appointment shall have been made, the presiding officer may make such appointment at the meeting. At the meeting for which the inspector or inspectors are appointed, he or they shall open and close the polls, receive and take charge of the proxies and ballots, and decide all questions touching on the qualifications of voters, the validity of proxies, and the acceptance and rejection of votes. If any inspector previously appointed shall fail to attend or refuse or be unable to serve, the presiding officer shall appoint an inspector in his place.

2. At any time at which the Company has a class of voting stock that is (i) listed on a national securities exchange, (ii) authorized for quotation on an inter-dealer quotation system of a registered national securities association, or (iii) held of record by more than 2,000 stockholders, the provisions of Section 231 of the DGCL with respect to inspectors of election and voting procedures shall apply, in lieu of the provisions of paragraph 1 of this Section 2.10.

2.11. Stockholders' Consent in Lieu of Meeting. Unless otherwise provided in the Charter, any action required to be taken at any annual or special meeting of stockholders of the Company, or any action that may be taken at any annual or special meeting of such stockholders, may be taken only at such a meeting, and not by written consent of stockholders.

2.12. Procedures. For nominations for election to the Board of Directors or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely written notice thereof to the Secretary of the Company. To be timely, a notice of nominations or other business to be brought before an annual meeting of stockholders must be delivered to the Secretary not less than 120 nor more than 150 days prior to the first anniversary of the date of the Company's proxy statement delivered to stockholders in connection with the preceding year's annual meeting, or if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary, or if no proxy statement was delivered to stockholders by the Company in connection with the preceding year's annual meeting, such notice must be delivered not earlier than 90 days prior to such annual meeting and not later than the later of (i) 60 days prior to the annual meeting or (ii) 10 days following the date on which public announcement of the date of such annual meeting is first made by the Company. With respect to special meetings of stockholders, such notice must be delivered to the Secretary not more than 90 days prior to such meeting and not later than the later of (i) 60 days prior to such meeting or (ii) 10 days following the date on which public announcement of the date of such meeting is first made by the Company. Such notice must contain the name and address of the stockholder delivering the notice and a statement with respect to the amount of the Company's stock beneficially and/or legally owned by such stockholder, the nature of any such beneficial ownership of such stock, the beneficial ownership of any such stock legally held by such stockholder but beneficially owned by one or more others, and the length of time for which all such stock has been beneficially and/or legally owned by such stockholder, and information about each nominee for election as a director substantially equivalent to that which would be required in a proxy statement pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the Securities and Exchange Commission thereunder, and/or a description of the proposed business to be brought before the meeting, as the case may be.

Article III. - Directors.

3.1. Number of Directors.

(a) Except as otherwise provided by law, the Charter, or these by-laws, the property and business of the Company shall be managed by or under the direction of a board of directors. Directors need not be stockholders, residents of Delaware, or citizens of the United States. The use of the phrase "whole board" herein refers to the total number of directors which the Company would have if there were no vacancies.

(b) The number of directors constituting the whole Board of Directors shall be as determined by the Board of Directors from time to time. Members of the Board of Directors shall hold office until the annual meeting of stockholders at

which their respective successors are elected and qualified or until their earlier death, incapacity, resignation, or removal. Except as the DGCL or Charter may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director.

(c) If the office of any director becomes vacant by reason of death, resignation, disqualification, removal, failure to elect, or otherwise, the remaining directors, although more or less than a quorum, by a majority vote of such remaining directors may elect a successor or successors who shall hold office for the unexpired term.

3.2. Resignation. Any director of the Company may resign at any time by giving notice in writing or by electronic transmission to the Chairman of the Board, if any, the President or the Secretary of the Company. Such resignation shall take effect at the time specified therein, at the time of receipt if no time is specified therein and at the time of acceptance if the effectiveness of such resignation is conditioned upon its acceptance. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

3.3. Removal. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

3.4. Place of Meetings and Books. The Board of Directors may hold their meetings and keep the books of the Company inside or outside the State of Delaware, at such places as they may from time to time determine.

3.5. General Powers. In addition to the powers and authority expressly conferred upon them by these by-laws, the Board of Directors may exercise all such powers of the Company and do all such lawful acts and things as are not by statute or by the Charter or by these by-laws directed or required to be exercised or done by the stockholders.

3.6. Committees. The Board of Directors may designate one or more committees; such committee or committees shall consist of one or more directors of the Company, and to the extent provided in the resolution or resolutions designating them, shall have and may exercise specific powers of the Board of Directors in the management of the business and affairs of the Company to the extent permitted by the DGCL and shall have power to authorize the seal of the Company to be affixed to all papers that may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

3.7. Powers Denied to Committees. Committees of the Board of Directors shall not, in any event, have any power or authority to amend the Charter (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares adopted by the Board of Directors as provided in Section 151(a) of the DGCL, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Company or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Company or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease, or exchange of all or substantially all of the Company's property and assets, recommend to the stockholders a dissolution of the Company or a revocation of a dissolution, or to amend the by-laws of the Company. Further, no committee of the Board of Directors shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the DGCL, unless the resolution or resolutions designating such committee expressly so provides.

3.8. Substitute Committee Member. To the extent provided in the resolution or resolutions designating such a committee, in the absence or on the disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of such absent or disqualified member. Any committee shall keep regular minutes of its proceedings and report the same to the Board of Directors as may be required by the Board of Directors.

3.9. Compensation of Directors. The Board of Directors shall have the power to fix the compensation of directors and members of committees of the Board and may delegate this authority to one or more committees. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.10. Regular Meetings. No notice shall be required for regular meetings of the Board of Directors for which the time and place have been fixed. Written, oral, or any other mode of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. Notice need not be given to any director who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of any such person at a meeting shall constitute a waiver of notice of such meeting, except when he attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice.

3.11. Special Meetings. Special meetings of the board may be called by the Chairman of the Board, if any, or the President, on two (2) days notice to each director, or such shorter period of time before the meeting as will nonetheless be sufficient for the convenient assembly of the directors so notified; special meetings shall be called by the Secretary in like manner and on like notice, on the written request of two or more directors.

3.12. Quorum. At all meetings of the Board of Directors, a majority of the Board of Directors, but not less than 1/3 of the whole board, shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically permitted or provided by statute, or by the Charter, or by these by-laws. If at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum is obtained, and no further notice thereof need be given other than by announcement at said meeting that shall be so adjourned.

3.13. Telephonic Participation in Meetings. Members of the Board of Directors or any committee designated by such board may participate in a meeting of the board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

3.14. Action by Consent. Unless otherwise restricted by the Charter or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the board or of such committee, as the case may be, consent thereto in writing or by electronic transmission and such consent is filed in paper form with the minutes of proceedings of the Board of Directors or committee.

Article IV.—Officers.

4.1. Selection; Statutory Officers. The officers of the Company shall be chosen by the Board of Directors. There shall be a President, a Secretary, a Treasurer, and a Chairman of the Board of Directors, and there may be one or more Vice Presidents, one or more Assistant Secretaries, and one or more Assistant Treasurers, as the Board of Directors may elect. Any number of offices may be held by the same person, except that the offices of President and Secretary shall not be held by the same person simultaneously.

4.2. Time of Election. The officers above named shall be chosen by the Board of Directors at its first meeting after each annual meeting of stockholders. None of said officers need be a director.

4.3. Additional Officers. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

4.4. Terms of Office. Each officer of the Company shall hold office until his successor is chosen and qualified, or until his earlier resignation or removal. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors.

4.5. Compensation of Officers. The Board of Directors shall have power to fix the compensation of all officers of the Company. It may authorize any officer, upon whom the power of appointing subordinate officers may have been conferred, to fix the compensation of such subordinate officers.

4.6. Chairman of the Board. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and directors, and shall have such other duties as may be assigned to him from time to time by the Board of Directors.

4.7. President. Unless the Board of Directors otherwise determines, the President shall be the chief executive officer and head of the Company. Unless there is a Chairman of the Board, the President shall preside at all meetings of directors and stockholders. Under the supervision of the Board of Directors, the President shall have the general control and management of its business and affairs, subject, however, to the right of the Board of Directors to confer any specific power, except such as may be by statute exclusively conferred on the President, upon any other officer or officers of the Company. The President shall perform and do all acts and things incident to the position of President and such other duties as may be assigned to him from time to time by the Board of Directors.

4.8. Vice-Presidents. The Vice-Presidents shall perform such of the duties of the President on behalf of the Company as may be respectively assigned to them from time to

time by the Board of Directors or by the President. The Board of Directors may designate one or more of the Vice-Presidents as the Executive Vice President and may designate one or more of the Vice-Presidents as the Senior Vice-President, and in the absence or inability of the President to act, such Executive Vice President(s) and/or Senior Vice-President(s) shall have and possess all of the powers and discharge all of the duties of the President, subject to the control of the Board of Directors.

4.9. Treasurer. The Treasurer shall have the care and custody of all the funds and securities of the Company that may come into his hands as Treasurer, and the power and authority to endorse checks, drafts and other instruments for the payment of money for deposit or collection when necessary or proper and to deposit the same to the credit of the Company in such bank or banks or depository as the Board of Directors, or the officers or agents to whom the Board of Directors may delegate such authority, may designate, and he may endorse all commercial documents requiring endorsements for or on behalf of the Company. He may sign all receipts and vouchers for the payments made to the Company. He shall render an account of his transactions to the Board of Directors as often as the board or the committee shall require the same. He shall enter regularly in the books to be kept by him for that purpose full and adequate account of all moneys received and paid by him on account of the Company. He shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors. He shall when requested, pursuant to vote of the Board of Directors, give a bond to the Company conditioned for the faithful performance of his duties, the expense of which bond shall be borne by the Company.

4.10. Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and of the stockholders; he shall attend to the giving and serving of all notices of the Company. Except as otherwise ordered by the Board of Directors, he shall attest the seal of the Company upon all contracts and instruments executed under such seal and shall affix the seal of the Company thereto and to all certificates of shares of capital stock of the Company. He shall have charge of the stock certificate book, transfer book and stock ledger, and such other books and papers as the Board of Directors may direct. He shall, in general, perform all the duties of Secretary, subject to the control of the Board of Directors.

4.11. Assistant Secretary. The Board of Directors or any two of the officers of the Company acting jointly may appoint or remove one or more Assistant Secretaries of the Company. Any Assistant Secretary upon his appointment shall perform such duties of the Secretary, and also any and all such other duties as the Board of Directors or the President or the Executive Vice-President or the Senior Vice-President or the Treasurer or the Secretary may designate.

4.12. Assistant Treasurer. The Board of Directors or any two of the officers of the Company acting jointly may appoint or remove one or more Assistant Treasurers of the Company. Any Assistant Treasurer upon his appointment shall perform such of the duties of the Treasurer, and also any and all such other duties as the Board of Directors or

the President or the Executive Vice-President or the Senior Vice-President or the Treasurer or the Secretary may designate.

4.13. Subordinate Officers. The Board of Directors may select such subordinate officers as it may deem desirable. Each such officer shall hold office for such period, have such authority, and perform such duties as the Board of Directors may prescribe. The Board of Directors may, from time to time, authorize any officer to appoint and remove subordinate officers and to prescribe the powers and duties thereof.

Article V.—Stock.

5.1. Stock. Each stockholder shall be entitled to a certificate or certificates of stock of the Company in such form as the Board of Directors may from time to time prescribe. The certificates of stock of the Company shall be numbered and shall be entered in the books of the Company as they are issued. They shall certify the holder's name and number and class of shares and shall be signed by both of (i) either the President or a Vice-President, and (ii) any one of the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, and shall be sealed with the corporate seal of the Company. If such certificate is countersigned (l) by a transfer agent other than the Company or its employee, or, (2) by a registrar other than the Company or its employee, the signature of the officers of the Company and the corporate seal may be facsimiles. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Company, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Company, such certificate or certificates may nevertheless be adopted by the Company and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature shall have been used thereon had not ceased to be such officer or officers of the Company.

5.2. Fractional Share Interests. The Company may, but shall not be required to, issue fractions of a share. If the Company does not issue fractions of a share, it shall (i) arrange for the disposition of fractional interests by those entitled thereto, (ii) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined, or (iii) issue scrip or warrants in registered or bearer form that shall entitle the holder to receive a certificate for a full share upon the surrender of such scrip or warrants aggregating a full share. A certificate for a fractional share shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any of the assets of the Company in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing full shares before a specified date, or subject to the conditions that the shares for which scrip or warrants are exchangeable may be sold by the Company and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions that the Board of Directors may impose.

5.3. Transfers of Stock. Subject to any transfer restrictions then in force, the shares of stock of the Company shall be transferable only upon its books by the holders thereof in person or by their duly authorized attorneys or legal representatives and upon such transfer the old certificates shall be surrendered to the Company by the delivery thereof to the person in charge of the stock and transfer books and ledgers or to such other person as the directors may designate by whom they shall be canceled and new certificates shall thereupon be issued. The Company shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof save as expressly provided by the laws of Delaware.

5.4. Record Date. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof or entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, that shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. If no such record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

5.5. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents or transfer clerks and one or more registrars and may require all certificates of stock to bear the signature or signatures of any of them.

5.6. Dividends.

1. Power to Declare. Dividends upon the capital stock of the Company, subject to the provisions of the Charter, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Charter and the laws of Delaware.

2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve

or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Company, or for such other purpose as the directors shall think conducive to the interest of the Company, and the directors may modify or abolish any such reserve in the manner in which it was created.

5.7. Lost, Stolen, or Destroyed Certificates. No certificates for shares of stock of the Company shall be issued in place of any certificate alleged to have been lost, stolen, or destroyed, except upon production of such evidence of the loss, theft, or destruction and upon indemnification of the Company and its agents to such extent and in such manner as the Board of Directors may from time to time prescribe.

5.8. Inspection of Books. The stockholders of the Company, by a majority vote at any meeting of stockholders duly called, or in case the stockholders shall fail to act, the Board of Directors, shall have power from time to time to determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the Company (other than the stock ledger) or any of them, shall be open to inspection of stockholders; and no stockholder shall have any right to inspect any account or book or document of the Company except as conferred by statute or authorized by the Board of Directors or by a resolution of the stockholders.

Article VI.—Miscellaneous Management Provisions.

6.1. Checks, Drafts, and Notes. All checks, drafts, or orders for the payment of money, and all notes and acceptances of the Company shall be signed by such officer or officers, or such agent or agents, as the Board of Directors may designate.

6.2. Notices.

1. Notices to directors may, and notices to stockholders shall, be in writing and (a) delivered personally, (b) mailed to the directors or stockholders at their addresses appearing on the books of the Company, or (c) delivered by a form of electronic transmission which is consented to by the stockholder to whom the notice is given. Notice by mail shall be deemed to be given at the time when the same shall be mailed. Notice by electronic transmission shall be deemed to be given (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice, (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice, (iii) if by a posting on an electronic network together with a separate notice to the stockholder of such specific posting, upon the later of (A) such posting, and (B) the giving of such separate notice, and (iv) if by any other form of electronic transmission, when directed to the stockholder. Notice to directors may also be given by telegram, telecopy or orally, by telephone or in person.

2. Whenever any notice is required to be given under the provisions of any applicable statute or of the Charter or of these by-laws, a written waiver of

notice, signed by the person or persons entitled to said notice, or waiver of notice by electronic transmission by the person or persons entitled to said notice, whether before or after the time stated therein or the meeting or action to which such notice relates, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

6.3. Conflict of Interest. No contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or the committee thereof that authorized the contract or transaction, or solely because his or their votes are counted for such purpose, if: (i) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders of the Company entitled to vote thereon, and the contract or transaction as specifically approved in good faith by vote of such stockholders; or (iii) the contract or transaction is fair as to the Company as of the time it is authorized, approved, or ratified, by the Board of Directors, a committee or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

6.4. Voting of Securities Owned by the Company. Subject always to the specific directions of the Board of Directors, (i) any shares or other securities issued by any other corporation and owned or controlled by the Company may be voted in person at any meeting of security holders of such other corporation by the President of the Company if he is present at such meeting, or in his absence by the Treasurer of the Company if he is present at such meeting, and (ii) whenever, in the judgment of the President, it is desirable for the Company to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by the Company, such proxy or consent shall be executed in the name of the Company by the President, without the necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer, provided that if the President is unable to execute such proxy or consent by reason of sickness, absence from the United States or other similar cause, the Treasurer may execute such proxy or consent. Any person or persons designated in the manner above stated as the proxy or proxies of the Company shall have full right, power and authority to vote the shares or other

securities issued by such other corporation and owned by the Company the same as such shares or other securities might be voted by the Company.

Article VII. - Indemnification.

7.1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of being or having been a director or officer of the Company or serving or having served at the request of the Company as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (an "Indemnitee"), whether the basis of such proceeding is alleged action or failure to act in an official capacity as a director, trustee, officer, employee or agent or in any other capacity while serving as a director, trustee, officer, employee or agent, shall be indemnified and held harmless by the Company to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than permitted prior thereto) (as used in this Article VII, the "Delaware Law"), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith and such indemnification shall continue as to an Indemnitee who has ceased to be a director, trustee, officer, employee, or agent and shall inure to the benefit of the Indemnitee's heirs, executors, and administrators; provided, however, that, except as provided in Section 7.2 hereof with respect to Proceedings to enforce rights to indemnification, the Company shall indemnify any such Indemnitee in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if such Proceeding (or part thereof) was authorized by the Board of Directors of the Company. The right to indemnification conferred in this Article VII shall be a contract right and shall include the right to be paid by the Company the expenses (including attorneys' fees) incurred in defending any such Proceeding in advance of its final disposition (an "Advancement of Expenses"); provided, however, that, if the Delaware Law so requires, an Advancement of Expenses incurred by an Indemnitee shall be made only upon delivery to the Company of an undertaking (an "Undertaking"), by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (a "Final Adjudication") that such Indemnitee is not entitled to be indemnified for such expenses under this Article VII or otherwise.

7.2. Right of Indemnitee to Bring Suit. If a claim under Section 7.1 hereof is not paid in full by the Company within sixty days after a written claim has been received by the Company, except in the case of a claim for an Advancement of Expenses, in which case the applicable period shall be twenty days, the Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Company to recover an Advancement of Expenses pursuant to the terms of an Undertaking, the Indemnitee shall

be entitled to be paid also the expense of prosecuting or defending such suit. In any suit brought by the Indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the Indemnitee to enforce a right to an Advancement of Expenses) it shall be a defense that the Indemnitee has not met the applicable standard of conduct set forth in the Delaware Law. In addition, in any suit brought by the Company to recover an Advancement of Expenses pursuant to the terms of an Undertaking the Company shall be entitled to recover such expenses upon a Final Adjudication that the Indemnitee has not met the applicable standard of conduct set forth in the Delaware Law. Neither the failure of the Company (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the Delaware Law, nor an actual determination by the Company (including its Board of Directors, independent legal counsel, or its stockholders) that the Indemnitee has not met such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit. In any suit brought by the Indemnitee to enforce a right to indemnification or to an Advancement of Expenses hereunder, or by the Company to recover an Advancement of Expenses pursuant to the terms of an Undertaking, the burden of proving that the Indemnitee is not entitled to be indemnified, or to such Advancement of Expenses, under this Article VII or otherwise shall be on the Company.

7.3. Non-Exclusivity of Rights. The rights to indemnification and to the Advancement of Expenses conferred in this Article VII shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, the Charter, agreement, vote of stockholders or disinterested directors or otherwise.

7.4. Insurance. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under this Article VII or under the Delaware Law.

7.5. Indemnification of Employees and Agents of the Company. The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the Advancement of Expenses, to any employee or agent of the Company to the fullest extent of the provisions of this Article VII with respect to the indemnification and Advancement of Expenses of directors and officers of the Company.

Article VIII. - Amendments.

8.1. Amendments.

Subject always to any limitations imposed by the Charter, these by-laws may be altered, amended, or repealed, or new by-laws may be adopted, only by (i) the affirmative vote of the holders of at least a majority of the outstanding voting stock of the Company, provided, that the affirmative vote of the holders of at least 67% of the outstanding voting stock of the Company shall be required for any such alteration, amendment, repeal, or adoption that would affect or be inconsistent with the provisions of Sections 2.11, 2.12 or 3.1, Article VII and this Section 8.1 (in each case, in addition to any separate class vote that may be required pursuant to the terms of any then outstanding preferred stock of the Company), or (ii) by resolution of the Board of Directors duly adopted by not less than a majority of the directors then constituting the full Board of Directors.

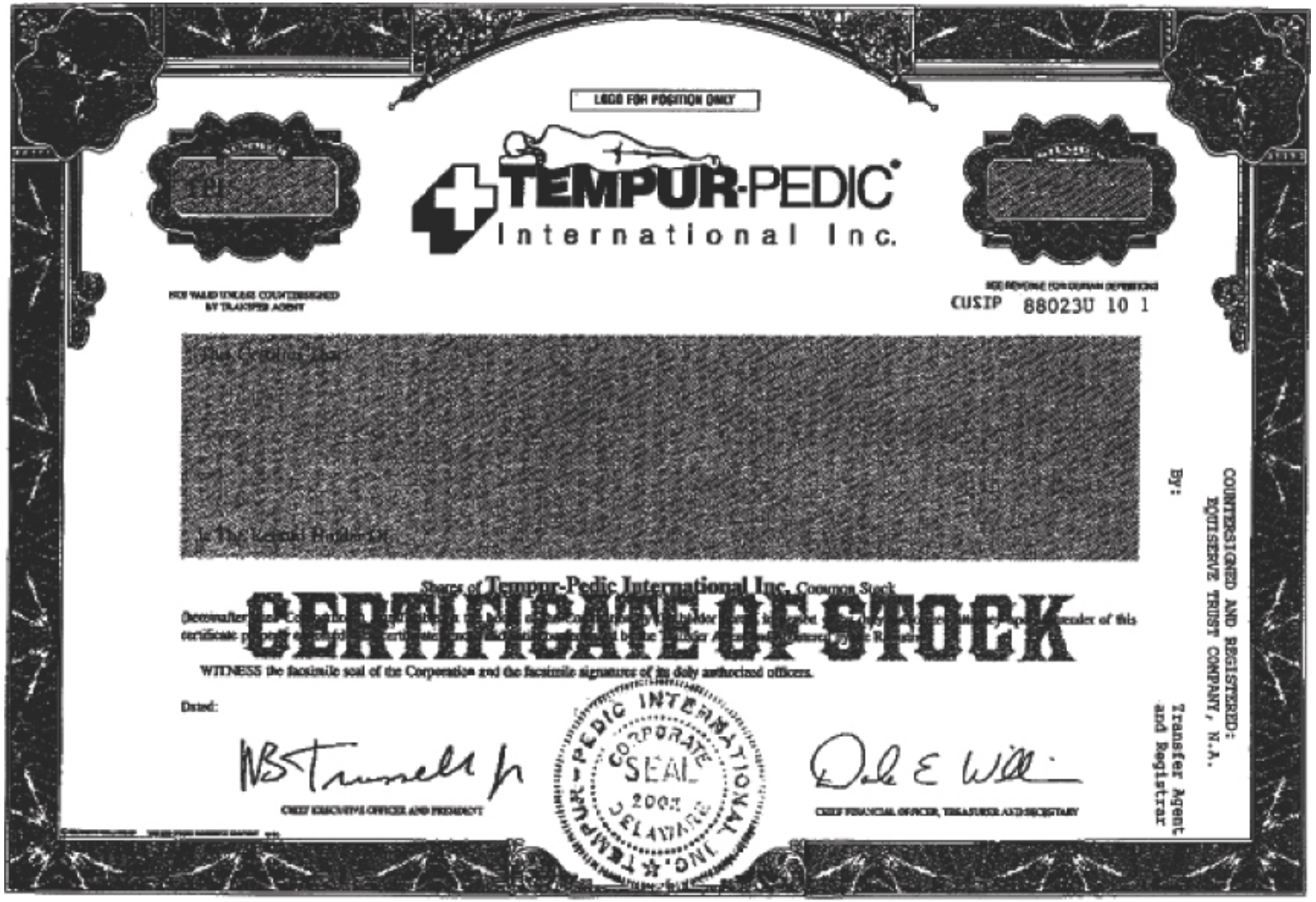
LOGO FOR POSITION ONLY
TEMPUR-PEDIC
International Inc.
CUSIP 88023U 10 1
COUNTERSIGNED AND REGISTERED:
EQUISERVE TRUST COMPANY, N.A.
By:
Transfer Agent
and Registrar
Shares of Tempur-Pedic International Inc. Common Stock
CERTIFICATE OF STOCK
WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.
Dated:
TEMPUR-PEDIC INTERNATIONAL INC.
CORPORATE SEAL
2002
DELAWARE

Exhibit 4.1

The Corporation has more than one class of stock. The Corporation will furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences, and relative, participating, optional or other special rights of each class of stock or series thereof of the Corporation, and the qualifications, limitations or restrictions of such preferences and/or rights.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM — as tenants in common
TEN ENT — as tenants by the entireties
JT TEN — as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT — ..... Custodian .....
(Cust) (Minor)
under Uniform Gifts to Minors Act .....
(State)

UNIF TRF MIN ACT — ..... Custodian (until age .....)
(Cust)
..... under Uniform Transfers
(Minor)
to Minors Act .....
(State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ *hereby sell, assign and transfer unto*

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

_____ *Shares*

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ *Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.*

Dated, _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

Signature(s) Guaranteed:

Exhibit 5.1

December 12, 2003

Tempur-Pedic International Inc.
1713 Jaggie Fox Way
Lexington, Kentucky 40511

Re: Registration Statement on Form S-1 Under the Securities Act of 1933,
As Amended (File No. 333-109798)

Ladies and Gentlemen:

We have acted as counsel to Tempur-Pedic International Inc., a Delaware corporation (the "Company"), in connection with the registration under the Securities Act, of 1933, as amended (the "Act"), of 18,750,000 shares and up to an additional 2,812,500 shares which may be offered by the Company in order to cover over-allotments, if any, of common stock, par value $0.01 per share of the Company (the "Shares"), pursuant to a Registration Statement on Form S-1 (as amended, the "Registration Statement"), initially filed with the Securities and Exchange Commission on October 17, 2003.

We have reviewed the corporate proceedings of the Company with respect to the authorization of the issuance of the Shares. We have also examined and relied upon originals or copies, certified or otherwise identified or authenticated to our satisfaction, of such corporate records, instruments, agreements or other documents of the Company, and certificates of officers of the Company as to certain factual matters, and have made such investigation of law and have discussed with officers and representatives of the Company such questions of fact, as we have deemed necessary or appropriate as a basis for the opinions hereinafter expressed. In our examination, 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.

We have also assumed that an Underwriting Agreement substantially in the form of Exhibit 1.1 to the Registration Statement, by and among the Company and the underwriters named therein (the "Underwriting Agreement"), will have been duly executed and delivered pursuant to the authorizing resolutions of the Board of Directors of the Company and that the Shares will be sold and transferred only upon the payment therefore as provided in the Underwriting Agreement. We have further assumed that the registration requirements of the Act and all applicable requirements of state laws regulating the sale of securities will have been duly satisfied.

This opinion is limited solely to the Delaware General Corporation Law, as applied by courts located in Delaware, the applicable provisions of the Delaware Constitution and the reported judicial decisions interpreting those laws.

Based upon and subject to the foregoing, we are of the opinion that the Shares to be issued and sold by the Company under the Underwriting Agreement have been duly authorized, and when delivered and paid for by the Underwriters (as such term is defined in the Underwriting Agreement) in accordance with the terms of the Underwriting Agreement, will be validly issued, fully paid, and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the heading "Legal matters" in the Registration Statement.

Very truly yours,

/S/ BINGHAM MCCUTCHEN LLP

BINGHAM MCCUTCHEN LLP

Exhibit 10.17

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EQUITY INCENTIVE PLAN

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TEMPUR-PEDIC INTERNATIONAL INC.

2003 EQUITY INCENTIVE PLAN

1. Purpose

This Plan is intended to encourage ownership of Stock by employees, consultants and directors of the Company and its Affiliates and to provide additional incentive for them to promote the success of the Company's business through the grant of Awards of or pertaining to shares of the Company's Stock. The Plan is intended to be an incentive stock option plan within the meaning of Section 422 of the Code, but not all Awards are required to be Incentive Options.

2. Definitions

As used in this Plan, the following terms shall have the following meanings:

2.1. Accelerate, Accelerated, and Acceleration, means: (a) when used with respect to an Option or Stock Appreciation Right, that as of the time of reference the Option or Stock Appreciation Right will become exercisable with respect to some or all of the shares of Stock for which it was not then otherwise exercisable by its terms; (b) when used with respect to Restricted Stock or Restricted Stock Units, that the Risk of Forfeiture otherwise applicable to the Stock or Units shall expire with respect to some or all of the shares of Restricted Stock or Units then still otherwise subject to the Risk of Forfeiture; and (c) when used with respect to Performance Units, that the applicable Performance Goals shall be deemed to have been met as to some or all of the Units.

2.2. Acquisition means a merger or consolidation of the Company with or into another person or the sale, transfer, or other disposition of all or substantially all of the Company's assets to one or more other persons in a single transaction or series of related transactions.

2.3. Affiliate means any corporation, partnership, limited liability company, business trust, or other entity controlling, controlled by or under common control with the Company.

2.4. Award means any grant or sale pursuant to the Plan of Options, Stock Appreciation Rights, Performance Units, Restricted Stock, Restricted Stock Units or Stock Grants.

2.5. Award Agreement means an agreement between the Company and the recipient of an Award, setting forth the terms and conditions of the Award.

2.6. Board means the Company's Board of Directors.

2.7. Change of Control means the occurrence of any of the following after the date of the approval of the Plan by the Board:

(a) an Acquisition, unless securities possessing more than 50% of the total combined voting power of the survivor's or acquiror's outstanding securities (or the securities of any parent thereof) are held by a person or persons who held securities possessing more than 50% of the total combined voting power of the Company's outstanding securities immediately prior to that transaction, or

(b) any person or group of persons (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended and in effect from time to time) directly or indirectly acquires beneficial ownership (determined pursuant to Securities and Exchange Commission Rule 13d-3 promulgated under the said Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders that the Board does not recommend such stockholders accept, other than (i) the Company or an Affiliate, (ii) an employee benefit plan of the Company or any of its Affiliates, (iii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, or (iv) an underwriter temporarily holding securities pursuant to an offering of such securities, or

(c) over a period of 36 consecutive months or less, there is a change in the composition of the Board such that a majority of the Board members (rounded up to the next whole number, if a fraction) ceases, by reason of one or more proxy contests for the election of Board members, to be composed of individuals who either (i) have been Board members continuously since the beginning of that period, or (ii) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in the preceding clause (i) who were still in office at the time that election or nomination was approved by the Board; or

(d) a majority of the Board votes in favor of a decision that a Change in Control has occurred.

2.8. Code means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto, and any regulations issued from time to time thereunder.

2.9. Committee means the Compensation Committee of the Board, which in general is responsible for the administration of the Plan, as provided in Section 5 of the Plan. For any period during which no such committee is in existence "Committee" shall mean the Board and all authority and responsibility assigned to the Committee under the Plan shall be exercised, if at all, by the Board.

2.10. Company means Tempur-Pedic International Inc., a corporation organized under the laws of the State of Delaware.

2.11. Covered Employee means an employee who is a "covered employee" within the meaning of Section 162(m) of the Code.

2.12. Grant Date means the date as of which an Option is granted, as determined under Section 7.1(a).

2.13. Incentive Option means an Option which by its terms is to be treated as an "incentive stock option" within the meaning of Section 422 of the Code.

2.14. Market Value means the value of a share of Stock on a particular date determined by such methods or procedures as may be established by the Committee. Unless otherwise determined by the Committee, the Market Value of Stock as of any date is the closing price for the Stock as reported on the New York Stock Exchange (or on any other national securities exchange on which the Stock is then listed) for that date or, if no closing price is reported for that date, the closing price on the next preceding date for which a closing price was reported. For purposes of Awards effective as of the effective date of the Company's initial public offering, Market Value of Stock shall be the price at which the Company's Stock is offered to the public in its initial public offering.

2.15. Nonstatutory Option means any Option that is not an Incentive Option.

2.16. Option means an option to purchase shares of Stock.

2.17. Optionee means a Participant to whom an Option shall have been granted under the Plan.

2.18. Participant means any holder of an outstanding Award under the Plan.

2.19. Performance Criteria means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria used to establish Performance Goals are limited to: pre- or after-tax net earnings, sales growth, operating earnings, operating cash flow, return on net assets, return on stockholders' equity, return on assets, return on capital, Stock price growth, stockholder returns, gross or net profit margin, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee will, but within the time prescribed by Section 162(m) of the Code in the case of Qualified Performance-Based Awards, objectively define the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.20. Performance Goals means, for a Performance Period, the written goals established by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, subsidiary, or an individual.

2.21. Performance Period means the one or more periods of time, which may be of varying and overlapping durations, selected by the Committee, over which the attainment of one or more Performance Goals will be measured for purposes of determining a Participant's right to, and the payment of, a Performance Unit.

2.22. Performance Unit means a right granted to a Participant under Section 7.5, to receive cash, Stock or other Awards, the payment of which is contingent on achieving Performance Goals established by the Committee.

2.23. Plan means this 2003 Equity Incentive Plan of the Company, as amended from time to time, and including any attachments or addenda hereto.

2.24. Qualified Performance-Based Awards means Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

2.25. Restricted Stock means a grant or sale of shares of Stock to a Participant subject to a Risk of Forfeiture.

2.26. Restriction Period means the period of time, established by the Committee in connection with an Award of Restricted Stock, during which the shares of Restricted Stock are subject to a Risk of Forfeiture described in the applicable Award Agreement.

2.27. Risk of Forfeiture means a limitation on the right of the Participant to retain Restricted Stock or Restricted Stock Units, including a right in the Company to reacquire shares of Restricted Stock at less than their then Market Value, arising because of the occurrence or non-occurrence of specified events or conditions.

2.28. Restricted Stock Units means rights to receive shares of Stock at the close of a Restriction Period, subject to a Risk of Forfeiture.

2.29. Stock means common stock, par value $0.01 per share, of the Company, and such other securities as may be substituted for Stock pursuant to Section 8.

2.30. Stock Appreciation Right means a right to receive any excess in the Market Value of shares of Stock (except as otherwise provided in Section 7.2(c)) over a specified exercise price.

2.31. Stock Grant means the grant of shares of Stock not subject to restrictions or other forfeiture conditions.

2.32. Stockholders' Agreement means any agreement by and among the holders of at least a majority of the outstanding voting securities of the Company and setting forth, among other provisions, restrictions upon the transfer of shares of Stock or on the exercise of rights appurtenant thereto (including but not limited to voting rights).

2.33. Ten Percent Owner means a person who owns, or is deemed within the meaning of Section 422(b)(6) of the Code to own, stock possessing more than 10% of the

total combined voting power of all classes of stock of the Company (or any parent or subsidiary corporations of the Company, as defined in Sections 424(e) and (f), respectively, of the Code). Whether a person is a Ten Percent Owner shall be determined with respect to an Option based on the facts existing immediately prior to the Grant Date of the Option.

3. Term of the Plan

Unless the Plan shall have been earlier terminated by the Board, Awards may be granted under this Plan at any time in the period commencing on the date of approval of the Plan by the Board and ending immediately prior to the tenth anniversary of the earlier of the adoption of the Plan by the Board or approval of the Plan by the Company's stockholders. Awards granted pursuant to the Plan within that period shall not expire solely by reason of the termination of the Plan. Awards of Incentive Options granted prior to stockholder approval of the Plan are expressly conditioned upon such approval, but in the event of the failure of the stockholders to approve the Plan shall thereafter and for all purposes be deemed to constitute Nonstatutory Options.

4. Stock Subject to the Plan

At no time shall the number of shares of Stock issued pursuant to or subject to outstanding Awards granted under the Plan exceed 8,000,000 shares of Stock; *subject, however*, to the provisions of Section 8 of the Plan. For purposes of applying the foregoing limitation, if any Option or Stock Appreciation Right expires, terminates, or is cancelled for any reason without having been exercised in full, or if any other Award is forfeited by the recipient, the shares not purchased by the Optionee or which are forfeited by the recipient shall again be available for Awards to be granted under the Plan. In addition, settlement of any Award shall not count against the foregoing limitations except to the extent settled in the form of Stock. Shares of Stock issued pursuant to the Plan may be either authorized but unissued shares or shares held by the Company in its treasury.

5. Administration

The Plan shall be administered by the Committee; *provided, however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned the Committee under the Plan and when so acting shall have the benefit of all of the provisions of the Plan pertaining to the Committee's exercise of its authorities hereunder; and *provided further, however,* that the Committee may delegate to an executive officer or officers the authority to grant Awards hereunder to employees who are not officers, and to consultants, in accordance with such guidelines as the Committee shall set forth at any time or from time to time. Subject to the provisions of the Plan, the Committee shall have complete authority, in its discretion, to make or to select the manner of making all determinations with respect to each Award to be granted by the Company under the Plan including the employee, consultant or director to receive the Award and the form of Award. In making such determinations, the Committee may

take into account the nature of the services rendered by the respective employees, consultants, and directors, their present and potential contributions to the success of the Company and its Affiliates, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective Award Agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations made in good faith on matters referred to in the Plan shall be final, binding and conclusive on all persons having or claiming any interest under the Plan or an Award made pursuant to hereto.

6. Authorization of Grants

6.1. Eligibility. The Committee may grant from time to time and at any time prior to the termination of the Plan one or more Awards, either alone or in combination with any other Awards, to any employee of or consultant to one or more of the Company and its Affiliates or to non-employee member of the Board or of any board of directors (or similar governing authority) of any Affiliate. However, only employees of the Company, and of any parent or subsidiary corporations of the Company, as defined in Sections 424(e) and (f), respectively, of the Code, shall be eligible for the grant of an Incentive Option. Further, in no event shall the number of shares of Stock covered by Options or other Awards granted to any one person in any one calendar year exceed 25% of the aggregate number of shares of Stock subject to the Plan.

6.2. General Terms of Awards. Each grant of an Award shall be subject to all applicable terms and conditions of the Plan (including but not limited to any specific terms and conditions applicable to that type of Award set out in the following Section), and such other terms and conditions, not inconsistent with the terms of the Plan, as the Committee may prescribe. No prospective Participant shall have any rights with respect to an Award, unless and until such Participant has executed an agreement evidencing the Award, delivered a fully executed copy thereof to the Company, and otherwise complied with the applicable terms and conditions of such Award.

6.3. Effect of Termination of Employment, Etc. Unless the Committee shall provide otherwise with respect to any Award, if the Participant's employment or other association with the Company and its Affiliates ends for any reason, including because of the Participant's employer ceasing to be an Affiliate, (a) any outstanding Option or Stock Appreciation Right of the Participant shall cease to be exercisable in any respect not later than 90 days following that event and, for the period it remains exercisable following that event, shall be exercisable only to the extent exercisable at the date of that event, and (b) any other outstanding Award of the Participant shall be forfeited or otherwise subject to return to or repurchase by the Company on the terms specified in the applicable Award Agreement. Military or sick leave or other bona fide leave shall not be deemed a termination of employment or other association, *provided* that it does not exceed the

longer of ninety (90) days or the period during which the absent Participant's reemployment rights, if any, are guaranteed by statute or by contract.

6.4. Transferability of Awards. Except as otherwise provided in this Section 6.4, Awards shall not be transferable, and no Award or interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All of a Participant's rights in any Award may be exercised during the life of the Participant only by the Participant or the Participant's legal representative. However, the Committee may, at or after the grant of an Award of a Nonstatutory Option, or shares of Restricted Stock, provide that such Award may be transferred by the recipient to a family member; *provided, however*, that any such transfer is without payment of any consideration whatsoever and that no transfer shall be valid unless first approved by the Committee, acting in its sole discretion. For this purpose, "family member" means any child, stepchild, grandchild, parent, stepparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the employee's household (other than a tenant or employee), a trust in which the foregoing persons have more than fifty (50) percent of the beneficial interests, a foundation in which the foregoing persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty (50) percent of the voting interests.

7. Specific Terms of Awards

7.1. Options.

(a) Date of Grant. The granting of an Option shall take place at the time specified in the Award Agreement. Only if expressly so provided in the applicable Award Agreement shall the Grant Date be the date on which the Award Agreement shall have been duly executed and delivered by the Company and the Optionee.

(b) Exercise Price. The price at which shares of Stock may be acquired under each Incentive Option shall be not less than 100% of the Market Value of Stock on the Grant Date, or not less than 110% of the Market Value of Stock on the Grant Date if the Optionee is a Ten Percent Owner. The price at which shares may be acquired under each Nonstatutory Option shall not be so limited solely by reason of this Section.

(c) Option Period. No Incentive Option may be exercised on or after the tenth anniversary of the Grant Date, or on or after the fifth anniversary of the Grant Date if the Optionee is a Ten Percent Owner. The Option period under each Nonstatutory Option shall not be so limited solely by reason of this Section.

(d) Exercisability. An Option may be immediately exercisable or become exercisable in such installments, cumulative or non-cumulative, as the Committee may determine. In the case of an Option not otherwise immediately exercisable in full, the Committee may Accelerate such Option in whole or in part at any

time; *provided, however,* that in the case of an Incentive Option, any such Acceleration of the Option would not cause the Option to fail to comply with the provisions of Section 422 of the Code or the Optionee consents to the Acceleration.

(e) Method of Exercise. An Option may be exercised by the Optionee giving written notice, in the manner provided in Section 16, specifying the number of shares with respect to which the Option is then being exercised. The notice shall be accompanied by payment in the form of cash or check payable to the order of the Company in an amount equal to the exercise price of the shares to be purchased or, if the Committee had so authorized on the grant of an Incentive Option or on or after grant of an Nonstatutory Option (and subject to such conditions, if any, as the Committee may deem necessary to avoid adverse accounting effects to the Company) by delivery to the Company of

(i) shares of Stock having a Market Value equal to the exercise price of the shares to be purchased, or

(ii) unless prohibited by applicable law, the Optionee's executed promissory note in the principal amount equal to the exercise price of the shares to be purchased and otherwise in such form as the Committee shall have approved.

If the Stock is traded on an established market, payment of any exercise price may also be made through and under the terms and conditions of any formal cashless exercise program authorized by the Company entailing the sale of the Stock subject to an Option in a brokered transaction (other than to the Company). Receipt by the Company of such notice and payment in any authorized or combination of authorized means shall constitute the exercise of the Option. Within thirty (30) days thereafter but subject to the remaining provisions of the Plan, the Company shall deliver or cause to be delivered to the Optionee or his agent a certificate or certificates for the number of shares then being purchased. Such shares shall be fully paid and nonassessable.

(f) Limit on Incentive Option Characterization. An Incentive Option shall be considered to be an Incentive Option only to the extent that the number of shares of Stock for which the Option first becomes exercisable in a calendar year do not have an aggregate Market Value (as of the date of the grant of the Option) in excess of the "current limit". The current limit for any Optionee for any calendar year shall be $100,000 *minus* the aggregate Market Value at the date of grant of the number of shares of Stock available for purchase for the first time in the same year under each other Incentive Option previously granted to the Optionee under the Plan, and under each other incentive stock option previously granted to the Optionee under any other incentive stock option plan of the Company and its Affiliates, after December 31, 1986. Any shares of Stock which would cause the foregoing limit to be violated shall be deemed to have been granted under a separate Nonstatutory Option, otherwise identical in its terms to those of the Incentive Option.

(g) Notification of Disposition. Each person exercising any Incentive Option granted under the Plan shall be deemed to have covenanted with the Company to report to the Company any disposition of such shares prior to the expiration of the holding periods specified by Section 422(a)(1) of the Code and, if and to the extent that the realization of income in such a disposition imposes upon the Company federal, state, local or other withholding tax requirements, or any such withholding is required to secure for the Company an otherwise available tax deduction, to remit to the Company an amount in cash sufficient to satisfy those requirements.

7.2. Stock Appreciation Rights.

(a) Tandem or Stand-Alone. Stock Appreciation Rights may be granted in tandem with an Option (at or, in the case of a Nonstatutory Option, after, the award of the Option), or alone and unrelated to an Option. Stock Appreciation Rights in tandem with an Option shall terminate to the extent that the related Option is exercised, and the related Option shall terminate to the extent that the tandem Stock Appreciation Rights are exercised.

(b) Exercise Price. Stock Appreciation Rights shall have such exercise price as the Committee may determine, except that in the case of Stock Appreciation Rights in tandem with Options, the exercise price of the Stock Appreciation Rights shall equal the exercise price of the related Option.

(c) Other Terms. Except as the Committee may deem inappropriate or inapplicable in the circumstances, Stock Appreciation Rights shall be subject to terms and conditions substantially similar to those applicable to a Nonstatutory Option. In addition, an Stock Appreciation Right related to an Option which can only be exercised during limited periods following a Change in Control may entitle the Participant to receive an amount based upon the highest price paid or offered for Stock in any transaction relating to the Change in Control or paid during the thirty (30) day period immediately preceding the occurrence of the change in control in any transaction reported in the stock market in which the Stock is normally traded.

7.3. Restricted Stock.

(a) Purchase Price. Shares of Restricted Stock shall be issued under the Plan for such consideration, in cash, other property or services, or any combination thereof, as is determined by the Committee.

(b) Issuance of Certificates. Each Participant receiving a Restricted Stock Award, subject to subsection (c) below, shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such Participant, and, if applicable, shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award substantially in the following form:

The transferability of this certificate and the shares represented by this certificate are subject to the terms and conditions of the Tempur-Pedic International Inc. 2003 Equity Incentive Plan and an Award Agreement entered into by the registered owner and Tempur-Pedic International Inc. Copies of such Plan and Agreement are on file in the offices of Tempur-Pedic International Inc.

(c) Escrow of Shares. The Committee may require that the stock certificates evidencing shares of Restricted Stock be held in custody by a designated escrow agent (which may but need not be the Company) until the restrictions thereon shall have lapsed, and that the Participant deliver a stock power, endorsed in blank, relating to the Stock covered by such Award.

(d) Restrictions and Restriction Period. During the Restriction Period applicable to shares of Restricted Stock, such shares shall be subject to limitations on transferability and a Risk of Forfeiture arising on the basis of such conditions related to the performance of services, Company or Affiliate performance or otherwise as the Committee may determine and provide for in the applicable Award Agreement. Any such Risk of Forfeiture may be waived or terminated, or the Restriction Period shortened, at any time by the Committee on such basis as it deems appropriate.

(e) Rights Pending Lapse of Risk of Forfeiture or Forfeiture of Award. Except as otherwise provided in the Plan or the applicable Award Agreement, at all times prior to lapse of any Risk of Forfeiture applicable to, or forfeiture of, an Award of Restricted Stock, the Participant shall have all of the rights of a stockholder of the Company, including the right to vote, and the right to receive any dividends with respect to, the shares of Restricted Stock. The Committee, as determined at the time of Award, may permit or require the payment of cash dividends to be deferred and, if the Committee so determines, reinvested in additional Restricted Stock to the extent shares are available under Section 4.

(f) Lapse of Restrictions. If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock, the certificates for such shares shall be delivered to the Participant promptly if not theretofore so delivered.

7.4. Restricted Stock Units.

(a) Character. Each Restricted Stock Unit shall entitle the recipient to a share of Stock at a close of such Restriction Period as the Committee may establish and subject to a Risk of Forfeiture arising on the basis of such conditions relating to the performance of services, Company or Affiliate performance or otherwise as the Committee may determine and provide for in the applicable Award Agreement. Any such Risk of Forfeiture may be waived or terminated, or the Restriction Period shortened, at any time by the Committee on such basis as it deems appropriate.

(b) Form and Timing of Payment. Payment of earned Restricted Stock Units shall be made in a single lump sum following the close of the applicable Restriction

Period. At the discretion of the Committee, Participants may be entitled to receive payments equivalent to any dividends declared with respect to Stock referenced in grants of Restricted Stock Units but only following the close of the applicable Restriction Period and then only if the underlying Stock shall have been earned. Unless the Committee shall provide otherwise, any such dividend equivalents shall be paid, if at all, without interest or other earnings.

7.5. Performance Units.

(a) Character. Each Performance Unit shall entitle the recipient to the value of a specified number of shares of Stock, over the initial value for such number of shares, if any, established by the Committee at the time of grant, at the close of a specified Performance Period to the extent specified Performance Goals shall have been achieved.

(b) Earning of Performance Units. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met within the applicable Performance Period, will determine the number and value of Performance Units that will be paid out to the Participant. After the applicable Performance Period has ended, the holder of Performance Units shall be entitled to receive payout on the number and value of Performance Units earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals have been achieved.

(c) Form and Timing of Payment. Payment of earned Performance Units shall be made in a single lump sum following the close of the applicable Performance Period. At the discretion of the Committee, Participants may be entitled to receive any dividends declared with respect to Stock which have been earned in connection with grants of Performance Units which have been earned, but not yet distributed to Participants. The Committee may permit or, if it so provides at grant require, a Participant to defer such Participant's receipt of the payment of cash or the delivery of Stock that would otherwise be due to such Participant by virtue of the satisfaction of any requirements or goals with respect to Performance Units. If any such deferral election is required or permitted, the Committee shall establish rules and procedures for such payment deferrals.

7.6. Stock Grants. Stock Grants shall be awarded solely in recognition of significant contributions to the success of the Company or its Affiliates, in lieu of compensation otherwise already due and in such other limited circumstances as the Committee deems appropriate. Stock Grants shall be made without forfeiture conditions of any kind.

7.7. Qualified Performance-Based Awards.

(a) Purpose. The purpose of this Section 7.7 is to provide the Committee the ability to qualify Awards as "performance-based compensation" under Section 162(m) of the Code. If the Committee, in its discretion, decides to grant an

Award as a Qualified Performance-Based Award, the provisions of this Section 7.7 will control over any contrary provision contained in the Plan. In the course of granting any Award, the Committee may specifically designate the Award as intended to qualify as a Qualified Performance-Based Award. However, no Award shall be considered to have failed to qualify as a Qualified Performance-Based Award solely because the Award is not expressly designated as a Qualified Performance-Based Award, if the Award otherwise satisfies the provisions of this Section 7.7 and the requirements of Section 162(m) of the Code and the regulations thereunder applicable to "performance-based compensation."

(b) Authority. All grants of Awards intended to qualify as Qualified Performance-Based Awards and determination of terms applicable thereto shall be made by the Committee or, if not all of the members thereof qualify as "outside directors" within the meaning of applicable IRS regulations under Section 162 of the Code, a subcommittee of the Committee consisting of such of the members of the Committee as do so qualify. Any action by such a subcommittee shall be considered the action of the Committee for purposes of the Plan.

(b) Applicability. This Section 7.7 will apply only to those Covered Employees, or to those persons who the Committee determines are reasonably likely to become Covered Employees in the period covered by an Award, selected by the Committee to receive Qualified Performance-Based Awards. The Committee may, in its discretion, grant Awards to Covered Employees that do not satisfy the requirements of this Section 7.7.

(c) Discretion of Committee with Respect to Qualified Performance-Based Awards. Options may be granted as Qualified Performance-Based Awards in accordance with Section 7.1, except that the exercise price of any Option intended to qualify as a Qualified Performance-Based Award shall in no event be less that the Market Value of the Stock on the date of grant. With regard to other Awards intended to qualify as Qualified Performance-Based Awards, such as Restricted Stock, Restricted Stock Units, or Performance Units, the Committee will have full discretion to select the length of any applicable Restriction Period or Performance Period, the kind and/or level of the applicable Performance Goal, and whether the Performance Goal is to apply to the Company, a Subsidiary or any division or business unit or to the individual. Any Performance Goal or Goals applicable to Qualified Performance-Based Awards shall be objective, shall be established not later than ninety (90) days after the beginning of any applicable Performance Period (or at such other date as may be required or permitted for "performance-based compensation" under Section 162(m) of the Code) and shall otherwise meet the requirements of Section 162(m) of the Code, including the requirement that the outcome of the Performance Goal or Goals be substantially uncertain (as defined in the regulations under Section 162(m) of the Code) at the time established.

(d) Payment of Qualified Performance-Based Awards. A Participant will be eligible to receive payment under a Qualified Performance-Based Award which is subject to achievement of a Performance Goal or Goals only if the applicable

Performance Goal or Goals period are achieved within the applicable Performance Period, as determined by the Committee. In determining the actual size of an individual Qualified Performance-Based Award, the Committee may reduce or eliminate the amount of the Qualified Performance-Based Award earned for the Performance Period, if in its sole and absolute discretion, such reduction or elimination is appropriate.

(e) Maximum Award Payable. The maximum Qualified Performance-Based Award payment to any one Participant under the Plan for a Performance Period is the number of shares of Stock set forth in Section 4 above, or if the Qualified Performance-Based Award is paid in cash, that number of shares multiplied by the Market Value of the Stock as of the date the Qualified Performance-Based Award is granted.

(f) Limitation on Adjustments for Certain Events. No adjustment of any Qualified Performance-Based Award pursuant to Section 8 shall be made except on such basis, if any, as will not cause such Award to provide other than "performance-based compensation" within the meaning of Section 162(m) of the Code.

7.8. Awards to Participants Outside the United States. The Committee may modify the terms of any Award under the Plan, granted to a Participant who is, at the time of grant or during the term of the Award, resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that the Award shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad, shall be comparable to the value of such an Award to a Participant who is resident or primarily employed in the United States. The Committee may establish supplements to, or amendments, restatements, or alternative versions of, the Plan for the purpose of granting and administrating any such modified Award. No such modification, supplement, amendment, restatement or alternative version may increase the share limit of Section 4.

8. Adjustment Provisions

8.1. Adjustment for Corporate Actions. All of the share numbers set forth in the Plan reflect the capital structure of the Company as of [insert date of closing of IPO]. Subject to Section 8.2, if subsequent to that date the outstanding shares of Stock (or any other securities covered by the Plan by reason of the prior application of this Section) are increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed with respect to shares of Stock, through merger, consolidation, sale of all or substantially all the property of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar distribution with respect to such shares of Stock, an appropriate and proportionate adjustment will be made in (i) the maximum numbers and kinds of shares provided in

Section 4, (ii) the numbers and kinds of shares or other securities subject to the then outstanding Awards, (iii) the exercise price for each share or other unit of any other securities subject to then outstanding Options and Stock Appreciation Rights (without change in the aggregate purchase price as to which such Options or Rights remain exercisable), and (iv) the repurchase price of each share of Restricted Stock then subject to a Risk of Forfeiture in the form of a Company repurchase right.

8.2. Treatment in Certain Acquisitions. Subject to any provisions of then outstanding Awards granting greater rights to the holders thereof, in the event of an Acquisition in which outstanding Awards are not Accelerated in full pursuant to Section 9, any then outstanding Awards shall nevertheless Accelerate in full if not assumed or replaced by comparable Awards referencing shares of the capital stock of the successor or acquiring entity or parent thereof, and thereafter (or after a reasonable period following the Acquisition, as determined by the Committee) terminate. As to any one or more outstanding Awards which are not otherwise Accelerated in full by reason of such Acquisition, the Committee may also, either in advance of an Acquisition or at the time thereof and upon such terms as it may deem appropriate, provide for the Acceleration of such outstanding Awards in the event that the employment of the Participants should subsequently terminate following the Acquisition. Each outstanding Award that is assumed in connection with an Acquisition, or is otherwise to continue in effect subsequent to the Acquisition, will be appropriately adjusted, immediately after the Acquisition, as to the number and class of securities and other relevant terms in accordance with Section 8.1.[1]

8.3. Dissolution or Liquidation. Upon dissolution or liquidation of the Company, other than as part of an Acquisition or similar transaction, each outstanding Option and Stock Appreciation Right shall terminate, but the Optionee or Stock Appreciation Right holder shall have the right, immediately prior to the dissolution or liquidation, to exercise the Option or Stock Appreciation Right to the extent exercisable on the date of dissolution or liquidation.

8.4. Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. In the event of any corporate action not specifically covered by the preceding Sections, including but not limited to an extraordinary cash distribution on Stock, a corporate separation or other reorganization or liquidation, the Committee may make such adjustment of outstanding Awards and their terms, if any, as it, in its sole discretion, may deem equitable and appropriate in the circumstances. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in this Section) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to

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[1]/Note that Change of Control, as defined, includes certain transactions which are also "Acquisitions." Therefore, both Section 8.2 and Article 9 may apply to the same event.

prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

8.5. Related Matters. Any adjustment in Awards made pursuant to this Section 8 shall be determined and made, if at all, by the Committee and shall include any correlative modification of terms, including of Option exercise prices, rates of vesting or exercisability, Risks of Forfeiture, applicable repurchase prices for Restricted Stock, and Performance Goals and other financial objectives which the Committee may deem necessary or appropriate so as to ensure the rights of the Participants in their respective Awards are not substantially diminished nor enlarged as a result of the adjustment and corporate action other than as expressly contemplated in this Section 8. No fraction of a share shall be purchasable or deliverable upon exercise, but in the event any adjustment hereunder of the number of shares covered by an Award shall cause such number to include a fraction of a share, such number of shares shall be adjusted to the nearest smaller whole number of shares. No adjustment of an Option exercise price per share pursuant to this Section 8 shall result in an exercise price which is less than the par value of the Stock.

9. Change of Control

Except as otherwise provided below, upon the occurrence of a Change in Control:

(a) any and all Options and Stock Appreciation Rights not already exercisable in full shall Accelerate with respect to 50% of the shares for which such Options or Stock Appreciation Rights are not then exercisable;

(b) any Risk of Forfeiture applicable to Restricted Stock and Restricted Stock Units which is not based on achievement of Performance Goals shall lapse with respect to 50% of the Restricted Stock and Restricted Stock Units still subject to such Risk of Forfeiture immediately prior to the Change of Control; and

(c) All outstanding Awards of Restricted Stock and Restricted Stock Units conditioned on the achievement of Performance Goals and the target payout opportunities attainable under outstanding Performance Units shall be deemed to have been satisfied as of the effective date of the Change in Control as to a pro rata number of shares based on the assumed achievement of all relevant Performance Goals and the length of time within the Performance Period which has elapsed prior to the Change in Control. All such Awards of Performance Units and Restricted Stock Units shall be paid to the extent earned to Participants in accordance with their terms within thirty (30) days following the effective date of the Change in Control.

None of the foregoing shall apply, however, (i) in the case of an Qualified Performance-Based Award specifically designated as such by the Committee at the time of grant (except to the extent allowed by Section 162(m) of the Code), (ii) in the case of any Award pursuant to an Award Agreement requiring other or additional terms upon a Change in Control (or similar event), or (iii) if specifically prohibited under applicable

laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges.

10. Settlement of Awards

10.1. In General. Options and Restricted Stock shall be settled in accordance with their terms. All other Awards may be settled in cash, Stock, or other Awards, or a combination thereof, as determined by the Committee at or after grant and subject to any contrary Award Agreement. The Committee may not require settlement of any Award in Stock pursuant to the immediately preceding sentence to the extent issuance of such Stock would be prohibited or unreasonably delayed by reason of any other provision of the Plan.

10.2. Violation of Law. Notwithstanding any other provision of the Plan or the relevant Award Agreement, if, at any time, in the reasonable opinion of the Company, the issuance of shares of Stock covered by an Award may constitute a violation of law, then the Company may delay such issuance and the delivery of a certificate for such shares until (i) approval shall have been obtained from such governmental agencies, other than the Securities and Exchange Commission, as may be required under any applicable law, rule, or regulation and (ii) in the case where such issuance would constitute a violation of a law administered by or a regulation of the Securities and Exchange Commission, one of the following conditions shall have been satisfied:

(a) the shares are at the time of the issue of such shares effectively registered under the Securities Act of 1933; or

(b) the Company shall have determined, on such basis as it deems appropriate (including an opinion of counsel in form and substance satisfactory to the Company) that the sale, transfer, assignment, pledge, encumbrance or other disposition of such shares or such beneficial interest, as the case may be, does not require registration under the Securities Act of 1933, as amended or any applicable State securities laws.

The Company shall make all reasonable efforts to bring about the occurrence of said events.

10.3. Corporate Restrictions on Rights in Stock. Any Stock to be issued pursuant to Awards granted under the Plan shall be subject to all restrictions upon the transfer thereof which may be now or hereafter imposed by the charter, certificate or articles, and by-laws, of the Company. Whenever Stock is to be issued pursuant to an Award, if the Committee so directs at or after grant, the Company shall be under no obligation to issue such shares until such time, if ever, as the recipient of the Award (and any person who exercises any Option, in whole or in part), shall have become a party to and bound by the Stockholders' Agreement, if any. In the event of any conflict between the provisions of this Plan and the provisions of the Stockholders' Agreement, the provisions of the Stockholders' Agreement shall control except as required to fulfill the intention that this Plan constitute an incentive stock option plan within the meaning of

Section 422 of the Code, but insofar as possible the provisions of the Plan and such Agreement shall be construed so as to give full force and effect to all such provisions.

10.4. Investment Representations. The Company shall be under no obligation to issue any shares covered by any Award unless the shares to be issued pursuant to Awards granted under the Plan have been effectively registered under the Securities Act of 1933, as amended, or the Participant shall have made such written representations to the Company (upon which the Company believes it may reasonably rely) as the Company may deem necessary or appropriate for purposes of confirming that the issuance of such shares will be exempt from the registration requirements of that Act and any applicable state securities laws and otherwise in compliance with all applicable laws, rules and regulations, including but not limited to that the Participant is acquiring the shares for his or her own account for the purpose of investment and not with a view to, or for sale in connection with, the distribution of any such shares.

10.5. Registration. If the Company shall deem it necessary or desirable to register under the Securities Act of 1933, as amended or other applicable statutes any shares of Stock issued or to be issued pursuant to Awards granted under the Plan, or to qualify any such shares of Stock for exemption from the Securities Act of 1933, as amended or other applicable statutes, then the Company shall take such action at its own expense. The Company may require from each recipient of an Award, or each holder of shares of Stock acquired pursuant to the Plan, such information in writing for use in any registration statement, prospectus, preliminary prospectus or offering circular as is reasonably necessary for that purpose and may require reasonable indemnity to the Company and its officers and directors from that holder against all losses, claims, damage and liabilities arising from use of the information so furnished and caused by any untrue statement of any material fact therein or caused by the omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made. In addition, the Company may require of any such person that he or she agree that, without the prior written consent of the Company or the managing underwriter in any public offering of shares of Stock, he or she will not sell, make any short sale of, loan, grant any option for the purchase of, pledge or otherwise encumber, or otherwise dispose of, any shares of Stock during the 180 day period commencing on the effective date of the registration statement relating to the underwritten public offering of securities. Without limiting the generality of the foregoing provisions of this Section 10.5, if in connection with any underwritten public offering of securities of the Company the managing underwriter of such offering requires that the Company's directors and officers enter into a lock-up agreement containing provisions that are more restrictive than the provisions set forth in the preceding sentence, then (a) each holder of shares of Stock acquired pursuant to the Plan (regardless of whether such person has complied or complies with the provisions of clause (b) below) shall be bound by, and shall be deemed to have agreed to, the same lock-up terms as those to which the Company's directors and officers are required to adhere; and (b) at the request of the Company or such managing underwriter, each such person shall execute and deliver a lock-up agreement in form and substance equivalent to that which is required to be executed by the Company's directors and officers.

10.6. Placement of Legends; Stop Orders; etc. Each share of Stock to be issued pursuant to Awards granted under the Plan may bear a reference to the investment representation made in accordance with Section 10.4 in addition to any other applicable restriction under the Plan, the terms of the Award and if applicable under the Stockholders' Agreement and to the fact that no registration statement has been filed with the Securities and Exchange Commission in respect to such shares of Stock. All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10.7. Tax Withholding. Whenever shares of Stock are issued or to be issued pursuant to Awards granted under the Plan, the Company shall have the right to require the recipient to remit to the Company an amount sufficient to satisfy federal, state, local or other withholding tax requirements if, when, and to the extent required by law (whether so required to secure for the Company an otherwise available tax deduction or otherwise) prior to the delivery of any certificate or certificates for such shares. The obligations of the Company under the Plan shall be conditional on satisfaction of all such withholding obligations and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the recipient of an Award. However, in such cases Participants may elect, subject to the approval of the Committee, to satisfy an applicable withholding requirement, in whole or in part, by having the Company withhold shares to satisfy their tax obligations. Participants may only elect to have Shares withheld having a Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee deems appropriate.

11. Reservation of Stock

The Company shall at all times during the term of the Plan and any outstanding Awards granted hereunder reserve or otherwise keep available such number of shares of Stock as will be sufficient to satisfy the requirements of the Plan (if then in effect) and the Awards and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

12. Limitation of Rights in Stock; No Special Service Rights

A Participant shall not be deemed for any purpose to be a stockholder of the Company with respect to any of the shares of Stock subject to an Award, unless and until a certificate shall have been issued therefor and delivered to the Participant or his agent. Any Stock to be issued pursuant to Awards granted under the Plan shall be subject to all restrictions upon the transfer thereof which may be now or hereafter imposed by the

Certificate of Incorporation and the By-laws of the Company. Nothing contained in the Plan or in any Award Agreement shall confer upon any recipient of an Award any right with respect to the continuation of his or her employment or other association with the Company (or any Affiliate), or interfere in any way with the right of the Company (or any Affiliate), subject to the terms of any separate employment or consulting agreement or provision of law or corporate articles or by-laws to the contrary, at any time to terminate such employment or consulting agreement or to increase or decrease, or otherwise adjust, the other terms and conditions of the recipient's employment or other association with the Company and its Affiliates.

13. Unfunded Status of Plan

The Plan is intended to constitute an "unfunded" plan for incentive compensation, and the Plan is not intended to constitute a plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or payments with respect to Options, Stock Appreciation Rights and other Awards hereunder, *provided, however*, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

14. Nonexclusivity of the Plan

Neither the adoption of the Plan by the Board nor the submission of the Plan to the stockholders of the Company shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including without limitation, the granting of stock options and restricted stock other than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

15. Termination and Amendment of the Plan

The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable. Unless the Board otherwise expressly provides, no amendment of the Plan shall affect the terms of any Award outstanding on the date of such amendment. In any case, no termination or amendment of the Plan may, without the consent of any recipient of an Award granted hereunder, adversely affect the rights of the recipient under such Award.

The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, provided that the Award as amended is consistent with the terms of the Plan, but no such amendment shall impair the rights of the recipient of such Award without his or her consent.

16. Notices and Other Communications

Any notice, demand, request or other communication hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person or duly sent by first class registered, certified or overnight mail, postage prepaid, or telecopied with a confirmation copy by regular, certified or overnight mail, addressed or telecopied, as the case may be, (i) if to the recipient of an Award, at his or her residence address last filed with the Company and (ii) if to the Company, at its principal place of business, addressed to the attention of its Treasurer, or to such other address or telecopier number, as the case may be, as the addressee may have designated by notice to the addressor. All such notices, requests, demands and other communications shall be deemed to have been received: (i) in the case of personal delivery, on the date of such delivery; (ii) in the case of mailing, when received by the addressee; and (iii) in the case of facsimile transmission, when confirmed by facsimile machine report.

17. Governing Law

The Plan and all Award Agreements and actions taken thereunder shall be governed, interpreted and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EMPLOYEE STOCK PURCHASE PLAN

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 2003 Employee Stock Purchase Plan of Tempur-Pedic International Inc.

1. Purpose

The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions

2.1. **Board** means the Board of Directors of the Company.

2.2. **Code** means the Internal Revenue Code of 1986, as amended.

2.3. **Common Stock** means the Common Stock, par value $0.01 per share, of the Company.

2.4. **Company** means Tempur-Pedic International Inc., a Delaware corporation.

2.5. **Compensation** means all regular straight time compensation including commissions but shall not include payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other irregular or infrequent compensation or benefits.

2.6. **Continuous Status as an Employee** means the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company and its Designated Subsidiaries.

2.7. **Contributions** means all amounts credited to the account of a participant pursuant to the Plan.

2.8. **Corporate Transaction** means a merger or consolidation of the Company with and into another person or the sale, transfer, or other disposition of all or

substantially all of the Company's assets to one or more persons (other than any wholly-owned subsidiary of the Company) in a single transaction or series of related transactions.

2.9. **Designated Subsidiaries** means the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

2.10. **Employee** means any person, including an Officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

2.11. **Exchange Act** means the Securities Exchange Act of 1934, as amended.

2.12 **Initial Offering Period** means the first Offering Period of the Plan.

2.13. **Offering Commencement Date** means the first business day of each Offering Period of the Plan.

2.14. **Offering Period** means any of the periods, generally of six (6) months duration, as set forth in Section 4.

2.15. **Officer** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

2.16. **Offering Termination Date** means the last business day of each Offering Period of the Plan.

2.17. **Plan** means this Employee Stock Purchase Plan.

2.18. **Purchase Price** means with respect to an Offering Period an amount equal to 85% of the Fair Market Value (as defined in Section 7.2 below) of a Share on the Offering Commencement Date or on the Offering Termination Date, whichever is lower; provided, however, that (i) if there is an increase in the number of Shares available for issuance under the Plan as a result of a stockholder-approved amendment to the Plan, (ii) all or a portion of such additional Shares are to be issued with respect to the Offering Period underway at the time of such increase (**"Additional Shares"**), and (iii) the Fair Market Value of a Share of Common Stock on the date of such increase (the **"Approval Date Fair Market Value"**) is higher than the Fair Market Value on the Offering Commencement Date for such Offering Period, then in such instance the Purchase Price with respect to Additional Shares shall be 85% of the Approval Date Fair Market Value or the Fair Market Value of a Share of Common Stock on the Offering Termination Date, whichever is lower.

2.19. **Share** means a share of Common Stock, as adjusted in accordance with Section 18 of the Plan.

2.20. **Subsidiary** means a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

Other terms are defined in the following sections:

Term	Section
Additional Shares	2.18
Administrator	13
Approved Date Fair Market Value	2.18
Fair Market Value	7.2
IPO Date	4
Nasdaq	7.2
New Offering Termination Date	18.2
NYSE	7.2
Price to Public	5.3
Reserves	18.1

3. Eligibility

3.1. Any person who is an Employee as of the Offering Commencement Date of a given Offering Period shall be eligible to participate in such Offering Period under the Plan, subject to the requirements of Sections 5.1 and 5.3 and the limitations imposed by Section 423(b) of the Code.

3.2. Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (taking into account stock which would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate which exceeds twenty-five Thousand Dollars ($25,000) of the Fair Market Value (as defined in Section 7.2 below) of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods

Each Offering Period will begin on January 1 or July 1 and end on the next following June 30 or December 31, respectively. However, the Initial Offering Period shall commence on the beginning of the effective date of the Registration Statement on Form S-1 for the initial public offering of the Company's Common Stock (the **"IPO Date"**) and continue until June 30, 2004. At any time and from time to time, the Board may change the duration and/or the frequency of Offering Periods with respect to future Offering Periods or suspend operation of the Plan with respect to Offering Periods not yet commenced.

5. Participation

5.1. An eligible Employee may become a participant in the Plan by completing a subscription agreement on the form provided by the Company and filing it with the Company's payroll office at least three (3) business days prior to the applicable Offering Commencement Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period. The subscription agreement shall set forth the percentage of the participant's Compensation (subject to Section 6.1 below) to be paid as Contributions pursuant to the Plan.

5.2. Payroll deductions shall commence on the first payroll following the Offering Commencement Date and shall end on the last payroll paid on or prior to the Offering Termination Date of the Offering Period to which the subscription agreement is applicable, unless sooner terminated by the participant as provided in Section 10.

5.3. Participation in the Plan for the Initial Offering Period shall be on the same terms and conditions as are set forth in the Plan in respect of Offering Periods generally, except as and to the extent otherwise expressly set forth in this Section 5.3:

(a) All eligible Employees as of the Offering Commencement Date of the Initial Offering Period shall automatically participate in the Plan and be granted an option pursuant to the Plan as of such Offering Commencement Date. Eligible Employees shall neither be required to submit a subscription agreement to participate in the Initial Offering Period nor be permitted to decline to participate in the Initial Offering Period (but any Contributions of a participant for the Initial Offering Period may be withdrawn as provided in Section 10). However, any participation as to subsequent Offering Periods shall require submission of a subscription agreement and compliance with all other applicable provisions of the Plan.

(b) For purposes of determining the exercise price of options granted on the Offering Commencement Date of the Initial Offering Period, the Fair Market Value of a Share as of such Offering Commencement Date shall be the "**Price to Public**" as set forth in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

(c) At any time after the effectiveness of the Company's Registration Statement on Form S-8 with respect to the Plan, but no later than June 25, 2004, a participant in the Plan for the Initial Offering Period may deliver to the Company's Controller by payment in cash or personal check amounts for credit as Contributions under the Plan with respect to the Initial Offering Period. Such payment must be accompanied by a completed subscription payment form which has been approved by the Company or its designee, such as the Administrator.

(d) The total Contributions credited to a participant's account under the Plan for the Initial Offering Period pursuant to subsection (c) above, when combined with any payments made into such participant's account by payroll deductions, shall not exceed ten percent (10%) of the participant's Compensation for the Initial Offering Period. Any excess shall be promptly refunded to the participant following the Offering Termination Date of the Initial Offering Period.

6. Method of Payment of Contributions

6.1. A participant shall elect to have payroll deductions made on each payday during the Offering Period in an amount not less than one percent (1%) and not more than ten percent (10%) (or such other percentage as the Board may establish from time to time before an Offering Commencement Date) of such participant's Compensation on each payday during the Offering Period. All payroll deductions made by a participant shall be

credited to his or her account under the Plan. A participant may not make any additional payments into such account.

6.2. A participant may discontinue his or her participation in the Plan as provided in Section 10. In addition, if the Board has so announced to Employees at least five (5) days prior to the scheduled beginning of the next Offering Period to be affected by the Board's determination, a participant may, on one occasion only during each Offering Period, change the rate of his or her Contributions with respect to the Offering Period by completing and filing with the Company a new subscription agreement authorizing a change in the payroll deduction rate. Any such change in rate shall be effective as of the first payroll period following the date of filing of the new subscription agreement, if the agreement is filed at least ten (10) business days prior to such period and, if not, as of the second following payroll period.

6.3. Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3.2 herein, a participant's payroll deductions may be decreased during any Offering Period scheduled to end during the current calendar year to 0%. Payroll deductions reduced to 0% in compliance with this Section 6.3 shall re-commence automatically at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

7. Grant of Option

7.1. On the Offering Commencement Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Offering Termination Date of that Offering Period a number of Shares determined by dividing such Employee's Contributions accumulated prior to such Offering Termination Date and retained in the participant's account as of the Offering Termination Date by the applicable Purchase Price. However, the maximum number of Shares an Employee may purchase during each Offering Period shall be 5,000 shares, or such other maximum amount determined from time to time by the Board prior to the applicable Offering Period, and provided further that such purchase shall be subject to the limitations set forth in Sections 3.2 and 12.

7.2. The fair market value of the Company's Common Stock on a given date (the **"Fair Market Value"**) shall be (i) the closing sales price on the New York Stock Exchange (**"NYSE"**) or the National Association of Securities Dealers Automated Quotations (**"NASDAQ"**) if the Common Stock is listed on NASDAQ (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date) or, (ii) determined by the Board in its discretion based on the closing sales price of the Common Stock for such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported by the NYSE (or NASDAQ if listed on that exchange) or, (iii) if the closing sales price is not reported, the

mean of the bid and asked prices per share of the Common Stock as reported by NYSE (or NASDAQ if listed on that exchange).

8. Exercise of Option

Unless a participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of Shares will be exercised automatically on the Offering Termination Date of an Offering Period, and the maximum number of full Shares subject to the option will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account. No fractional Shares shall be issued. The Shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Offering Termination Date. During his or her lifetime, a participant's option to purchase Shares hereunder is exercisable only by him or her.

9. Delivery

As promptly as practicable after each Offering Termination Date of each Offering Period, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the Shares purchased upon exercise of his or her option. Any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full Share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 below. Any other amounts left over in a participant's account after an Offering Termination Date shall be returned to the participant.

10. Voluntary Withdrawal; Termination of Employment

10.1. A participant may withdraw all but not less than all of the Contributions credited to his or her account under the Plan at any time prior to each Offering Termination Date by giving written notice to the Company. All of the participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her option for the current Offering Period will be automatically terminated, and no further Contributions for the purchase of Shares will be made during the Offering Period.

10.2. Upon termination of the participant's Continuous Status as an Employee prior to the Offering Termination Date of an Offering Period for any reason, including retirement or death, the Contributions credited to his or her account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 14, and his or her option will be automatically terminated.

10.3. In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the Offering Period in which the employee is a participant, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to his or her account will be returned to him or her and his or her option terminated.

10.4. A participant's withdrawal during an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

11. Interest

No interest shall accrue on the Contributions of a participant in the Plan.

12. Stock

12.1. Subject to adjustment as provided in Section 18, the maximum number of Shares which shall be made available for sale under the Plan shall be 500,000 Shares. Notwithstanding the foregoing, and subject to adjustment in accordance with Section 18 no more than an aggregate of 500,000 Shares may be issued pursuant to this Plan. If the Board determines that, on a given Offering Termination Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Offering Commencement Date, or (ii) the number of shares available for sale under the Plan on such Offering Termination Date, the Board may in its sole discretion provide that the Company shall make a pro rata allocation of the Shares available for purchase on such Offering Commencement Date or Offering Termination Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Offering Termination Date. The Company may make pro rata allocation of the Shares available on the Offering Commencement Date of the applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Commencement Date.

12.2. The participant shall have no interest or voting right in Shares covered by his or her option until such option has been exercised.

12.3. Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse, as directed by the participant.

13. Administration

The Board, or a committee named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Board's determinations made in good faith on matters referred to in this Plan shall be final, binding and conclusive on all persons having or claiming any interest under this Plan.

The Board may from time to time designate an employee or retain a third party to address routine administrative matters. Any employee or third party so designated may be referred to herein as the "Administrator."

14. Designation of Beneficiary

14.1. A participant may file a written designation of a beneficiary who is to receive any Shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering Period but prior to delivery to him or her of such Shares and cash. Any such beneficiary shall also be entitled to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Offering Termination Date of an Offering Period.

14.2. Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability of Options and Shares

Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 14) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10. In addition, if the Board has so announced to Employees at least five (5) days prior to the scheduled beginning of the next Offering Period to be affected by the Board's determination, any Shares acquired on the Offering Termination Date of such Offering Period may be subject to restrictions specified by the Board on the transfer of such Shares.

Any participant selling or transferring any or all of his or her Shares purchased pursuant to the Plan must provide written notice of such sale or transfer to the Company within five (5) business days after the date of sale or transfer. Such notice to the Company shall include the gross sales price, if any, the Offering Period during which the Shares being sold were purchased by the participant, the number of Shares being sold or transferred and the date of sale or transfer.

16. Use of Funds

All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions from its other assets.

17. Reports

Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees at least annually, which statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization; Corporate Transactions

18.1. Adjustment. Subject to any required action by the stockholders of the Company, the number of shares covered by each option under the Plan which has not yet been exercised and the number of Shares which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "**Reserves**"), as well as the maximum number of shares of Common Stock which may be purchased by a participant in an Offering Period, the number of shares of Common Stock set forth in Section 12.1 above, and the price per Share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of the Company's issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock (including any such change in the number of Shares of Common Stock effected in connection with a change in domicile of the Company), or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company; provided however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

18.2. Corporate Transactions. In the event of a dissolution or liquidation of the Company, the Offering Period then in progress will terminate immediately prior to the consummation of such action, unless otherwise provided by the Board. In the event of a Corporate Transaction, each option outstanding under the Plan shall be assumed or an equivalent option shall be substituted by the successor corporation or a parent or Subsidiary of such successor corporation. In the event that the successor corporation refuses to assume or substitute for outstanding options, the Offering Period then in progress shall be shortened and a new Offering Termination Date shall be set (the "**New Offering Termination Date**"), as of which date the Offering Period then in progress will terminate. The New Offering Termination Date shall be on or before the date of consummation of the transaction and the Board shall notify each participant in writing, at least ten (10) days prior to the New Offering Termination Date, that the Offering Termination Date for his or her option has been changed to the New Offering Termination Date and that his or her option will be exercised automatically on the New Offering Termination Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this Section 18, an option granted under the Plan shall be deemed to be assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of an option under the Plan would be entitled to receive upon exercise of the option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to the transaction, the holder of the number of Shares of Common Stock covered by the option at such time (after giving effect to any adjustments in the number of Shares covered by the option as provided for in this Section 18); provided however that if the consideration received in the transaction is not solely common stock of the successor corporation or its parent (as defined in

Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock in the transaction.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per Share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of Shares of its outstanding Common Stock, and in the event of the Company's being consolidated with or merged into any other corporation.

19. Amendment or Termination

19.1. The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18, no such termination of the Plan may affect options previously granted, provided that the Plan or an Offering Period may be terminated by the Board on an Offering Termination Date or by the Board's setting a new Offering Termination Date with respect to an Offering Period then in progress if the Board determines that termination of the Plan and/or the Offering Period is in the best interests of the Company and its stockholders or if continuation of the Plan and/or the Offering Period would cause the Company to incur adverse accounting charges as a result of the Plan. Except as provided in Section 18 and in this Section 19, no amendment to the Plan shall make any change in any option previously granted which adversely affects the rights of any participant.

19.2. Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

20. Notices

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the

form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions to Issuance of Shares

Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, applicable state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan; Effective Date

The Plan shall become effective upon the IPO Date. It shall continue in effect until December 31, 2008 unless sooner terminated under Section 19.

SAMPLE

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

New Election ____

Change of Election ____

1. I, _____, hereby elect to participate in the Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan (the "**Plan**") for the Offering Period _____, _____ to _____, _____, and subscribe to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I elect to have Contributions in the amount of _____% of my Compensation, as those terms are defined in the Plan, applied to this purchase. I understand that this amount must not be less than 1% and not more than 10% of my Compensation during the Offering Period. (Please note that no fractional percentages are permitted).

3. I hereby authorize payroll deductions from each paycheck during the Offering Period at the rate stated in Item 2 of this Subscription Agreement. I understand that all payroll deductions made by me shall be credited to my account under the Plan and that I may not make any additional payments into such account. I understand that all payments made by me shall be accumulated, without interest or earnings, for the purchase of shares of Common Stock at the applicable purchase price determined in accordance with the Plan. I further understand that, except as otherwise set forth in the Plan, shares will be purchased for me automatically on the Offering Termination Date of each Offering Period unless I otherwise withdraw from the Plan by giving written notice to the Company for such purpose.

4. I understand that I may discontinue at any time prior to the Offering Termination Date my participation in the Plan as provided in Section 10 of the Plan. I acknowledge that, unless I discontinue my participation in the Plan as provided in Section 10 of the Plan, my election will continue to be effective for each successive Offering Period.

5. I have received a copy of the complete Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan. I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

6. Shares purchased for me under the Plan should be issued in the name(s) of (name of employee or employee and spouse only):

7. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due to me under the Plan:

NAME: (Please print) _____

(First) (Middle) (Last)

_____ _____

(Relationship) (Address)

_____

8. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Offering Commencement Date (the first day of the Offering Period during which I purchased such shares) or within 1 year after the Offering Termination Date, I will be treated for federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the fair market value of the shares on the Offering Termination Date over the price which I paid for the shares, regardless of whether I disposed of the shares at a price less than their fair market value at the Offering Termination Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I hereby agree to notify the Company in writing within 30 days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Common Stock by me.

9. If I dispose of such shares at any time after expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received compensation income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares under the option, or (2) 15% of the fair market value of the shares on the Offering Commencement Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I understand that this tax summary is only a summary and is subject to change. I further understand that I should consult a tax advisor concerning certain tax implications of the purchase and sale of stock under the Plan.

10. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

SIGNATURE: _____

SOCIAL SECURITY #: _____

DATE: _____

SAMPLE

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EMPLOYEE STOCK PURCHASE PLAN

EXERCISE AGREEMENT FOR THE INITIAL OFFERING PERIOD

1. I have received a copy of the complete Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan (the **"Plan"**). I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

2. Shares purchased for me under the Plan should be issued in the name(s) of (name of employee or employee and spouse only):

_____

_____

3. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all shares due to me under the Plan:

NAME: (Please print) _____

(First) (Middle) (Last)

_____ _____

(Relationship) (Address)

_____

4. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Offering Commencement Date (the first day of the Offering Period during which I purchased such shares) or within 1 year after the Offering Termination Date, I will be treated for federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the fair market value of the shares on the Offering Termination Date over the price which I paid for the shares, regardless of whether I disposed of the shares at a price less than their fair market value at the Offering Termination Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I hereby agree to notify the Company in writing within 30 days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any

withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Common Stock by me.

5. If I dispose of such shares at any time after expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received compensation income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares under the option, or (2) 15% of the fair market value of the shares on the Offering Commencement Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I understand that this tax summary is only a summary and is subject to change. I further understand that I should consult a tax advisor concerning certain tax implications of the purchase and sale of stock under the Plan.

6. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

SIGNATURE: _____

SOCIAL SECURITY #: _____

DATE: _____

SAMPLE

TEMPUR-PEDIC INTERNATIONAL INC.

2003 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

I, _____, hereby elect to withdraw my participation in the Tempur-Pedic International Inc. 2003 Employee Stock Purchase Plan (the "**Plan**") for the Offering Period that began on _____, _____. This withdrawal covers all Contributions credited to my account and is effective on the date designated below.

I understand that all Contributions credited to my account will be paid to me within ten (10) business days of receipt by the Company of this Notice of Withdrawal and that my option for the current period will automatically terminate, and that no further Contributions for the purchase of shares can be made by me during the Offering Period.

The undersigned further understands and agrees that he or she shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Dated: _____

_____

Signature of Employee

_____

Social Security Number