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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from

to

Commission file number 001-31922

TEMPUR-PEDIC INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware	**33-1022198**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1713 Jaggie Fox Way
Lexington, Kentucky 40511
(Address, including zip code, of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ☐ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

(Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No x

The number of shares outstanding of the registrant’s common stock as of October 26, 2010 was 68,165,595 shares.

TABLE OF CONTENTS

Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which includes information concerning our plans; objectives; goals; strategies; future events; future revenues or performance; the impact of the macroeconomic environment in both the U.S. and internationally on sales and our business segments; investments in operating infrastructure; changes in capital expenditures; the impact of consumer confidence; litigation and similar issues; pending tax assessments; financial flexibility; the impact of initiatives to accelerate growth, expa nd market share and attract sales from the standard mattress market; the improvements in our Net sales; efforts to expand business within established accounts, improve account productivity, reduce costs and operating expenses and improve manufacturing productivity; initiatives to improve gross margin; the vertical integration of our business; the development, rollout and market acceptance of new products, including the success of the TEMPUR-Cloud™ collection; our ability to further invest in the business and in brand awareness; our ability to meet financial obligations and continue to comply with the terms of our credit facility, including its financial ratio covenants; effects of changes in foreign exchange rates on our reported earnings; our expected sources of cash flow; our ability to effectively manage cash; our ability to align costs with sales expectations and other information that is not historical information. Many of these statements appear, in particular, under the heading “ ;Management’s Discussion and Analysis of Financial Condition and Results of Operations” in ITEM 2 of Part I of this report. When used in this report, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. 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 report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including under the heading “Risk Factors” under ITEM 1A of Part II of this report and under the heading “Risk Factors” under ITEM 1A of Part 1 of our annual report on Form 10-K for the year ended December 31, 2009. 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 apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

When used in this report, except as specifically noted otherwise, the term “Tempur-Pedic International” refers to Tempur-Pedic International Inc. only, and the terms “Company,” “we,” “our,” “ours” and “us” refer to Tempur-Pedic International Inc. and its consolidated subsidiaries.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per common share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net sales	**$ 295,785**	$ 224,082	**$ 812,718**	$ 586,362
Cost of sales	**145,031**	117,373	**409,114**	311,461
Gross profit	**150,754**	106,709	**403,604**	274,901
Selling and marketing expenses	**53,215**	39,272	**146,273**	108,335
General, administrative and other expenses	**29,385**	24,761	**83,037**	68,847
Operating income	**68,154**	42,676	**174,294**	97,719
Other expense, net:				
Interest expense, net	**(4,068)**	(4,311)	**(11,043)**	(13,359)
Other (expense) income, net	**(624)**	(214)	**(525)**	404
Total other expense	**(4,692)**	(4,525)	**(11,568)**	(12,955)
Income before income taxes	**63,462**	38,151	**162,726**	84,764
Income tax provision	**19,324**	12,467	**51,830**	28,885
Net income	**$ 44,138**	$ 25,684	**$ 110,896**	$ 55,879
Net loss (income) attributable to the noncontrolling interest	**60**	—	**(44)**	—
Net income attributable to common stockholders	**$ 44,198**	$ 25,684	**$ 110,852**	$ 55,879
Earnings per common share:				
Basic	**$ 0.64**	$ 0.34	**$ 1.56**	$ 0.75
Diluted	**$ 0.62**	$ 0.34	**$ 1.51**	$ 0.74
Weighted average common shares outstanding:				
Basic	**69,199**	74,938	**71,065**	74,902
Diluted	**71,433**	76,166	**73,450**	75,396

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 38,048	$ 14,042
Accounts receivable, net	127,453	105,576
Inventories	68,175	57,686
Prepaid expenses and other current assets	15,027	11,268
Deferred income taxes	19,155	20,411
Total Current Assets	267,858	208,983
Property, plant and equipment, net	162,910	172,497
Goodwill	211,723	193,391
Other intangible assets, net	69,179	64,717
Other non-current assets	4,280	3,791
Total Assets	$ 715,950	$ 643,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 62,798	$ 47,761
Accrued expenses and other current liabilities	94,461	81,452
Income taxes payable	19,846	7,312
Total Current Liabilities	177,105	136,525
Long-term debt	436,000	297,470
Deferred income taxes	30,732	29,865
Other non-current liabilities	4,254	7,226
Total Liabilities	648,091	471,086
Commitments and contingencies—see Note 9		
Equity attributable to common stockholders	66,590	172,293
Equity attributable to the noncontrolling interest	1,269	—
Total Stockholders' Equity	67,859	172,293
Total Liabilities and Stockholders' Equity	$ 715,950	$ 643,379

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 110,896**	$ 55,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**23,870**	23,526
Amortization of stock-based compensation	**7,953**	6,448
Amortization of deferred financing costs	**517**	518
Bad debt expense	**2,072**	4,659
Deferred income taxes	**(1,509)**	(8,006)
Foreign currency adjustments	**(1,504)**	34
Loss on disposal of equipment	**1,081**	—
Changes in operating assets and liabilities, net of effects of acquired business	**(3,662)**	37,345
Net cash provided by operating activities	**139,714**	120,403
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	**(18,692)**	—
Purchases of property, plant and equipment	**(12,330)**	(8,961)
Payments for other	**(152)**	(87)
Net cash used by investing activities	**(31,174)**	(9,048)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term revolving credit facility	**289,336**	85,797
Repayments of long-term revolving credit facility	**(149,313)**	(189,036)
Proceeds from issuance of common stock	**22,015**	129
Excess tax benefit from stock-based compensation	**3,282**	—
Treasury shares repurchased	**(250,000)**	—
Net cash used by financing activities	**(84,680)**	(103,110)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**146**	(3,627)
Increase in cash and cash equivalents	**24,006**	4,618
CASH AND CASH EQUIVALENTS, beginning of period	**14,042**	15,385
CASH AND CASH EQUIVALENTS, end of period	**$ 38,048**	$ 20,003
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	**$ 10,008**	$ 13,187
Income taxes, net of refunds	**$ 38,967**	$ 28,672

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In thousands, except per common share amounts)

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation and Description of Business*—Tempur-Pedic International Inc., a Delaware corporation, together with its subsidiaries is a U.S. based, multinational company. The term "Tempur-Pedic International" refers to Tempur-Pedic International Inc. only, and the term "Company" refers to Tempur-Pedic International Inc. and its consolidated subsidiaries.

The Company manufactures, markets and sells products including pillows, mattresses and other related products. The Company manufactures essentially all its pressure-relieving TEMPUR® products at three manufacturing facilities, with one located in Denmark and two in the U.S. The Company has sales distribution subsidiaries operating in North America, Europe and Asia Pacific and has third party distribution arrangements in certain other countries where it does not have subsidiaries. The Company sells its products through four sales channels: Retail, Direct, Healthcare and Third party.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements of the Company and related footnotes for the year ended December 31, 2009, included in the Company's annual report on Form 10-K.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that 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.

(b) *Basis of Consolidation*—The accompanying Condensed Consolidated Financial Statements include the accounts of Tempur-Pedic International, its wholly-owned subsidiaries and its majority-owned subsidiaries in which a controlling interest is held. Intercompany balances and transactions have been eliminated. The noncontrolling interest represents the portion of equity interests of consolidated affiliates not owned by the Company. On January 29, 2010, the Company established a 51% interest in Tempur Shanghai Holding Ltd (a Hong Kong company).

(c) *Use of Estimates*—The preparation of financial statements in conformity with U.S. GAAP 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. The Company's results are affected by economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies and changes in the prices of raw materials, can have a significant effect on operations. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

(d) *Inventories*—Inventories are stated at the lower of cost or market, determined by the first-in, first-out method and consist of the following:

	September 30, 2010	December 31, 2009
Finished goods	**$ 51,588**	$ 41,805
Work-in-process	**6,136**	6,654
Raw materials and supplies	**10,451**	9,227
Inventories	**$ 68,175**	$ 57,686

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

(e) *Accrued Sales Returns*—The Company allows product returns up to 120 days following a sale through certain sales channels and on certain products. Estimated sales returns are provided at the time of sale based on historical sales channel return rates. The level of sales returns differs by channel with the Direct channel typically experiencing the highest rate of return. Estimated future obligations related to these products are provided by a reduction of sales in the period in which the revenue is recognized. Accrued sales returns are included in Accrued expenses and other current liabilities in the accompanying Condensed Consoli dated Balance Sheets.

The Company had the following activity for sales returns from December 31, 2009 to September 30, 2010:

Balance as of December 31, 2009	$	4,233
Amounts accrued		34,034
Returns charged to accrual		(32,996)
Balance as of September 30, 2010	$	5,271

(f) *Warranties*—The Company provides a 20-year warranty for U.S. sales and a 15-year warranty for non-U.S. sales on mattresses, each prorated for the last 10 years. The Company also provides a 2-year to 3-year warranty on pillows. Estimated future obligations related to these products are charged to operations in the period in which the related revenue is recognized. Estimates of warranty expenses are based primarily on historical claim experience and product testing. Warranties are included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for warranties from December 31, 2009 to September 30, 2010:

Balance as of December 31, 2009	$	4,052
Amounts accrued		3,186
Warranties charged to accrual		(3,138)
Balance as of September 30, 2010	$	4,100

(g) *Revenue Recognition*—Sales of products are recognized when persuasive evidence of an arrangement exists, products are shipped and title passes to customers and the risks and rewards of ownership are transferred, the sales price is fixed or determinable and collectability is reasonably assured. The Company extends volume discounts to certain customers and reflects these amounts as a reduction of sales. The Company also reports sales net of tax assessed by qualifying governmental authorities. The Company extends credit based on the creditworthiness of its customers. No collateral is required on sales made in the normal course of business.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company regularly reviews the adequacy of its allowance for doubtful accounts. The Company determines the allowance based on historical write-off experience and current economic conditions and also considers factors such as customer credit, past transaction history with the customer and changes in customer payment terms when determining whether the collection of a receivable is reasonably assured. Account balances are charged off against the allowance after all means of collection h ave been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts included in Accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets was $9,464 and $9,030 as of September 30, 2010 and December 31, 2009, respectively.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

(h) *Advertising Costs*—The Company expenses advertising costs as incurred except for production costs and advance payments, which are deferred and expensed when advertisements run for the first time. Direct response advance payments are deferred and are amortized over the life of the program.

(i) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred and included in General, administrative and other expenses in the accompanying Condensed Consolidated Statements of Income. Research and development costs charged to expense were approximately $1,714 and $1,481 for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, research and development costs charged to expense were $5,263 and $4,580, respectively.

(j) *Subsequent Events*—On October 15, 2010 the Company's Board of Directors approved the purchase of an additional $50,000 of it's common stock under the previously approved July 2010 authorization. The total amount of the Company's common stock available for repurchase under this authorization is $100,000. Share repurchases under this authorization may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate; these repurchases may be funded by operating cash flows and/or borrowings under the Company's credit facility. This share repurchase program may be limited, suspended or terminated at any time without notice.

(2) Goodwill and Other intangible assets

The following summarizes changes to the Company's Goodwill, by reportable business segment:

	North America	International	Total
Balance as of December 31, 2009	$ 89,929	$ 103,462	$ 193,391
Goodwill from acquisition	18,581	—	18,581
Foreign currency translation adjustments and other	(228)	(21)	(249)
Balance as of September 30, 2010	$ 108,282	$ 103,441	$ 211,723

On April 1, 2010, the Company acquired its third party distributor in Canada. The total amount of cash paid for the acquisition was $18,692. Additional payments may be made to the former owners if certain financial targets are met; the present value of these payments as of the acquisition date was $6,241. Accordingly, the acquisition date fair value of the consideration transferred was $24,933. The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model, which represents Level 3 fair value measure under U.S. GAAP.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The Company is in the process of finalizing its purchase price allocation and accordingly, fair value estimates may change as valuations and assessments are completed.

Net working capital	$ 456
Deferred tax liability	(1,955)
Property, plant and equipment	322
Intangible assets	7,529
Goodwill	18,581
Total purchase price	$ 24,933

Intangible assets are comprised of $5,639 related to reacquired rights with a useful life of 3 years and $1,890 related to customer relationships with a useful life of 5 years. The goodwill was assigned to the North American segment. None of the goodwill is expected to be deductible for income tax purposes.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The following table summarizes information relating to the Company's Other intangible assets:

	Useful Lives (Years)	September 30, 2010 Gross Carrying Amount	September 30, 2010 Accumulated Amortization	September 30, 2010 Net Carrying Amount	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization	December 31, 2009 Net Carrying Amount
Unamortized indefinite life intangible assets:							
Trademarks		$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ 55,000
Amortized intangible assets:							
Technology	10	$ 16,000	$ 12,667	$ 3,333	$ 16,000	$ 11,467	$ 4,533
Patents & other trademarks	5-20	12,033	8,436	3,597	11,876	8,002	3,874
Customer database	5	4,824	4,668	156	4,855	4,593	262
Foam formula	10	3,700	2,929	771	3,700	2,652	1,048
Reacquired rights	3	5,570	927	4,643	—	—	—
Customer relationships	5	1,866	187	1,679	—	—	—
Other intangible assets, net		$ 98,993	$ 29,814	$ 69,179	$ 91,431	$ 26,714	$ 64,717

Amortization expense relating to intangible assets for the Company was $1,219 and $600 for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009 amortization expense relating to intangible assets was $3,123 and $1,810 respectively. No impairments of goodwill or other intangible assets have adjusted the gross carrying amount of these assets in any historical period.

(3) Long-term Debt

(a) Long-term Debt—Long-term debt for the Company consists of the following:

	September 30, 2010	December 31, 2009
2005 Senior Credit Facility:		
Domestic Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (3.00% and 3.72% as of September 30, 2010 and December 31, 2009, respectively), commitment through and due June 8, 2012	$ 436,000	$ 294,000
Foreign Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (2.06% as of December 31, 2009), commitment through and due June 8, 2012	—	3,470
Long-term debt	$ 436,000	$ 297,470

(b) *Secured Credit Financing*—On October 18, 2005, the Company entered into a credit agreement (2005 Senior Credit Facility) with a syndicate of banks. The 2005 Senior Credit Facility, as amended, consists of domestic and foreign credit facilities (Revolvers) that provide for the incurrence of indebtedness up to an aggregate principal amount of $640,000 and matures in 2012. The domestic credit facility is a five-year, $615,000 revolving credit facility (Domestic Revolver). The foreign credit facility is a five-year $25,000 revolving credit facility (Foreign Revolver). The Revolvers provide for the issuance of letters of credit which, when issued, constitute usage and reduce availability under the Revolvers. The aggregate amount of letters of credit outstanding under the Revolvers was $13,106 at September 30, 2010. After giving effect to letters of credit and $436,000 in borrowings under the Revolvers, total availability under the Revolvers was $190,894 as of September 30, 2010. Both credit facilities bear interest at a rate equal to the 2005 Senior Credit Facility's applicable margin, as determined in accordance with a performance pricing grid set forth in Amendment No. 3 (the variable interest rate and certain fees paid in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in the consolidated leverage ratio), plus one of the following indexes: London Inter-Bank Offering Rate (LIBOR) and for U.S. dollar-denominated loans only, a base rate. The base rate of U.S. dollar-denominated loans is defined as the higher of the Bank of America prime rate or the Federal Funds r ate plus .50%. The Company also pays an annual facility fee on the total amount of the 2005 Senior Credit Facility. The facility fee is calculated based on the consolidated leverage ratio and ranges from .125% to .25%.

(In thousands, except per common share amounts)

The 2005 Senior Credit Facility is guaranteed by Tempur-Pedic International, as well as certain other subsidiaries of Tempur-Pedic International, and is secured by certain fixed and intangible assets of Dan-Foam ApS and substantially all the Company's U.S. assets. The 2005 Senior Credit Facility contains certain financial covenants and requirements affecting the Company, including a consolidated interest coverage ratio and a consolidated leverage ratio. The Company was in compliance with all covenants as of September 30, 2010.

In May 2008, the Company entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates associated with the 2005 Senior Credit Facility. Refer to Note 5, "Derivative Financial Instruments" for additional information regarding the Company's derivative instruments, including this interest rate swap.

(4) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company estimates fair value of its financial instruments utilizing an established three-level hierarchy. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows:

- Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. At September 30, 2010 and December 31, 2009, the Company had an interest rate swap and foreign currency forward contracts recorded at fair value. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for credit risk and restrictions and other terms specific to the contracts. The following table provides a summary by level of the fair value of financial instruments that are measured on a recurring basis:

		Fair Value Measurements at September 30, 2010 Using:		
	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign currency forward contracts	$ 99	$ —	$ 99	$ —
Liabilities:				
Interest rate swap	$ 2,862	$ —	$ 2,862	$ —

		Fair Value Measurements at December 31, 2009 Using:		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Foreign currency forward contracts	$ 438	$ —	$ 438	$ —
Interest rate swap	$ 6,865	$ —	$ 6,865	$ —

The carrying value of Cash and cash equivalents, Accounts receivable and Accounts payable approximate fair value because of the short-term maturity of those instruments. Borrowings under the 2005 Senior Credit Facility (as defined in Note 3(b)) are at variable interest rates and accordingly their carrying amounts approximate fair value.

(5) Derivative Financial Instruments

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates and foreign currency exchange rates. The Company uses various derivative contracts, primarily interest rate swaps and foreign currency exchange forward contracts, to manage risks from these market fluctuations. The financial instruments used by the Company are straight-forward, non-leveraged instruments. The counterparties to these financial instruments are financial institutions with strong credit ratings. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions.

Interest Rate Risk

The Company is exposed to changes in interest rates on its 2005 Senior Credit Facility. In order to manage this risk, in May 2008, the Company entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. The Company designated this interest rate swap as a cash flow hedge of floating rate borrowings and expects the hedge to be highly effective in offsetting fluctuations in the designated interest payments resulting from changes in the benchmark interest rate. The gains and losses on the designated swap agreement will offset losses and gains on the transactions being hedged. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in cash flows of the hedged transaction. The fair value of the interest rate swap is calculated as described in Note 4, “Fair Value Measurements” taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As a result of this swap, the Company pays at a fixed rate and receives payment at a variable rate. The swap effectively fixed the floating LIBOR-based interest rate to 3.755% on $350,000 of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. As of September 30, 2010 the total notional amount of the Company’s interest rate swap agreement is $200,000, amortizes to $100,000 on November 28, 2010 and expires on May 31, 2011. The Company will select the LIBOR-based rate on the hedged portion of the 2005 Senior Credit Facility during the term of the swap. The effective portion of the change in value of the swap is reflected as a component of comprehensive income and recognized as Interest expense, net as payments are paid or accrued. The remaining gain or loss in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any (i.e., the ineffective portion) or hedge components excluded from the assessment of effectiveness are recognized as Interest expense, net during the current period.

Within the next 12 months, the Company expects to reclassify $2,862 of deferred losses on derivative instruments from Accumulated Other Comprehensive Loss (OCL) to earnings due to the payment of variable interest associated with the 2005 Senior Credit Facility.

Foreign Currency Exposures

The Company is exposed to foreign currency risk primarily related to intercompany debt and associated interest payments. To manage the risk associated with fluctuations in foreign currencies, the Company enters into foreign currency forward contracts. The Company does not designate any of these foreign currency forward contracts as hedging instruments, however, the Company considers the contracts as economic hedges. Accordingly, changes in the fair value of these instruments affect earnings during the current period. These foreign currency forward contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from payments in foreign currencies. The fair value of foreign currency agreements are estimated as described in Note 4, “Fair Value Measurements” taking into consideration foreign currency rates and the current creditworthiness of the counterparties or the Company, as applicable.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

As of September 30, 2010, the Company had foreign currency forward contracts with expiration dates ranging from October 1, 2010 through January 28, 2011. The changes in fair value of these foreign currency hedges are included as a component of Other (expense) income, net. As of September 30, 2010 the Company had the following outstanding foreign currency forward contracts:

Currency		Currency Denomination
Great Britain Pound	£	6,953
Japanese Yen	¥	445,101
Swedish Krona	kr.	26,841
Norwegian Krone	kr.	2,884
Australian Dollar	$	2,165
New Zealand Dollar	$	1,702
Singapore Dollar	$	658
United States Dollar	$	7,984

As of September 30, 2010 and December 31, 2009, the fair value of the Company's derivative instruments were recorded as follows:

	Asset Derivatives			
	September 30, 2010		**December 31, 2009**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Prepaid expenses and other current assets	$ 99	Prepaid expenses and other current assets	$ —
		$ 99		$ —

	Liability Derivatives			
	September 30, 2010		**December 31, 2009**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate swap	Accrued expenses and other current liabilities	$ 2,862	Other non-current liabilities	$ 6,865
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Accrued expenses and other current liabilities	$ —	Accrued expenses and other current liabilities	$ 438
		$ 2,862		$ 7,303

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income for the three months ended September 30, 2010 was as follows:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 1,280	Interest expense, net	$ (1,734)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ 38

For the three months ended September 30, 2009:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 794	Interest expense, net	$ (2,445)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (222)

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income for the nine months ended September 30, 2010 was as follows:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 4,003	Interest expense, net	$ (5,222)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (1,315)

For the nine months ended September 30, 2009:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 3,012	Interest expense, net	$ (5,991)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (2,367)

(In thousands, except per common share amounts)

(6) Stockholders' Equity

(a) *Capital Stock*—Tempur-Pedic International's authorized shares of capital stock are 300,000 shares of common stock and 10,000 shares of preferred stock. Subject to preferences that may be applicable to any outstanding preferred stock, holders of the common stock are entitled to receive ratably such dividends as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution or winding up, the holders of the 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.

(b) *Share Repurchase Programs*—On October 16, 2007, the Board of Directors authorized a repurchase authorization of up to $300,000 of the Company's common stock. On January 13, 2010 the Board of Directors approved a share repurchase program of up to $100,000 of the Company's common stock, which replaced the October 2007 authorization. The Company repurchased 3,694 shares of the Company's common stock for $100,000 from the January 2010 authorization and completed the purchases from this authorization in February 2010. On April 15, 2010, the Board of Directors approved an additional share repurchase authorization of up to $100,000 of the Company's common stock. The Company repurchased 2,992 shares o f the Company's common stock for $100,000 from the April 2010 authorization and completed the purchases from this authorization in May 2010. On July 15, 2010 the Board of Directors approved an additional share repurchase program of up to $100,000 of the Company's common stock. The Company repurchased 1,814 shares of the Company's common stock for $50,000 from the July 2010 authorization. As of September 30, 2010 the Company has $50,000 remaining under the July 2010 authorization. Share repurchases under this authorization may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate; these repurchases may be funded by operating cash flows and/or borrowings under our credit facility. This share repurchase program may be limited, suspended or terminated at any time without notice.

(7) Other Items

(a) *Property, plant and equipment*—

Property, plant and equipment, net consisted of the following:

	September 30, 2010	December 31, 2009
Land and buildings	**$ 121,858**	$ 123,743
Machinery and equipment, furniture and fixtures and other	**206,376**	202,474
Construction in progress	**12,871**	8,107
	341,105	334,324
Accumulated depreciation	**(178,195)**	(161,827)
Property, plant and equipment, net	**$ 162,910**	$ 172,497

(b) *Accrued expenses and other current liabilities*—

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2010	December 31, 2009
Salary and related expenses	$ **19,606**	$ 18,131
Accrued unrecognized tax benefits	**11,981**	12,544
Accrued sales and value added taxes	**13,464**	11,472
Warranty accrual	**4,100**	4,052
Sales returns	**5,271**	4,233
Interest rate swap	**2,862**	—
Other	**37,177**	31,020
Accrued expenses and other current liabilities	$ **94,461**	$ 81,452

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

(c) *Accumulated other comprehensive loss—*

Accumulated other comprehensive loss consisted of the following:

	September 30, 2010	December 31, 2009
Derivative instruments accounted for as hedges, net of tax of $1,117 and $2,678, respectively	**$ (1,745)**	$ (4,187)
Foreign currency translation	**(5,333)**	(3,817)
Accumulated other comprehensive loss	**$ (7,078)**	$ (8,004)

(d) *Comprehensive income*

The components of comprehensive income consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Net income attributable to common stockholders	**$ 44,198**	$ 25,684	**$ 110,852**	$ 55,879
Derivative instruments accounted for as hedges, net of taxes of $499, $310, $1,561 and $1,175, respectively	**781**	484	**2,442**	1,837
Cumulative translation adjustment	**11,804**	2,423	**(1,516)**	3,152
Comprehensive income attributable to common stockholders	**56,783**	28,591	**111,778**	60,868
Comprehensive loss (income) attributable to the noncontrolling interest	**60**	—	**(44)**	—
Total comprehensive income	**$ 56,723**	$ 28,591	**$ 111,822**	$ 60,868

(8) Stock-Based Compensation

The Company currently has three stock-based compensation plans: the 2002 Option Plan (2002 Plan), the Amended and Restated 2003 Equity Incentive Plan (2003 Plan) and the 2003 Employee Stock Purchase Plan (ESPP), which are described under the caption “Stock-based Compensation” in the notes to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. Effective February 1, 2010, the Company suspended offerings under the ESPP indefinitely.

In the first quarter of 2010, the Compensation Committee of the Board of Directors approved the terms of a Long-Term Incentive Program (LTIP), established under the 2003 Plan. For 2010, the LTIP awards consist of a mix of stock options and performance-based restricted stock units (PRSUs). Shares with respect to the PRSUs will be granted and vest following the end of the applicable performance period and achievement of applicable performance metrics as determined by the Compensation Committee of the Board of Directors.

The Company granted PRSUs during the nine months ended September 30, 2010. The maximum number of shares to be awarded under the PRSUs granted during the nine months ended September 30, 2010 will be 418 shares, and will vest, if earned, at the end of the three-year performance period ending on December 31, 2012. No PRSUs were granted during the three months ended September 30, 2010. Actual payout under the PRSUs granted in 2010 is dependent upon the achievement of certain financial goals, based on Net sales and Earnings Before Interest and Taxes (EBIT) margin targets. The Company recognized compensation expense of $359 and $822 associated with the 2010 PRSUs during the three and nine months ended September 30, 2010, respectively. Based on current estimates of the performance metrics, unrecognized compensation expen se with respect to the PRSUs was $3,085 as of September 30, 2010, which is expected to be recorded over the weighted average remaining life of 2.25 years. No PRSUs were granted during the nine months ended September 30, 2009.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The Company granted options to purchase 30 and 192 shares of common stock during the three and nine months ending September 30, 2010. The Company recognized compensation expense of $265 and $545 associated with the 2010 grants during the three and nine months ended September 30, 2010, respectively. The Company granted new options to purchase 36 and 1,730 shares of common stock during the three and nine months ending September 30, 2009, respectively. The Company recognized compensation expense of $559 and $1,036 associated with the 2009 grants during the three and nine months ended September 30, 2009, respectively. As of September 30, 2010, there was $2,020 of unrecognized compensation expense associated with the options granted in 2010, which is expected to be recorded over the weighted average remaining vesting p eriod of 2.29 years. The options granted in the three months ended September 30, 2010 had a weighted average grant-date fair value of $14.03 per option, as determined by the Black-Scholes option pricing model using the following assumptions:

Expected volatility of stock	**72.7 - 72.8%**
Expected life of options, in years	**4.0**
Risk-free interest rate	**1.1%**
Expected dividend yield on stock	**1.1 – 1.5%**

The Company granted 188 awards during the nine months ended September 30, 2010 that consisted of restricted stock units (RSUs) and deferred stock units (DSUs). No RSUs or DSUs were granted during the three months ended September 30, 2010. The Company recognized compensation expense of $497 and $1,140 associated with the 2010 RSUs and DSUs during the three and nine months ended September 30, 2010, respectively. As of September 30, 2010, there was $4,121 of unrecognized compensation expense associated with the RSUs and DSUs granted in 2010, which is expected to be recorded over the weighted average remaining vesting period of 2.15 years.

The Company recorded $2,614 and $2,355 of total stock-based compensation expense for the three months ended September 30, 2010 and 2009, respectively. The Company recorded $7,953 and $6,448 of total stock-based compensation expense for the nine months ended September 30, 2010 and 2009, respectively.

(9) Commitments and Contingencies

(a) *Purchase Commitments*—The Company will, from time to time, enter into limited purchase commitments for the purchase of certain raw materials. Amounts committed under these programs were not significant as of September 30, 2010 or December 31, 2009.

(b) *Antitrust Action*—On January 5, 2007, a purported class action was filed against the Company in the United States District Court for the Northern District of Georgia, Rome Division (Jacobs v. Tempur-Pedic International, Inc. and Tempur-Pedic North America, Inc., or the Antitrust Action). The Antitrust Action alleges violations of federal antitrust law arising from the pricing of Tempur-Pedic mattress products by Tempur-Pedic North America and certain distributors. The action alleges a class of all purchasers of Tempur-Pedic mattresses in the United States since January 5, 2003, and seeks damages and injunctive relief. Count Two of the complaint was dismissed by the court on June 25, 2007, based on a motion filed by the Company. Following a decision issued by the United States Supreme Court in *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.* on June 28, 2007, the Company filed a motion to dismiss the remaining two counts of the Antitrust Action on July 10, 2007. On December 11, 2007, that motion was granted and, as a result, judgment was entered in favor of the Company and the plaintiffs' complaint was dismissed with prejudice. On December 21, 2007, the plaintiffs filed a "Motion to Alter or Amend Judgment," which was fully briefed. On May 1, 2008, that motion was denied. The Jacobs appealed the dismissal of their claims, and the parties argued the appeal before the United States Circuit Court for the Eleventh Circuit on December 11, 2008. The matter has been taken under advisement by the court. The Company continues to strongly believe that the Antitrust Action lacks merit, and intends to defend against the claims vigorously. Based on the findings of the court to date and an assessment of the Company's meritorious defenses, the Company believes that it is remote that it will incur a loss with respect to this matter. However, due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the Antitrust Action at this time, and can give no assurance that these claims will not have a material adverse affect on the Company's financial position or results of operation.

(c) *New York Attorney General*—In December 2008, the Office of the Attorney General of the State of New York, Antitrust Bureau (OAG) requested that the Company consider discontinuing its unilateral retail price policy (UPPL) in the State of New York, and informed the Company that it may bring an enforcement action against the Company under New York law if the Company chose not to do so. On March 29, 2010, the Office of the Attorney General filed suit in New York state court against the Company with respect to this matter. The complaint does not charge the Company with any violation of state or federal antitrust law; instead it claims the Company violated a 1975 New York state law which declares certain contractual provisions to be unenforcea ble and not actionable at law and seeks, among other things, a permanent injunction prohibiting the Company's UPPL as well as unspecified sums for restitution and disgorgement profits. The Company responded to the complaint and also filed motions to dismiss and to obtain discovery. On September 28, 2010, the court heard various motions filed by the parties and took them under advisement. The Company believes that its UPPL complies with state and federal law and intends to vigorously defend it. No claim for damages has been received by the Company. Based on the early stages of the litigation, the Company cannot make an estimate of the possible range of loss. However, due to the inherent uncertainties of this matter, the Company cannot at this time predict the outcome of the enforcement action and can give no assurance that these claims will not have a material adverse affect on its financial position or results of operation.

The Company is involved in various other legal proceedings incidental to the operations of its business. The Company believes that the outcome of all such pending legal proceedings in the aggregate will not have a material adverse affect on its business, financial condition, liquidity or operating results.

(10) Income Taxes

The Company's effective tax rate for the three and nine months ended September 30, 2010 was 30.5% and 31.9%, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2010 differed from the federal statutory rate of 35.0% principally because of the tax benefit from the release of a previously recorded foreign uncertain tax position, certain foreign tax rate differentials, state and local income taxes, foreign income currently taxable in the U.S., the production activities deduction and certain other permanent differences.

The Company's effective tax rate for the three and nine months ended September 30, 2009 was 32.7% and 34.1%, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2009 differed from the federal statutory rate of 35.0% principally because of certain foreign tax rate differentials, state and local income taxes, foreign income currently taxable in the U.S., the production activities deduction and certain other permanent differences.

The Company has not provided for U.S. federal and/or state income and foreign withholding taxes on $219,056 of undistributed earnings from non-U.S. operations as of September 30, 2010 because Tempur-Pedic International intends to reinvest such earnings indefinitely outside of the United States. If these earnings were to be distributed, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability.

During the fourth quarter of 2007 the Company received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years and an assessment with respect to the 2004 tax year during the third quarter of 2010. The tax assessments relate to the royalty paid by one of Tempur-Pedic International's U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $69,300 including interest and penalties. In the first quarter of 2008 and the third quarter of 2010, the Company filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on ho ld pending the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. During the third quarter of 2008 the Company filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and expects to finalize its position during 2011. The Company believes it has meritorious defenses to the proposed adjustments and will oppose the assessments in the Danish courts, as necessary. It is reasonably possible the amount of unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to tax examinations by tax authorities in the U.S. for periods prior to 2006, U.S. state and local municipalities for periods prior to 2004, and in non-U.S. jurisdictions for periods prior to 2001. Additionally, the Company is currently under examination by various tax authorities around the world. The Company anticipates it is reasonably possible an increase or decrease in the amount of unrecognized tax benefits could be made in the next twelve months as a result of the statute of limitations expiring and/or the examinations being concluded on these returns. &# 160;However, the Company does not presently anticipate that any increase or decrease in unrecognized tax benefits will be material to the consolidated financial statements.

During the three months ended September 30, 2010, the liability for unrecognized tax benefits decreased by $1,299 primarily related to a favorable determination by a foreign tax jurisdiction regarding a previously recorded uncertain tax position. During the nine months ended September 30, 2010, the liability for unrecognized tax benefits decreased by $690 primarily related to a favorable determination by a foreign tax jurisdiction regarding a previously recorded uncertain tax position and interest on previously recorded liabilities.

(11) Earnings Per Common Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Numerator:				
Net income attributable to common stockholders	**$ 44,198**	$ 25,684	**$ 110,852**	$ 55,879
Denominator:				
Denominator for basic earnings per common share-weighted average shares	**69,199**	74,938	**71,065**	74,902
Effect of dilutive securities:				
Employee stock options	**2,234**	1,228	**2,385**	494
Denominator for diluted earnings per common share-adjusted weighted average shares	**71,433**	76,166	**73,450**	75,396
Basic earnings per common share	**$ 0.64**	$ 0.34	**$ 1.56**	$ 0.75
Diluted earnings per common share	**$ 0.62**	$ 0.34	**$ 1.51**	$ 0.74

The Company excluded 173 and 2,039 shares issuable upon exercise of outstanding stock options for the three months ended September 30, 2010 and 2009, respectively, and 120 and 4,372 shares issuable upon exercise of outstanding stock options for the nine month periods ended September 30, 2010 and 2009, respectively, from the Diluted earnings per common share computation because their exercise price was greater than the average market price of Tempur-Pedic International’s common stock or they were otherwise anti-dilutive.

(In thousands, except per common share amounts)

(12) Business Segment Information

The Company operates in two business segments: North America and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations. The North America segment consists of the two U.S. manufacturing facilities and our North American distribution subsidiaries. The International segment consists of the manufacturing facility in Denmark, whose customers include all of the distribution subsidiaries and third party distributors outside the North American segment. The Company evaluates segment performance based on Net sales and Operating income.

The following table summarizes Total assets by segment:

	September 30, 2010	December 31, 2009
Total assets:		
North America	**$ 568,915**	$ 481,942
International	**323,536**	274,112
Intercompany eliminations	**(176,501)**	(112,675)
	$ 715,950	$ 643,379

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-Continued
(In thousands, except per common share amounts)

The following table summarizes segment information:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales from external customers:				
North America				
Mattresses	**$ 150,941**	$ 103,122	**$ 405,013**	$ 265,133
Pillows	**18,307**	13,216	**46,494**	34,090
Other	**45,439**	29,939	**121,955**	74,232
	$ 214,687	$ 146,277	**$ 573,462**	$ 373,455
International				
Mattresses	**$ 48,227**	$ 46,688	**$ 141,850**	$ 128,149
Pillows	**15,654**	15,170	**46,139**	41,363
Other	**17,217**	15,947	**51,267**	43,395
	$ 81,098	$ 77,805	**$ 239,256**	$ 212,907
	$ 295,785	$ 224,082	**$ 812,718**	$ 586,362
Inter-segment sales:				
North America	**169**	—	**169**	—
International	**$ 634**	$ 686	**$ 1,295**	$ 1,255
Intercompany eliminations	**(803)**	(686)	**(1,464)**	(1,255)
	$ —	$ —	**$ —**	$ —
Gross profit:				
North America	**$ 101,835**	$ 63,786	**$ 263,753**	$ 157,032
International	**48,919**	42,923	**139,851**	117,869
	$ 150,754	$ 106,709	**$ 403,604**	$ 274,901
Operating income:				
North America	**$ 45,498**	$ 21,710	**$ 108,622**	$ 43,737
International	**22,656**	20,966	**65,672**	53,982
	$ 68,154	$ 42,676	**$ 174,294**	$ 97,719
Depreciation and amortization (including stock-based compensation amortization):				
North America	**$ 8,545**	$ 7,979	**$ 25,148**	$ 22,855
International	**2,233**	2,388	**6,675**	7,119
	$ 10,778	$ 10,367	**$ 31,823**	$ 29,974
Capital expenditures:				
North America	**$ 3,116**	$ 2,548	**$ 7,043**	$ 4,636
International	**2,516**	1,685	**5,287**	4,325
	$ 5,632	$ 4,233	**$ 12,330**	$ 8,961

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes included in this Form 10-Q. Unless otherwise noted, all of the financial information in this report is condensed consolidated information for Tempur-Pedic International Inc. or its predecessor. 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 "Special Note Regarding Forward-Looking Statements" and "Risk Factors" elsewhere in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2009. Our actual results may differ materially from those contained in any forward-looking statements. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements contained herein.

In this discussion and analysis, the Company explains the financial condition and results of operations for Tempur-Pedic International Inc. for the three and nine month periods ended September 30, 2010 and 2009 that includes the following points:

- An overview of our business and strategy;
- Our Net sales and costs in the periods presented as well as changes between periods;
- Discussion of new initiatives that may affect our future results of operations and financial condition;
- Expected future expenditures for capital projects and sources of liquidity for future operations; and
- The effect of the foregoing on our overall financial performance and condition, as well as factors that could affect our future performance.

Executive Overview

General—We are the leading manufacturer, marketer and distributor of premium mattresses and pillows which we sell in approximately 80 countries under the TEMPUR® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary pressure-relieving TEMPUR® material is temperature sensitive, has a high density and therapeutically conforms to the body.

We sell our premium mattresses and pillows through four distribution channels: Retail (furniture and bedding, specialty and department stores); Direct (direct response and internet); Healthcare (chiropractors, medical retailers, hospitals and other healthcare markets); and Third party distributors in countries where we do not sell directly through our own subsidiaries.

Business Segment Information—We have two reportable business segments: North America and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their geographies. The North American operating segment consists of two U.S. manufacturing facilities and our North American distribution subsidiaries. The International segment consists of our manufacturing facility in Denmark, whose customers include all of our distribution subsidiaries and third party distributors outside the North American operating segment. We evaluate segment performance based on Net sales and Operating income.

On April 1, 2010, we purchased our Third party distributor in Canada. Accordingly, Net sales in the Canadian market are reported in the appropriate channels within the North American segment. As Canada represented essentially all sales through the North American Third party channel, we will no longer be reporting Third party sales in this segment.

Strategy and Outlook

Our goal is to become the world's favorite mattress and pillow brand. In order to achieve this long-term goal while managing through the current economic environment, we expect to continue to pursue certain key strategic goals using the related strategies discussed below.

- Make sure everyone knows that they would sleep better on a Tempur-Pedic - we plan to continue to invest in increasing our global brand awareness through advertising campaigns that further associate our brand name with overall sleep and premium quality products.

- Make sure there is a Tempur-Pedic bed and pillow that appeals to everyone – we plan to continue to maintain our focus on premium mattresses and pillows and regularly introducing new products.

- Make sure that Tempur-Pedic is available to everyone - we plan to expand our points of distribution and the effectiveness of our distribution channels.

- Make sure that Tempur-Pedic continues to deliver the best sleep – we plan to continue to invest in product research and development.

In pursuing these strategic goals, we expect to continue to optimize our cost structure in order to enable these marketing and product development investments.

Results of Operations

Key financial highlights for the three and nine months ended September 30, 2010 include the following:

- Earnings per common share (EPS) were $0.62 per diluted common share for the three months ended September 30, 2010 compared to $0.34 for the three months ended September 30, 2009. For the nine months ended September 30, 2010 EPS were $1.51 compared to $0.74 for the same period in 2009.

- Net sales for the three months ended September 30, 2010 rose to $295.8 million from $224.1 million for the three months ended September 30, 2009. Net sales for the nine months ended September 30, 2010 increased to $812.7 million from $586.4 million for the same period in 2009.

- Our Gross profit margin for the three months ended September 30, 2010 was 51.0% compared to 47.6% for the three months ended September 30, 2009. For the nine months ended September 30, 2010 our Gross profit margin was 49.7% compared to 46.9% for the same period in 2009.

- During the nine months ended September 30, 2010, we repurchased 8.5 million shares of our common stock at a total cost of $250.0 million. These purchases were funded by increased borrowings under our domestic revolving credit facility and operating cash flow.

(In thousands, except per common share amounts)	Three Months Ended September 30,						Nine Months Ended September 30,					
	2010			2009			**2010**			2009		
Net sales	**$**	**295,785**	**100.0%**	$	224,082	100.0%	**$**	**812,718**	**100.0%**	$	586,362	100.0%
Cost of sales		**145,031**	**49.0**		117,373	52.4		**409,114**	**50.3**		311,461	53.1
Gross profit		**150,754**	**51.0**		106,709	47.6		**403,604**	**49.7**		274,901	46.9
Selling and marketing expenses		**53,215**	**18.0**		39,272	17.5		**146,273**	**18.0**		108,335	18.5
General, administrative and other expenses		**29,385**	**10.0**		24,761	11.0		**83,037**	**10.2**		68,847	11.7
Operating income		**68,154**	**23.0**		42,676	19.1		**174,294**	**21.5**		97,719	16.7
Interest expense, net		**(4,068**	**(1.4)**		(4,311)	(1.9)		**(11,043)**	**(1.4)**		(13,359)	(2.3)
Other (expense) income, net		**(624**	**(0.1)**		(214)	(0.1)		**(525)**	**(0.1)**		404	0.1
Income before income taxes		**63,462**	**21.5**		38,151	17.1		**162,726**	**20.0**		84,764	14.5
Income tax provision		**19,324**	**6.5**		12,467	5.6		**51,830**	**6.4**		28,885	4.9
Net income		**44,138**	**15.0**		25,684	11.5		**110,896**	**13.6**		55,879	9.6
Net loss (income) attributable to the noncontrolling interest		**60**	—		—	—		**(44)**	—		—	—
Net income attributable to common stockholders	**$**	**44,198**	**15.0%**	$	25,684	11.5%	**$**	**110,852**	**13.6%**	$	55,879	9.6%
Earnings per common share:												
Basic	**$**	**0.64**		$	0.34		**$**	**1.56**		$	0.75	
Diluted		**0.62**			0.34			**1.51**			0.74	
Weighted average common shares outstanding:												
Basic		**69,199**			74,938			**71,065**			74,902	
Diluted		**71,433**			76,166			**73,450**			75,396	

Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009

A summary of Net sales, by channel and by segment, is set forth below:

	CONSOLIDATED Three Months Ended September 30,				NORTH AMERICA Three Months Ended September 30,				INTERNATIONAL Three Months Ended September 30,			
(in thousands)	**2010**		2009		**2010**		2009		**2010**		2009	
Retail	**$**	**261,425**	$	191,012	**$**	**197,586**	$	129,883	**$**	**63,839**	$	61,129
Direct		**17,072**		12,245		**14,192**		10,600		**2,880**		1,645
Healthcare		**8,158**		8,942		**2,909**		2,804		**5,249**		6,138
Third Party		**9,130**		11,883		—		2,990		**9,130**		8,893
	$	**295,785**	$	224,082	**$**	**214,687**	$	146,277	**$**	**81,098**	$	77,805

A summary of Net sales, by product and by segment, is set forth below:

	CONSOLIDATED Three Months Ended September 30,				NORTH AMERICA Three Months Ended September 30,				INTERNATIONAL Three Months Ended September 30,			
(in thousands)	**2010**		2009		**2010**		2009		**2010**		2009	
Mattresses	**$**	**199,168**	$	149,810	**$**	**150,941**	$	103,122	**$**	**48,227**	$	46,688
Pillows		**33,961**		28,386		**18,307**		13,216		**15,654**		15,170
Other		**62,656**		45,886		**45,439**		29,939		**17,217**		15,947
	$	**295,785**	$	224,082	**$**	**214,687**	$	146,277	**$**	**81,098**	$	77,805

Net sales. Net sales for the three months ended September 30, 2010 increased to $295.8 million from $224.1 million for the same period in 2009, an increase of $71.7 million, or 32.0%. In 2009 our industry was adversely affected by an unstable macroeconomic environment which had an adverse impact on our Net sales. However, during 2010, we have experienced a significant improvement in Net sales. We believe our revenues have been gaining momentum primarily as a result of investments made in marketing, research and development and product introductions. We were well positioned to make these investments because we maintained our financial flexibility during the economic downturn. Consolidated Mattress sales increased $49.4 million, or 32.9% compared to the third quarter of 2009. The increase in Mattress sales occurred primarily in our Retail channel with Net sales increasing to $261.4 million from $191.0 million for the same period in 2009, an increase of $70.4 million, or 36.9%. Consolidated Pillow sales increased approximately $5.6 million, or 19.6%, from the third quarter of 2009. Consolidated Other, which includes adjustable bed bases, foundations and other related products, increased $16.8 million, or 36.5%. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. The principal factors that impacted Net sales for each segment are discussed below, in the respective segment discussion.

North America. North American Net sales for the three months ended September 30, 2010 increased to $214.7 million from $146.3 million for the same period in 2009, an increase of $68.4 million, or 46.8%. Our North American Retail channel contributed $197.6 million in Net sales for the three months ended September 30, 2010 for an increase of $67.7 million, or 52.1%, compared to the same period in 2009. The introduction of our new product line, the TEMPUR-Cloud™ collection, in the third quarter of 2009 has been well received by retailers and consumers. During the third quarter of 2010 we began the rollout of the third product in the Cloud line, the TEMPUR-Cloud Luxe™. We believe these products appeal to a new consumer segment and have increased our Net sales. Additionally, we believe that our “Ask Me” advertising campaign has had a positive impact on our performance. As a result, North American mattress sales in the third quarter of 2010 increased $47.8 million, or 46.4%, over the same period in 2009, driven by an increase in our Retail channel. Net sales in the Direct channel increased by $3.6 million, or 33.9%. We believe increased sales in the Direct channel are a result of our focus on building brand awareness and encouraging consumers to visit our website through our advertisements. Pillow sales increased $5.1 million, or 38.5% for the three months ended September 30, 2010. Other Net sales increased $15.5 million, or 51.8%, compared to the same period in 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore , when Mattress sales increase, Pillows and Other products are also impacted. Additionally, we have emphasized and are experiencing improved attach rates on adjustable bed bases which are sold at a higher price point than traditional foundations.

International. International Net sales for the three months ended September 30, 2010 increased to $81.1 million from $77.8 million for the same period in 2009, an increase of $3.3 million, or 4.2%. On a constant currency basis, our International Net sales increased approximately 10.6%. We have experienced some stabilization of the global economic slowdown in our international markets, which also impacted Net sales in the third quarter of 2009. The International Retail channel increased $2.7 million, or 4.4%, for the three months ended September 30, 2010. Third party Net sales increased $0.2 million or 2.7%. Our introduction of the Sensation mattress line in the International segment has continued to be well a ccepted by retailers and consumers. As a result, International Mattress sales in the third quarter of 2010 increased $1.5 million, or 3.3%, over the third quarter of 2009. Pillow sales for the third quarter of 2010 increased $0.5 million, or 3.2%, as compared to the third quarter of 2009. Other Net sales increased $1.3 million, or 8.0%, as compared to the third quarter of 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted.

Gross profit. Gross profit for the three months ended September 30, 2010 increased to $150.8 million from $106.7 million for the same period in 2009, an increase of $44.0 million, or 41.3%. The Gross profit margin for the three months ended September 30, 2010 was 51.0% as compared to 47.6% for the same period in 2009. Our Gross profit margin is impacted by, among other factors, geographic mix between segments. The principal factors that impacted Gross profit margin during the quarter are identified and discussed below in the respective segment discussions.

North America. North American Gross profit for the three months ended September 30, 2010 increased to $101.8 million, an improvement of $38.0 million, or 59.7%. The Gross profit margin in our North American segment was 47.4% and 43.6% for the three months ended September 30, 2010 and 2009, respectively. Improvements in our North American Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes, improved efficiencies in manufacturing and favorable product and channel mix. These factors were partially offset by higher commodity costs. Additionally, the North American segment pays a royalty to our International segment based on its production volume, which has the effect of lowering the segment’s rep orted Gross profit margin. North American Cost of sales for the three months ended September 30, 2010 increased to $112.9 million from $82.5 million for the same period in 2009, an increase of $30.4 million, or 36.8%.

International. International Gross profit for the three months ended September 30, 2010 increased to $48.9 million, an improvement of $6.0 million, or 14.0%. The Gross profit margin in our International segment was 60.3% and 55.2% for the three months ended September 30, 2010 and September 30, 2009, respectively. Improvements in our International Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes, improved efficiencies in manufacturing and favorable product and channel mix. These factors were partially offset by higher commodity costs. Additionally, the International segment receives a royalty from our North American segment based on their production volume, which has the effect of increasing the segment's reported Gross profit margin. Our International Cost of sales for the three months ended September 30, 2010 decreased to $32.2 million from $34.9 million for the same period in 2009, a decrease of $2.7 million, or 7.7%.

Selling and marketing expenses. Selling and marketing 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. We also include in Selling and marketing expense certain new product development costs, including market research and new product testing. In the third quarter of 2010, Selling and marketing expenses increased to $53.2 million as compared to $39.3 million for the three months ended September 30, 2009. Selling and marketing expenses as a percentage of Net sales were 18.0% and 17.5% for the three months ended September 30, 2010 and 2009, respectively. Our advertising expe nse for the three months ended September 30, 2010 was $25.4 million or 8.6% of Net sales compared to $18.6 million or 8.3% for the same period in 2009. Our objective is to align advertising costs to reflect our sales expectations. During the third quarter of 2010 we continued to make investments in advertising to support future growth. For example, our marketing and advertising campaign "Ask Me," which launched in 2009, focuses on increasing awareness of our products and the benefits they offer through word-of-mouth and social networking outlets.

General, administrative and other expenses. General, administrative and other expenses include management compensation, information technology, professional fees, depreciation of furniture and fixtures, leasehold improvements and computer equipment, expenses for administrative functions and research and development costs. General, administrative and other expenses increased to $29.4 million for the three months ended September 30, 2010 as compared to $24.8 million for the three months ended September 30, 2009. The increase in General, administrative and other expenses are primarily a result of a larger bonus pool in the third quarter of 2010 compared to 2009 and an increase in professional fees related to strategic research studies. The ef fects of these items have been partially offset by a decrease in legal fees in 2010 compared to 2009. Research and Development expense for the three months ended September 30, 2010 was $1.7 million compared to $1.5 million for the same period in 2009. In 2010 we have increased our investment in research and development in order to improve our existing product lines and continue to introduce new and differentiated products. General, administrative and other expenses as a percentage of Net sales were 10.0% and 11.0% in the third quarter of 2010 and 2009, respectively.

Interest expense, net. Interest expense, net, includes the interest costs associated with our borrowings and the amortization of deferred financing costs related to those borrowings. Interest expense, net, decreased to $4.1 million for the three months ended September 30, 2010, as compared to $4.3 million for the three months ended September 30, 2009, a decrease of $0.2 million, or 5.6%. The decrease in interest expense is primarily attributable to a decrease in the portion of the underlying debt subject to our interest rate swap, offset by an increase in debt outstanding not subject to the interest rate swap. As we increase our borrowings, we are subject to variable rate debt th at is not protected under the interest rate swap described below. Currently, the interest rate on our variable rate debt is lower than the fixed rate of the interest rate swap. Accordingly, if interest rates increase we may incur a higher level of interest expense. The variable interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating London Inter-bank Offering Rate (LIBOR) based interest rate to 3.755% on $200.0 million of the outstanding balance as of September 30, 2010 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining to $100.0 million on November 28, 2010 and expiring on May 31, 2011.

Income tax provision. Income tax provision includes income taxes associated with taxes currently payable and deferred taxes, and it includes the impact of net operating losses for certain of our domestic and foreign operations. Our effective tax rate for the three months ended September 30, 2010 and September 30, 2009 was 30.5% and 32.7%, respectively. The primary difference between the September 30, 2010 and September 30, 2009 effective tax rate is the tax benefit from the release of a previously recorded foreign uncertain tax position.

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

A summary of Net sales, by channel and by segment, is set forth below:

	CONSOLIDATED		NORTH AMERICA		INTERNATIONAL	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Retail	**$ 701,316**	$ 497,109	**$ 513,969**	$ 328,870	**$ 187,347**	$ 168,239
Direct	**51,813**	32,759	**44,950**	28,506	**6,863**	4,253
Healthcare	**25,954**	26,105	**9,200**	8,184	**16,754**	17,921
Third Party	**33,635**	30,389	**5,343**	7,895	**28,292**	22,494
	$ 812,718	$ 586,362	**$ 573,462**	$ 373,455	**$ 239,256**	$ 212,907

A summary of Net sales, by product and by segment, is set forth below:

	CONSOLIDATED		NORTH AMERICA		INTERNATIONAL	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Mattresses	**$ 546,863**	$ 393,282	**$ 405,013**	$ 265,133	**$ 141,850**	$ 128,149
Pillows	**92,633**	75,453	**46,494**	34,090	**46,139**	41,363
Other	**173,222**	117,627	**121,955**	74,232	**51,267**	43,395
	$ 812,718	$ 586,362	**$ 573,462**	$ 373,455	**$ 239,256**	$ 212,907

Net sales. Net sales for the nine months ended September 30, 2010 increased to $812.7 million from $586.4 million for the same period in 2009, an increase of $226.4 million, or 38.6%. In 2009 our industry was adversely affected by an unstable macroeconomic environment which had an adverse impact on our Net sales. However, during 2010, we have experienced a significant improvement in Net sales. We believe our revenues have been gaining momentum primarily as a result of investments made in marketing, research and development and p roduct introductions. We were well positioned to make these investments because we maintained our financial flexibility during the economic downturn. Consolidated Mattress sales increased $153.6 million, or 39.1%, compared to the nine months ended September 30, 2009. The increase in Mattress sales occurred primarily in our Retail channel with Net sales for the nine months increasing to $701.3 million from $497.1 million for the same period in 2009, an increase of $204.2 million, or 41.1%. Consolidated Pillow sales increased to $92.6 million from $75.5 million for the same period in 2009, an increase of $17.2 million, or 22.8%. Consolidated Other Net sales increased to $173.2 million from $117.6 million for the same period in 2009, an increase of $55.6 million or 47.3%. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. The principal factors that impacted Net sales for each segment are discussed below, in the respective segment discussion.

North America. North American Net sales for the nine months ended September 30, 2010 increased to $573.5 million from $373.5 million for the same period in 2009, an increase of $200.0 million, or 53.6%. Our North American Retail channel contributed $514.0 million in Net sales for the nine months ended September 30, 2010 for an increase of $185.1 million, or 56.3%, compared to the same period in 2009. The introduction of our new product line, the TEMPUR-Cloud™ collection, in the third quarter of 2009 has been well received by retailers and consumers. We believe these products appeal to a new consumer segment and have increased our Net sales. In January 2010, we launched the second mattress in this line, the TEMPUR-Cloud™. During the third quarter of 2010 we began the rollout of the third mattress in this line, the TEMPUR-Cloud Luxe™. Additionally, we believe that our "Ask Me" advertising campaign has had a positive impact on our performance. As a result, North American Mattress sales increased $139.9 million, or 52.8%, over the same period in 2009, driven by the increase in our Retail channel. Net sales in the Direct channel increased to $45.0 million from $28.5 million during the same period in 2009, an increase of $16.4 million, or 57.7%. We believe increased sales in the Direct channel are a result of our focus on building brand awareness and encouraging consumers to visit our website through our advertisements. Pillow sales increased $12.4 million, or 36.4%, over the same period in 2009. Other Net sales increased $47.7 million, or 64.3%, compared to the same period in 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. Additionally, we have emphasized and are experiencing improved attach rates on adjustable bed bases which are sold at a higher price point than traditional foundations.

International. International Net sales for the nine months ended September 30, 2010 increased to $239.3 million from $212.9 million for the same period in 2009, an increase of $26.3 million, or 12.4%. On a constant currency basis, our International Net sales increased approximately 13.2%. We have experienced some stabilization of the global economic slowdown in our international markets, which also impacted Net sales in 2009. The International Retail channel increased $19.1 million, or 11.4%, for the nine months ended September 30, 2010. Third party Net sales increased $5.8 million or 25.8%. Our introduction of the Sensation mattress line in the International segment has continued to be well accepted b y retailers and consumers. As a result, International Mattress sales increased $13.7 million, or 10.7%, as compared to 2009. Pillow sales for 2010 increased $4.8 million, or 11.5%, compared to the same period in 2009. Other product Net sales increased $7.9 million, or 18.1%, as compared to 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted.

Gross profit. Gross profit for the nine months ended September 30, 2010 increased to $403.6 million from $274.9 million for the same period in 2009, an increase of $128.7 million, or 46.8%. The Gross profit margin for the nine months ended September 30, 2010 was 49.7% as compared to 46.9% for the same period in 2009. Our Gross profit margin is impacted by, among other factors, geographic mix between segments. The principal factors that affected Gross profit margin during the year are identified and discussed below, in the respective segment discussion.

North America. North American Gross profit for the nine months ended September 30, 2010 increased to $263.8 million from $157.0 million for the same period in 2009, an increase of $106.7 million, or 68.0%. The Gross profit margin in our North American segment was 46.0% and 42.0% for the nine months ended September 30, 2010 and September 30, 2009, respectively. Improvements in our North American Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the North American segment pays a royalty to our International segment based on its production volume, whi ch has the effect of lowering the segment's reported Gross profit margin. Our North American cost of sales increased to $309.7 million for the nine months ended September 30, 2010 as compared to $216.4 million for the nine months ended September 30, 2009, an increase of $93.3 million, or 43.1%.

International. International Gross profit for the nine months ended September 30, 2010 increased to $139.9 million from $117.9 million for the same period in 2009, an increase of $22.0 million, or 18.6%. The Gross profit margin in our International segment was 58.5% and 55.4% for the nine months ended September 30, 2010 and September 30, 2009, respectively. For the nine months ended September 30, 2010, improvements in our International Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the International segment receives a royalty from our North Amer ican segment based on their production volume, which has the effect of increasing the segment's reported Gross profit margin. Our International Cost of sales for the nine months ended September 30, 2010 increased to $99.4 million from $95.0 million for the same period in 2009, an increase of $4.4 million, or 4.6%.

Selling and marketing expenses. Selling and marketing expenses increased to $146.3 million for the nine months ended September 30, 2010 as compared to $108.3 million for the nine months ended September 30, 2009. Selling and marketing expenses as a percentage of Net sales decreased to 18.0% for the nine months ended September 30, 2010 from 18.5% for the same period for 2009. Our advertising expense for the nine months ended September 30, 2010 was $70.6 million or 8.7% of Net sales compared to $48.1 million or 8.2% for the same period in 2009. During 2010 we have continued to make investments in advertising to support future growth. For example, our marketing and advertising campaign "Ask Me," which launched in 2009, focuses on i ncreasing awareness of our products and the benefits they offer through word-of-mouth and social networking outlets.

General, administrative and other expenses. General, administrative and other expenses increased to $83.0 million for the nine months ended September 30, 2010 as compared to $68.8 million for the nine months ended September 30, 2009, an increase of $14.2 million, or 20.6%. The increase in General, administrative and other expenses are primarily a result of a larger bonus pool in 2010 compared to 2009 and an increase in professional fees related to strategic research studies. The effects of these items have been partially offset by a lower level of bad debt expense in 2010 compared to 2009. Research and Development expense for the nine months ended September 30, 2010 was $5.3 million compared to $4.6 million for the same period in 2009. In 2010 we have increased our investment in research and development in order to improve our existing product lines and continue to introduce new and differentiated products. General, administrative and other expenses as a percentage of Net sales was 10.2% and 11.7% for the nine months ended September 30, 2010 and September 30, 2009, respectively.

Interest expense, net. Interest expense, net, decreased to $11.0 million for the nine months ended September 30, 2010, as compared to $13.4 million for the nine months ended September 30, 2009, a decrease of $2.3 million, or 17.3%. The decrease in interest expense is primarily attributable to a decrease in the portion of the underlying debt subject to our interest rate swap, offset slightly by an increase in debt outstanding not subject to the interest rate swap. As we increase our borrowings, we are subject to variable rate debt that is not protected under the interest rate swap described below. Currently, the interest rate on our variable rate debt is lower than the fixe d rate of the interest rate swap. Accordingly, if interest rates increase we may incur a higher level of interest expense. The variable interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR based interest rate to 3.755% on $200.0 million of the outstanding balance as of September 30, 2010 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining to $100.0 million on November 28, 2010 and expiring on May 31, 2011.

Income tax provision. Our effective tax rate for the nine months ended September 30, 2010 was 31.9%. For the same period in 2009, the effective tax rate was 34.1%. The decrease in the effective tax rate is primarily due to the tax benefit from the release of a previously recorded foreign uncertain tax position and a tax charge on a previously recognized foreign tax benefit taken in the first quarter of 2009.

Liquidity and Capital Resources

Liquidity

Our principal sources of funds are cash flows from operations and borrowings made pursuant to the 2005 Senior Credit Facility. Principal uses of funds consist of share repurchases made from time to time pursuant to share repurchase authorizations, acquisition of certain former third party distributors, payments of principal and interest on our debt facilities and capital expenditures. At September 30, 2010, we had working capital of $90.8 million including Cash and cash equivalents of $38.0 million compared to working capital of $72.5 million including $14.0 million in Cash and cash equivalents as of December 31, 2009. Working capital increased in the third quarter of 2010 primarily as a result of an increase in Cash and cash equivalents as of Septe mber 30, 2010.

Our cash flow from operations increased to $139.7 million for the nine months ended September 30, 2010 from $120.4 million for the nine months ended September 30, 2009. The increase in operating cash flow for the nine month period ended September 30, 2010 compared to the nine month period ended September 30, 2009 was primarily driven by Net income growth, offset by changes in operating assets and liabilities. The increases in Accounts receivable, Inventories and Income taxes payable are related to increased sales.

Net cash used in investing activities increased to $31.2 million for the nine months ended September 30, 2010 as compared to $9.0 million for the nine months ended September 30, 2009, primarily related to the acquisition of our former third party distributor in Canada and an increase in capital expenditures. In 2010 we are investing in capital projects that we believe will create operational efficiencies and support future growth.

Cash flow used by financing activities was $84.7 million for the nine months ended September 30, 2010 as compared to $103.1 million used for the nine months ended September 30, 2009, representing a decrease in cash flow used of $18.4 million, primarily related to an increase in current borrowings under the 2005 Senior Credit Facility. These borrowings were primarily utilized to complete $250.0 million in share repurchases of our common stock. Additionally, we received $22.0 million in proceeds from stock option exercises during the nine months ended September 30, 2010 as compared to no proceeds for the same period in 2009.

Capital Expenditures

Capital expenditures totaled $12.3 million for the nine months ended September 30, 2010 and $9.0 million for the nine months ended September 30, 2009. We currently expect our 2010 capital expenditures to be approximately $20.0 million. This expected increase in capital expenditures in 2010 is attributable to projects that we believe will create operational efficiencies and support future growth.

Debt Service

Our Long-term debt increased to $436.0 million as of September 30, 2010 from $297.5 million as of December 31, 2009 due primarily to our share repurchase program. After giving effect to $436.0 million in borrowings under the 2005 Senior Credit Facility and letters of credit outstanding, total availability under the Revolvers was $190.9 million as of September 30, 2010.

As of September 30, 2010, we are in compliance with our debt covenants. The table below sets forth the calculation of our compliance with the Funded debt to Adjusted Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) covenant. Both Funded debt and Adjusted EBITDA are terms that are not recognized under U.S. GAAP and do not purport to be alternatives to Net income as a measure of operating performance or Total debt.

Reconciliation of Net Income to Adjusted EBITDA

The following table sets forth the reconciliation of our reported Net income to the calculation of Adjusted EBITDA for the three months ended December 31, 2009, March 31, 2010, June 30, 2010 and September 30, 2010 as well as the twelve months ended September 30, 2010:

	Three Months Ended				Twelve Months Ended
(In thousands)	**December 31, 2009**	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**September 30, 2010**
GAAP Net income attributable to common stockholders	**$ 29,114**	**$ 33,148**	**$ 33,506**	**$ 44,198**	**$ 139,966**
Plus:					
Interest expense	3,990	3,189	3,786	4,068	15,033
Income taxes	14,159	16,021	16,485	19,324	65,989
Depreciation & Amortization	10,239	9,996	11,049	10,778	42,062
Other (1)	—	361	202	—	563
Adjusted EBITDA	$ 57,502	$ 62,715	$ 65,028	$ 78,368	$ 263,613

(1) Includes professional costs incurred in connection with the acquisition of our Canadian distributor, which closed on April 1, 2010. In accordance with our 2005 Senior Credit Facility, this amount is excluded from the calculation of Adjusted EBITDA for purposes of calculating compliance with the ratio of Funded debt to Adjusted EBITDA.

Reconciliation of Total debt to Funded debt

The following table sets forth the reconciliation of our reported Total debt to the calculation of Funded debt and Funded debt to Adjusted EBITDA ratio as of September 30, 2010:

(In thousands)	**As of September 30, 2010**
GAAP basis Total debt	**$ 436,000**
Plus:	
Letters of credit outstanding	13,106
Funded debt	$ 449,106
Adjusted EBITDA	$ 263,613
Funded debt to Adjusted EBITDA	1.70 times

The ratio of Funded debt to Adjusted EBITDA was 1.70 times, within the covenant in the 2005 Senior Credit Facility, which requires that this ratio not exceed 3.0 times.

Stockholders' Equity

Share Repurchase Program—On October 16, 2007, our Board of Directors authorized a share repurchase authorization of up to $300.0 million of our common stock. On January 13, 2010 our Board of Directors approved a share repurchase program of up to $100.0 million of our common stock which replaced the October 2007 authorization. During the three months ended March 31, 2010, we repurchased 3.7 million shares of our common stock for $100.0 million and completed the January 2010 authorization. On April 15, 2010 our Board of Directors approved an additional authorization to purchase up to $100.0 million of our common stock. During the three months ended June 30, 2010 we repurchased 3.0 millio n shares of our common stock for $100.0 million and completed the April 2010 authorization. On July 15, 2010 our Board of Directors approved an additional authorization to purchase up to $100.0 million of our common stock. During the three months ended September 30, 2010 we repurchased 1.8 million shares of our common stock for $50.0 million. On October 15, 2010 our Board of Directors approved the purchase of an additional $50.0 million of our common stock under the previously approved July 2010 authorization, increasing the total available for repurchase to $100.0 million as of October 15, 2010. Share repurchases under this authorization may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate; these repurchases may be funded by operating cash flows and/or borrowings under our credit facility. This share repurchase program may be limited, suspended or terminated at any time without notice.

Use of Non-GAAP Measures

We provide information regarding Adjusted EBITDA and Funded debt which are not recognized terms under U.S. GAAP and do not purport to be alternatives to Net income as a measure of operating performance or Total debt. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. A reconciliation of our Net income to Adjusted EBITDA and a reconciliation of Total debt to Funded debt have been provided in this Management's Discussion and Analysis and we believe the use of these non-GAAP financial measures provide investors with additional useful information with respect to our 2005 Senior Credit Facility and our compliance with the related debt covenants.

Factors That May Affect Future Performance

General Business and Economic Conditions–Our business has been affected by general business and economic conditions, and these conditions could have an impact on future demand for our products. The U.S. macroeconomic environment was challenging in 2009 and was the primary factor in a slowdown in the mattress industry. In 2010 the U.S. macroeconomic environment has improved slightly, but still remains uncertain. In addition, our International segment experienced weakening as a result of general business and economic conditions in several European and Asian markets. We expect the economic environment in the U.S. and internationally to continue to be challenging.

In light of the macroeconomic environment, we took steps to further align our cost structure with our anticipated level of Net sales. During the remainder of 2010, we expect to continue to pursue certain key strategies including: maintaining focus on premium mattresses and pillows and regularly introducing new products; investing in increasing our global brand awareness; extending our presence and improving our Retail account productivity; investing in our operating infrastructure to meet the requirements of our business; and taking actions to further strengthen our business.

Managing Growth—Over the last few years, we have had to manage our business both through periods of rapid growth and the current recovering economic environment. Our Net sales increased from $221.5 million in 2001 to $1,106.7 million in 2007 and decreased to $927.8 million in 2008 and $831.2 million for the year ended December 31, 2009. For the nine months ended September 30, 2010, our Net sales were $812.7 million. In the past, our growth has placed, and may continue to place, a strain on our management, production, product distribution network, information systems and other resources. In response to these types of challenges, management has continued to enhance operating and financial infrastructure, as appropriate. In addition, during 2007 through 2 009, we had to manage a decline in sales as a result of the macroeconomic environment. During this period, we had to manage our cost structure to contain costs. Going forward, we expect that expenditures to enhance our operating and financial infrastructure, as well as expenditures for advertising and other marketing-related activities, will continue to be made as the continued growth in the business allows us the ability to invest. However, these expenditures may be limited by lower than planned sales or an inflationary cost environment.

Gross Margins—Our gross margin is primarily impacted by fixed cost leverage, the cost of raw materials, operational efficiency, product, channel and geographic mix, volume incentives offered to certain retail accounts and costs associated with new product introductions. At the end of 2009 and into 2010 we experienced increases in our raw material pricing. Future increases in raw material prices could have a negative impact on our gross margin if we do not raise prices to cover increased cost. Our gross margin can also be impacted by our operational efficiencies, including the particular levels of utilization at our three manufacturing facilities. We have made significant investments in our manufacturing infrastructure and have significant availabl e manufacturing capacity. If we increase our Net sales significantly the effect of this operating leverage could have a significant positive impact on our gross margin. Our margins are also impacted by the growth in our Retail channel as sales in our Retail channel are at wholesale prices whereas sales in our Direct channel are at retail prices. Additionally, our overall product mix has shifted to mattresses and other products over the last several years, which has impacted our gross margins because mattresses generally carry lower margins than pillows and are sold with lower margin products such as foundations and bed frames. We expect our gross margins to be up for the full year 2010 through sales leverage and productivity programs partially offset by geographic segment mix and increased commodity costs.

Competition—Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance. We 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 and bedding stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs.

Our largest competitors have significant marketing and manufacturing resources and strong brand name recognition and sell their products through broad and well established distribution channels. Additionally, we believe that a number of our significant competitors offer mattress products claimed to be similar to our TEMPUR® mattresses and pillows. We provide strong channel profits to our retailers and distributors which management believes will continue to provide an attractive business model for our retailers and discourage them from carrying competing lower-priced products.

Significant Growth Opportunities—We believe there are significant opportunities to take market share from the innerspring mattress industry as well as other sleep surfaces. Our market share of the overall mattress industry is relatively small in terms of both dollars and units, which we believe provides us with a significant opportunity for growth. By broadening our brand awareness and offering superior sleep surfaces, we believe consumers will over time adopt our products at an increasing rate, which should expand our market share. However, our business may be affected by general business and economic conditions that could have an impact on demand for our products. Additionally, by expanding distribution within our existing accounts, we believe we hav e the opportunity to grow our business. By extending our product line and our new segmentation of products, we should be able to continue to expand the number of Tempur-Pedic models offered at the retail store level, which should lead to increased sales. Based on this strategy we believe a focus on expanding distribution within our existing accounts provides for continued growth opportunities and market share gains. However, our business may continue to be affected by general business and economic conditions that could have an impact on demand for our products, which could limit our market share and decrease sales. Our products are currently sold in approximately 6,900 furniture and bedding retail stores in the North American segment, out of a total of approximately 11,500 stores we have identified as appropriate targets. Within this addressable market, our plan is to increase our total penetration to a total of 8,000 to 9,000 over time. Our products are also sold in approximately 5,150 furniture r etail and department stores in the International segment, out of a total of approximately 7,000 stores that we have identified as appropriate targets. We are continuing to develop products that are responsive to consumer demand in our markets internationally.

Financial Leverage—As of September 30, 2010, we had $436.0 million of total Long-term debt outstanding, and our Equity attributable to common stockholders was $66.6 million. Higher financial leverage makes us more vulnerable to general adverse competitive, economic and industry conditions. Since December 31, 2007, we have reduced our total debt outstanding by $166.0 million. Our repatriation of foreign earnings in 2008 and 2009, suspension of our quarterly cash dividend and modest debt rebalancing between our North American and International segments, together with productivity improvements and cost containment initiatives enabled us to decrease our financial leverage and increase our financial flexibility. During the first nine months of 2010, we incr eased our total debt by $138.5 million; however our improved financial performance over this period has mitigated the impact of this increased debt on our leverage ratios. We currently are targeting a Funded debt to Adjusted EBITDA ratio between 1.5 to 2.0 times although we may exceed this range on a temporary basis or change the target range. There can be no assurance however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under our 2005 Senior Credit Facility. In May 2008, we entered into an interest rate swap to manage interest costs and the risk associated with changing interest rates. See "ITEM 3. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk" under Part I of this report.

Exchange Rates—As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. We use foreign exchange forward contracts to manage a portion of the risk of the eventual net cash inflows and outflows resulting from foreign currency denominated transactions between Tempur-Pedic subsidiaries and their customers and suppliers, as well as between the Tempur-Pedic subsidiaries themselves. These hedging transactions may not succeed in effectively managing our foreign currency exchange rate risk. We typically do not apply hedge accounting to these contracts. See "ITEM 3. Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Expo sures" under Part I of this report.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and estimates, see "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2009. There have been no material changes to our critical accounting policies and estimates in 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exposures

As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position could fluctuate materially as a result of foreign exchange movements. Should currency rates change sharply, our results could be negatively impacted.

We protect a portion of our currency exchange exposure with foreign currency forward contracts. A sensitivity analysis indicates the potential change in fair value on foreign currency forward contracts outstanding at September 30, 2010, resulting from a hypothetical 10% adverse change in all foreign currency exchange rates against the U.S. dollar, is approximately $0.01 million. Such changes would be largely offset by gains or losses from the revaluation or settlement of the underlying assets and liabilities that are being protected by the foreign currency forward contracts.

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.

Interest Rate Risk

We are exposed to changes in interest rates. Our 2005 Senior Credit Facility has a variable rate. In May 2008, we entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR-based interest rate to 3.755% on $350.0 million of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. As of September 30, 2010 the total notional amount of our interest rate swap agreement is $200.0 million, amortizes to $100.0 million on November 28, 2010 and expires on May 31, 2011.

Interest rate changes 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, 2010, we had variable-rate debt of approximately $236.0 million. Holding other variables constant, including levels of indebtedness, a one hundred basis point increase in interest rates on our variable-rate debt would cause an estimated reduction in income before income taxes for the next year of approximately $2.4 million.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2010 and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9 to the Notes to the Condensed Consolidated Financial Statements in ITEM 1 under Part I of this report for a description of our legal proceedings.

We are involved in various other legal proceedings incidental to the operations of our business. We believe that the outcome of all such pending legal proceedings in the aggregate will not have a materially adverse affect on our business, financial condition, liquidity or operating results.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “ITEM 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

We are subject to a pending tax proceeding in Denmark, and an adverse decision would reduce our liquidity and profitability.

During the fourth quarter of 2007 we received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years and an assessment with respect to the 2004 tax year during the third quarter of 2010. The tax assessments relate to the royalty paid by one of Tempur-Pedic International’s U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $69.3 million including interest and penalties. In the first quarter of 2008 and the third quarter of 2010, we filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pend ing the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. During the third quarter of 2008 we filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and expects to finalize its position during 2011. We believe we have meritorious defenses to the proposed adjustments and will oppose the assessments in the Danish courts, as necessary. It is reasonably possible the amount of unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

The following table sets forth purchases of our common stock for the three months ended September 30, 2010:

Period	(a) Total number of shares purchased	(b) Average Price Paid per Share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
July 1, 2010 – July 31, 2010	—	—	—	—
August 1, 2010 – August 31, 2010	1,018,200	$ 26.75	1,018,200	$ 73.3
September 1, 2010 – September 30, 2010	795,635	$ 28.54	795,635	$ 50.0
Total	1,813,835		1,813,835	

On July 15, 2010, the Board of Directors authorized the repurchase of up to $100.0 million of our common stock. On October 15, 2010 our Board of Directors approved the purchase of an additional $50.0 million of our common stock under the previously approved July 2010 authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

ITEM 6. EXHIBITS

The following is an index of the exhibits included in this report:

10.1	Amended and Restated Employment and Non-Competition Agreement between Tempur-Pedic International Inc. and Brad Patrick effective as of September 1, 2010 (1)
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Tempur-Pedic International Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

(1) Indicates management contract or compensatory plan or arrangement.

* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

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

TEMPUR-PEDIC INTERNATIONAL INC.
(Registrant)

Date: October 28, 2010	By:	/s/ DALE E. WILLIAMS
		Dale E. Williams
		Executive Vice President and Chief Financial Officer

AMENDED & RESTATED EMPLOYMENTAND NON-COMPETITION AGREEMENT
(Brad Patrick)

THIS AMENDED & RESTATED EMPLOYMENT AND NON-COMPETITION AGREEMENT (the "Agreement") is executed as of this 14 day of September, and, except for paragraph 2.3(b), which is effective as of September 14, 2010, is effective as of September 1, 2010 (the "Date of Hire"), by and between Tempur-Pedic International Inc., a Delaware corporation (the "Company"), and Brad Patrick, an individual ("Employee").

In consideration of the premises and the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Company and Employee,

IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE I

EMPLOYMENT

1.1 Term of Employment. Effective as of the Date of Hire, the Company agrees to employ Employee, and Employee accepts employment by the Company, for the period commencing on the Date of Hire and ending on the first anniversary of the Date of Hire (the "Initial Term"), subject to earlier termination as hereinafter set forth in Article III. Unless earlier terminated in accordance with Article III, following the expiration of the Initial Term, this Agreement shall be automatically renewed for successive one-year periods (collectively, the "Renewal Terms"; individually, a "Renewal Term") unless, at least ninety (90) days prior to the expiration of the Initial Term or the then current Renewal Term, either party provides the other with a written notice of intention not to renew, in which case the Employee's employment with the Company, and the Company's obligations hereunder, shall terminate as of the end of the Initial Term or said Renewal Term, as applicable. Except as otherwise expressly provided herein, the terms of this Agreement during any Renewal Term shall be the same as the terms in effect immediately prior to such renewal, subject to any such changes or modifications as mutually may be agreed between the parties as evidenced in a written instrument signed by both the Company and Employee.

1.2 Position and Duties. Employee shall be employed in the position of Executive Vice President, Chief Human Resources Officer or such other executive position as may be assigned from time to time by the Company's Chief Executive Officer; provided that any executive position that does not also include continuing in the role of Chief Human Resources Officer will require the consent of the Employee. In such capacity, Employee shall be subject to the authority of, and shall report to, the Company's Chief Executive Officer. Employee's duties and responsibilities shall include those customarily attendant to Employee's positi on and such other duties and responsibilities as may be assigned from time to time by the Chief Executive Officer. Employee shall devote Employee's entire business time, loyalty, attention and energies exclusively to the business interests of the Company while employed by the Company, and shall perform his duties and responsibilities diligently and to the best of his ability.

1.3 Other Documents. On or prior to the Date of Hire the Employee will execute and deliver to the Company the following: Relocation Assistance Payback Agreement and Corporate Governance Handbook Acknowledgement, each in the form previously furnished by the Company.

ARTICLE II

COMPENSATION AND OTHER BENEFITS

2.1 Base Salary. The Company shall pay Employee an initial annual salary of $330,000.00 (“Base Salary”), payable in accordance with the normal payroll practices of the Company. The Employee’s Base Salary will be reviewed and be subject to adjustment from time to time by the Board of Directors or its Compensation Committee at their discretion in accordance with the Company’s annual review policy. Based on the Company’s current policy, the Company expects Employee’s first annual review would be April 1, 2011.

2.2 Performance Bonus.

(a) Employee will be eligible to earn an annual performance-based bonus based on performance criteria approved by the Company’s Board of Directors or its Compensation Committee for each full or pro rata portion of any fiscal year during which Employee is employed by the Company (each, a “Bonus Year”), the terms and conditions of which as well as Employee’s entitlement thereto being determined annually in the sole discretion of the Company’s Board of Directors or its Compensation Committee (the “Performance Bonus”). The amount of the Performance Bonus will vary based on the achievement of Company and individual performance criteria established by the Company’s Board of Directors or its Compensation Committee, but the performance criteria will be set to target a Performance Bonus equal to a designated percentage of Base Salary as of December 31st of the applicable Bonus Year if the performance criteria are met (the “Target Bonus”).

(b) For 2010, Employee will be entitled to a Performance Bonus that will be pro rated for 2010 based on the Date of Hire. The performance criteria for Employee’s 2010 Performance Bonus will be determined by the Compensation Committee promptly after the date of this Agreement, in accordance with the Company’s Annual Incentive Bonus Plan For Senior Executives, and the performance criteria will be set to target a Performance Bonus equal to 55% of Employee’s Base Salary for 2010.

2.3 Grant of Stock Option

(a) Pursuant to the Tempur-Pedic International Inc. 2003 Equity Incentive Plan, as amended, effective as of the Date of Hire (for purposes of this paragraph, the “Grant Date”) the Employee shall be granted a non-qualified option to purchase shares of the common stock of the Company having a Black-Scholes value of one hundred and fifty thousand dollars ($150,000) on the date of grant, rounded down to the nearest whole share (for purposes o f this paragraph, the “Optioned Shares”) at a purchase price per Optioned Share equal to the closing price on the New York Stock Exchange of the Company’s common stock on the Grant Date. This grant shall vest with respect to thirty three and one third percent (33 1/3%) of the Optioned Shares on each of the first three anniversaries of the Grant Date and shall be made pursuant to a stock option agreement between the Company and Employee in the form attached hereto as Exhibit A.

(b) Pursuant to the Tempur-Pedic International Inc. 2003 Equity Incentive Plan, as amended, effective as of the Date the Board approves the grant (for purposes of this paragraph, the “Grant Date”) the Employee shall be granted a non-qualified option to purchase shares of the common stock of the Company having a Black-Scholes value of two hundred thousand dollars ($200,000) on the date of grant, rounded down to the nearest whole share (for purposes of this paragraph, the “Optioned Shares”) at a purchase price per Optioned Share equal to the closing price on the New York Sto ck Exchange of the Company’s common stock on the Grant Date. This grant shall vest with respect to thirty three and one third percent (33 1/3%) of the Optioned Shares on each of the first three anniversaries of the Grant Date and shall be made pursuant to a stock option agreement between the Company and Employee in the form attached hereto as Exhibit A.

(c) The Company expects that Employee will be considered for an additional stock option grant in April 2011, and annually thereafter, but the timing, amount and terms of any future grants will be subject to the discretion of the Board of Directors or the Compensation Committee.

2.4 Hiring Bonus. As additional consideration for Employee’s agreement to accept employment with the Company, the Company will pay to Employee a one-time bonus of $150,000. This bonus is payable ninety (90) days after the Date of Hire, provided that, as of the date payment would otherwise be made, the Employee is considered an employee of the Company in good standing; and provided further that in the event that, within twelve months of the Date of Hire, Employee is terminated for Cause pursuant to paragraph 3(c) below, or resigns his employment with the Company other than for Good Reason, Employee shall repay to the Company th e entire amount of the bonus described above within thirty (30) days of the termination of Employee's employment.

2.5 Benefit Plans. Employee will be eligible to participate in the Company’s retirement plans that are qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the “Code”), and in the Company’s welfare benefit plans that are generally applicable to all executive employees of the Company (the “Plans”), in accordance with the terms and conditions thereof. A brief description of the Company’s current benefits is contained in Exhibit B her eto.

2.6 Automobile Allowance. The Company shall pay to Employee an automobile allowance of $600.00 per month.

2.7 Vacation. Employee shall be entitled to three weeks (fifteen (15) days) vacation days in the calendar year after the Date of Hire and three weeks (fifteen days) at Employee’s one-year anniversary and each year thereafter, subject to and to be taken in accordance with the Company’s general vacation policies for similarly situated executive employees.

2.8 Relocation Benefits. The Company will provide Employee with relocation assistance in accordance with the policy and other provisions set forth in Exhibit C.

2.9 Expenses. The Company shall reimburse Employee for all authorized and approved expenses incurred in the course of the performance of Employee’s duties and responsibilities pursuant to this Agreement and consistent with the Company’s policies with respect to travel, entertainment and miscellaneous expenses, and the requirements with respect to the reporting of such expenses.

2.10 Withholdings. All payments to be made by the Company hereunder will be subject to any withholding requirements.

ARTICLE III

TERMINATION

3.1 Right to Terminate; Automatic Termination.

(a) Termination by Company Without Cause. Subject to Section 3.2, the Company may terminate Employee's employment and all of the Company's obligations under this Agreement at any time and for any reason.

(b) Termination by Employee for Good Reason. Subject to Section 3.2, Employee may terminate his employment obligation hereunder (but not his obligations under Article IV hereof) for "Good Reason" (as hereinafter defined) if Employee gives written notice thereof to the Company within thirty (30) days of the event he deems to constitute Good Reason (which notice shall specify the grounds upon which such notice is given) and the Company fails, within thirty (30) days of receipt of such notice, to cure or rectify the grounds for such Good Reason termination set forth in such notice. "Good Reason" shall mean any of the following: (i) relocation of Employee' ;s principal workplace over sixty (60) miles from the Company's existing workplaces without the consent of Employee (which consent shall not be unreasonably withheld, delayed or conditioned), or (ii) the Company's material breach of this Agreement or any other written agreement between Employee and the Company which is not cured within thirty (30) days after receipt by the Company from Employee of written notice of such breach.

(c) Termination by Company For Cause. Subject to Section 3.2, the Company may terminate Employee's employment and all of the Company's obligations under this Agreement at any time "For Cause" (as defined below) by giving notice to Employee stating the basis for such termination, effective immediately upon giving such notice or at such other time thereafter as the Company may designate. "For Cause" shall mean any of the following: (i) Employee's willful and continued failure to substantially perform the reasonably assigned duties with the Company which are consistent with Employee's position and job description referred to in thi s Agreement, other than any such failure resulting from incapacity due to physical or mental illness, after a written notice is delivered to Employee by the Board of Directors of the Company which specifically identifies the manner in which Employee has not substantially performed the assigned duties and allowing Employee thirty (30) days after receipt by Employee of such notice to cure such failure to perform, (ii) material breach of this or any other written agreement between Employee and the Company which is not cured within thirty (30) days after receipt by the Employee from the Company of written notice of such breach, (iii) any material violation of any written policy of the Company which is not cured within thirty (30) days after receipt by Employee from the Company of written notice of such violation, (iv) Employee's willful misconduct which is materially and demonstrably injurious to the Company, (v) Employee's conviction by a court of competent jurisdiction of, or hi s pleading guilty or nolo contendere to, any felony, or (vi) Employee's commission of an act of fraud, embezzlement, or misappropriation against the Company or any breach of fiduciary duty or breach of the duty of loyalty, including, but not limited to, the offer, payment, solicitation or acceptance of any unlawful bribe or kickback with respect to the Company's business. For purposes of this paragraph, no act, or failure to act, on Employee's part shall be considered "willful" unless done, or omitted to be done, in knowing bad faith and without reasonable belief that the action or omission was in, or not opposed to, the best interests of the Company. Any act, or failure to act, expressly authorized by a resolution duly adopted by the Board of Directors or based upon the written advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, in good faith and in the best interests of the Company. Notwithst anding the foregoing, Employee shall not be deemed to have been terminated For Cause unless and until there shall have been delivered to Employee a copy of a resolution, duly adopted by the Board of Directors at a meeting of the Board called and held for such purpose (after reasonable notice to Employee and an opportunity for Employee, together with Employee's counsel, to be heard before the Board), finding that in the good faith opinion of the Board of Directors Employee committed the conduct set forth above in (i), (ii), (iii), (iv), (v) or (vi) of this Section and specifying the particulars thereof in detail.

(d) Termination Upon Death or Disability. Subject to Section 3.2, Employee's employment and the Company's obligations under this Agreement shall terminate: (i) automatically, effective immediately and without any notice being necessary, upon Employee's death; and (ii) in the event of the disability of Employee, by the Company giving notice of termination to Employee. For purposes of this Agreement, "disability" means the inability of Employee, due to a physical or mental impairment, for ninety (90) days (whether or not consecutive) during any period of 360 days, to perform, with reasonable accommodation, the essential functions of the work c ontemplated by this Agreement. In the event of any dispute as to whether Employee is disabled, the matter shall be determined by the Company's Board of Directors in consultation with a physician selected by the Company's health or disability insurer or another physician mutually satisfactory to the Company and the Employee. The Employee shall cooperate with the efforts to make such determination or be subject to immediate discharge. Any such determination shall be conclusive and binding on the parties. Any determination of disability under this Section 3.1 is not intended to alter any benefits any party may be entitled to receive under any long-term disability insurance policy carried by either the Company or Employee with respect to Employee, which benefits shall be governed solely by the terms of any such insurance policy. Nothing in this subsection shall be construed as limiting or altering any of Employee's rights under State worker s compensation laws or State or federal Family and Medical Leave laws.

3.2 Rights Upon Termination.

(a) Section 3.1(a) and 3.1(b) Termination. If Employee's employment terminates pursuant to Section 3.1(a) or 3.1(b) hereof, Employee shall have no further rights against the Company hereunder, except for the right to receive, following execution of a release and waiver in form satisfactory to the Company in the case of clauses (ii), (iii) and (v) below, (i) any unpaid Base Salary and the value of any accrued but unused vacation, (ii) a pro-rata portion of any Performance Bonus that would be payable with respect to the Bonus Year in which the termination occurs (based on the number of days of the Bonus Year prior to the effective date of termination and the amount of the Target Bonus set by t he Board of Directors or Compensation Committee for the Employee for such Bonus Year) and whatever rights as to stock options as Employee may have pursuant to any stock option agreement with the Company, (iii) payment of Base Salary for twelve (12) months (the "Severance Period"), payable in accordance with the normal payroll practices of the Company, (iv) reimbursement of expenses to which Employee is entitled under Section 2.9 hereof, and (v) continuation of the welfare plans of the Company as detailed in Section 2.5 hereof for the duration of the Severance Period.

(b) Section 3.1(c) and 3.1(d) Termination. If Employee's employment is terminated pursuant to Sections 3.1(c) or 3.1(d) hereof, or if Employee quits employment (other than for Good Reason) notwithstanding the terms of this Agreement, Employee or Employee's estate shall have no further rights against the Company hereunder, except for the right to receive, following execution of a release and waiver in form satisfactory to the Company in the case of clause (iii) below, (i) any unpaid Base Salary, (ii) in the case of Section 3.1(d) hereof, the value of any accrued but unused vacation, (iii) in the case of Section 3.1(d) hereof, a pro-rata portion (based on the number of days of the Bonus Year prior to the effective date of termination) of any Performance Bonus that would be payable with respect to the Bonus Year in which the termination occurs, and whatever rights as to stock options as Employee may have pursuant to the any stock option agreement with the Company and (iv) reimbursement of expenses to which Employee is entitled under Section 2.9 hereof.

ARTICLE IV

CONFIDENTIALITY; NON-COMPETITION; NON-SOLICITATION

4.1 Covenants Regarding Confidential Information, Trade Secrets and Other Matters. Employee covenants and agrees as follows:

(a) Definitions. For purposes of this Agreement, the following terms are defined as follows:

(1) "Trade Secret" means all information possessed by or developed for the Company or any of its subsidiaries, including, without limitation, a compilation, program, device, method, system, technique or process, to which all of the following apply: (i) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use and (ii) the information is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.

(2) "Confidential Information" means information, to the extent it is not a Trade Secret, which is possessed by or developed for the Company or any of its subsidiaries and which relates to the Company's or any of its subsidiaries' existing or potential business or technology, which information is generally not known to the public and which information the Company or any of its subsidiaries seeks to protect from disclosure to its existing or potential competitors or others, including, without limitation, for example: business plans, strategies, existing or proposed bids, costs, technical developments, existing or proposed research projects, financial or business projections, inv estments, marketing plans, negotiation strategies, training information and materials, information generated for client engagements and information stored or developed for use in or with computers. Confidential Information also includes information received by the Company or any of its subsidiaries from others which the Company or any of its subsidiaries has an obligation to treat as confidential.

(b) Nondisclosure of Confidential Information. Except as required in the conduct of the Company's or any of its subsidiaries' business or as expressly authorized in writing on behalf of the Company or any of its subsidiaries, Employee shall not use or disclose, directly or indirectly, any Confidential Information during the period of his employment with the Company. In addition, following the termination for any reason of Employee's employment with the Company, Employee shall not use or disclose, directly or indirectly, any Confidential Information. This prohibition does not apply to Confidential Information after it has become generally known in the industry in which the Company conducts its business. This prohibition also does not prohibit Employee's use of general skills and know-how acquired during and prior to employment by the Company, as long as such use does not involve the use or disclosure of Confidential Information or Trade Secrets.

(c) Trade Secrets. During Employee's employment by the Company, Employee shall do what is reasonably necessary to prevent unauthorized misappropriation or disclosure and threatened misappropriation or disclosure of the Company's or any of its subsidiaries' Trade Secrets and, after termination of employment, Employee shall not use or disclose the Company's or any of its subsidiaries' Trade Secrets as long as they remain, without misappropriation, Trade Secrets.

(d) Copyright. All copyrightable work by the Employee relating to the Company's business or the business of any subsidiary or affiliate of the Company during the term of the Employee's employment by the Company is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company. If the copyright to any such copyrightable work is not the property of the Company by operation of law, the Employee will, without further consideration, assign to the Company all right, title and interest in such copyrightable work and will assist the Company and its nominees in every way, at the Company's expense, to s ecure, maintain and defend for the Company's benefit, copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and remain the property of the Company whether copyrighted or not.

(e) Exceptions. The provisions of paragraphs (b) and (c) above will not be deemed to prohibit any disclosure that is required by law or court order, provided that Employee has not intentionally taken actions to trigger such required disclosure and the Company is given reasonable prior notice and an opportunity to contest or minimize such disclosure.

4.2 Non-Competition.

(a) During Employment. Except as described in paragraph (c) below, during Employee's employment hereunder, Employee shall not engage, directly or indirectly, as an employee, officer, director, partner, manager, consultant, agent, owner (other than a minority shareholder or other equity interest of not more than 1% of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter) or in any other capacity, in any competition with the Company or any of its subsidiaries.

(b) Subsequent to Employment. Except as described in paragraph (c) below, for a two year period following the termination of Employee's employment for any reason or without reason, Employee shall not in any capacity (whether in the capacity as an employee, officer, director, partner, manager, consultant, agent or owner (other than a minority shareholder or other equity interest of not more than 1% of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter), directly or indirectly advise, manage, render or perform services to or for any person or entity which is engaged in a business competitive to that of the Company or any of its subsidi aries (including without limitation those businesses listed in Appendix A to the form of stock option agreement attached hereto as Exhibit A) within any geographical location wherein the Company or any of its subsidiaries produces, sells or markets its goods and services at the time of such termination or within a one-year period prior to such termination.

4.3 Non-solicitation. For a two year period following the termination of Employee's employment for any reason or without reason, Employee shall not solicit or induce any person who was an employee of the Company or any of its subsidiaries on the date of Employee's termination or within three months prior to leaving his employment with the Company or any of its subsidiaries to leave their employment with the Company.

4.4 Return of Documents. Immediately upon termination of employment, Employee will return to the Company, and so certify in writing to the Company, all the Company's or any of its subsidiaries' papers, documents and things, including information stored for use in or with computers and software applicable to the Company's and its subsidiaries' business (and all copies thereof), which are in Employee's possession or under Employee's control, regardless whether such papers, documents or things contain Confidential Information or Trade Secrets.

4.5 No Conflicts. To the extent that they exist, Employee will not disclose to the Company or any of its subsidiaries any of Employee's previous employer's confidential information or trade secrets. Further, Employee represents and warrants that Employee has not previously assumed any obligations inconsistent with those of this Agreement and that employment by the Company does not conflict with any prior obligations to third parties. In addition, Employee and the Company agree that it is important for any prospective employer to be aware of this Agreement, so that disputes concerning this Agreement can be avoided in the future. Therefore, the Employee agrees that, following termination of employment with the Company, the Company may forward a copy of Article IV of this Agreement (and any related Exhibits hereto) to any future prospective or actual employer, and the Employee releases the Company from any claimed liability or damage caused to the Employee by virtue of the Company's act in making that prospective or actual employer aware of Article IV of this Agreement (and any related Exhibits hereto).

4.6 Agreement on Fairness. Employee acknowledges that: (i) this Agreement has been specifically bargained between the parties and reviewed by Employee, (ii) Employee has had an opportunity to obtain legal counsel to review this Agreement, and (iii) the covenants made by and duties imposed upon Employee hereby are fair, reasonable and minimally necessary to protect the legitimate business interests of the Company, and such covenants and duties will not place an undue burden upon Employee's livelihood in the event of termination of Employee's employment by the Company and the strict enforcement of the covenants contained herein.

4.7 Equitable Relief and Remedies. Employee acknowledges that any breach of this Agreement will cause substantial and irreparable harm to the Company for which money damages would be an inadequate remedy. Accordingly, notwithstanding the provisions of Article V below, the Company shall in any such event be entitled to seek injunctive and other forms of equitable relief to prevent such breach and the prevailing party shall be entitled to recover from the other, the prevailing party's costs (including, without limitation, reasonable attorneys' fees) incurred in connection with enforcing this Agreement, in addition to any other rights or remedies available at law, in equity, by stat ute or pursuant to Article V below.

ARTICLE V

AGREEMENT TO SUBMIT ALL EXISTING OR FUTURE DISPUTES TO BINDING ARBITRATION

The Company and Employee agree that any controversy or claim arising out of or related to this Agreement or Employee's employment with or termination by the Company that is not resolved by the parties shall be settled by arbitration administered by the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. Said arbitration shall be conducted in Lexington, Kentucky. The parties further agree that the arbitrator may resolve issues of contract interpretation as well as law and award damages, if any, to the extent provided by the Agreement or applicable law. The parties agree that the costs of the arbitrator's services shall be borne by the Company. The parties further agree that the arbitra tor's decision will be final and binding and enforceable in any court of competent jurisdiction. In addition to the A.A.A.'s Arbitration Rules and unless otherwise agreed to by the parties, the following rules shall apply:

(a) Each party shall be entitled to discovery exclusively by the following means: (i) requests for admission, (ii) requests for production of documents, (iii) up to fifteen (15) written interrogatories (with any subpart to be counted as a separate interrogatory), and (iv) depositions of no more than six individuals.

(b) Unless the arbitrator finds that delay is reasonably justified or as otherwise agreed to by the parties, all discovery shall be completed, and the arbitration hearing shall commence within five months after the appointment of the arbitrator.

(c) Unless the arbitrator finds that delay is reasonably justified, the hearing will be completed, and an award rendered within thirty (30) days of commencement of the hearing.

The arbitrator's authority shall include the ability to render equitable types of relief and, in such event, any aforesaid court may enter an order enjoining and/or compelling such actions or relief ordered or as found by the arbitrator. The arbitrator also shall make a determination regarding which party's legal position in any such controversy or claim is the more substantially correct (the "Prevailing Party") and the arbitrator shall require the other party to pay the legal and other professional fees and costs incurred by the Prevailing Party in connection with such arbitration proceeding and any necessary court action.

Notwithstanding the foregoing provisions of this Article V, the parties expressly agree that a court of competent jurisdiction may enter a temporary restraining order or an order enjoining a breach of Article IV of this Agreement without submission of the underlying dispute to an arbitrator. Such remedy shall be cumulative and nonexclusive, and shall be in addition to any other remedy to which the parties may be entitled.

ARTICLE VI

GENERAL PROVISIONS

6.1 Notices. Any and all notices provided for in this Agreement shall be given in writing and shall be deemed given to a party at the earlier of (i) when actually delivered to such party, or (ii) when mailed to such party by registered or certified mail (return receipt requested) or sent to such party by courier, confirmed by receipt, and addressed to such party at the address designated below for such party as follows (or to such other address for such party as such party may have substituted by notice pursuant to this Section 6.1):

(a) If to the Company: Tempur-Pedic International Inc.
1713 Jaggie Fox Way
Lexington, KY 40511
Attention: Chief Executive Officer

(b) If to Employee: Brad Patrick
2459 Fawn Lake Circle
Naperville, Illinois 60564

6.2 Entire Agreement. This Agreement, together with the exhibits hereto, contains the entire understanding and the full and complete agreement of the parties and supersedes and replaces any prior understandings and agreements among the parties with respect to the subject matter hereof (including, without limitation, the offer letter, dated July 20, 2010, between the Company and Employee).

6.3 Miscellaneous. This Agreement may be altered, amended or modified only in a writing, signed by both of the parties hereto, except that either party may update its address set forth in Section 6.1 by providing a Notice of the updated address in the manner set forth in Section 6.1. Headings included in this Agreement are for convenience only and are not intended to limit or expand the rights of the parties hereto. References to Sections herein shall mean sections of the text of this Agreement, unless otherwise indicated.

6.4 Assignability. This Agreement and the rights and duties set forth herein may not be assigned by either of the parties without the express written consent of the other party. This Agreement shall be binding on and inure to the benefit of each party and such party's respective heirs, legal representatives, successors and assigns.

6.5 Severability. If any court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then such invalidity or unenforceability shall have no effect on the other provisions hereof, which shall remain valid, binding and enforceable and in full force and effect, and such invalid or unenforceable provision shall be construed in a manner so as to give the maximum valid and enforceable effect to the intent of the parties expressed therein.

6.6 Waiver of Breach. The waiver by either party of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either party.

6.7 Governing Law; Jurisdiction; Construction. This Agreement shall be governed by the internal laws of the Commonwealth of Kentucky, without regard to any rules of construction that would require application of the laws of another jurisdiction. Any legal proceeding related to this Agreement and permitted under Section 4.7 and Article V hereof must be litigated in an appropriate Kentucky state or federal court, and both the Company and the Employee hereby consent to the exclusive jurisdiction of the Commonwealth of Kentucky for this purpose. The parties agree that they have been represented by counsel during the negotiation and execution of this Agreement, and accordingly each par ty waives the application of any law, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party responsible for the drafting thereof.

6.8. Effective Date. The terms and conditions of this Agreement shall be effective as of the Date of Hire. In the event of the failure of Employee to commence his employment with the Company (or at such other date as the Employee and the Company may mutually agree), this Agreement shall be null and void and of no force or effect.

6.9. Tax Compliance.

(a) The Company may withhold from any amounts payable hereunder any amounts required to be withheld under federal, state or local law and any other deductions authorized by Employee. The Company and the Employee agree that they will execute any and all amendments to this Agreement as they mutually agree in good faith may be necessary to ensure compliance with the provisions of Section 409A (together with any implementing regulations, "Section 409A") of the Code while preserving insofar as possible the economic intent of the respective provisions, so that Employee will not be subject to any tax (including interest and penalties) under Section 409A.

(b) For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

(c) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Employee, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(d) Notwithstanding anything to the contrary in this Agreement, if Employee is a "specified employee" as determined pursuant to Section 409A as of the date of Employee's "separation from service" as defined in Treasury Regulation Section 1.409A-1(h) (or any successor regulation) and if any payments or entitlements provided for in this Agreement constitute a "deferral of compensation" within the meaning of Section 409A and cannot be paid or provided in the manner provided herein without subjecting Employee to additional tax, interest or penalties under Section 409A, then any such payment or entitlement which is payable during the first six months following Employee's "separation from service" shall be paid or provided to Employee in a cash lump-sum on the first business day of the seventh calendar month immediately following the month in which Employee's "separation from service" occurs or, if earlier, upon the Employee's death. In addition, any payments or benefits due hereunder upon a termination of Employee's employment which are a "deferral of compensation" within the meaning of Section 409A shall only be payable or provided to Employee (or Employee's estate) upon a "separation from service" as defined in Section 409A. Finally, for the purposes of this Agreement, amounts payable under Section 3.2 shall be deemed not to be a "deferral of compensation" subject to Section 409A to the extent provided in the exceptions in Treasury Regulation Sections 1.409A-1(b)(4) ("short-term deferrals") and (b)(9) ("separation pay plans," including the exception under subparagraph (iii)) and other applicable provisions of T reasury Regulation Section 1.409A-1 – A-6.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year written above.

COMPANY:

TEMPUR-PEDIC INTERNATIONAL INC.

By: /S/ Mark Sarvary

Title: President and CEO

EMPLOYEE:

/S/ Brad Patrick
Brad Patrick

WITNESSED BY:

/S/ Kelly Carter

Date: Sept. 1, 2010

Exhibits:

Exhibit A	Form of Stock Agreement
Exhibit B	Summary of Welfare Benefit Plans
Exhibit C	Relocation Benefits

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Sarvary, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempur-Pedic International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2010

/s/ MARK SARVARY

Mark Sarvary
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dale E. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempur-Pedic International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2010

/s/ DALE E. WILLIAMS

Dale E. Williams
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Tempur-Pedic International Inc. (the “Company”), that, to his knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to such Form 10-Q. A signed o riginal of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: October 28, 2010	By:	/s/ MARK SARVARY
		Mark Sarvary
		President and Chief Executive Officer
Date: October 28, 2010	By:	/s/ DALE E. WILLIAMS
		Dale E. Williams
		Executive Vice President and Chief Financial Officer