UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re	:	**Chapter 11**
SIMMONS BEDDING COMPANY, *et al.*,	:	**Case No. _________ (____)**
Debtors.	:	**(Jointly Administered)**

JOINT PLAN OF REORGANIZATION OF SIMMONS BEDDING COMPANY, *ET AL.* UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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Dated: Wilmington, Delaware
October 13, 2009

Simmons Company, Bedding Holdco Incorporated, Simmons Bedding Company and their domestic subsidiaries, as debtors and debtors in possession in the above-captioned chapter 11 cases, and AOT Bedding Super Holdings, LLC and AOT Bedding Intermediate Holdings, LLC propose the following joint chapter 11 Plan of Reorganization pursuant to section 1121 of title 11 of the United States Code.

SECTION 1. DEFINITIONS AND RULES OF INTERPRETATION

A. Definitions.

Except as expressly provided or unless the context otherwise requires, capitalized terms not otherwise defined herein shall have the meanings ascribed to them in this Article I. Terms defined herein by reference to the Plan Sponsor Agreement are used herein with the meanings assigned to such terms in the Plan Sponsor Agreement without giving effect to any amendments of such agreement. Any term that is used and not defined herein, but is defined in the Bankruptcy Code or the Bankruptcy Rules, shall have the meaning ascribed to it therein. Where the context requires, any definition applies to the plural as well as the singular number:

1.1. ***Administrative Expense Claim*** means any right to payment constituting a cost or expense of administration of any of the Reorganization Cases allowed under sections 503(b), 507(a)(1), or 1114(e) of the Bankruptcy Code, including, without limitation, (i) any actual, necessary costs and expenses, incurred after the Commencement Date, of preserving the Debtors' estates or operating the Debtors' businesses, (ii) any indebtedness or obligations incurred or assumed by the Debtors, as debtors in possession, during the Reorganization Cases, including, without limitation, for the acquisition or lease of property or an interest in property or the rendition of services, (iii) the compensation and reimbursement of expenses of professionals to the extent allowed by Final Order under sections 330 or 503 of the Bankruptcy Code, and (iv) any fees or charges assessed against the estates of the Debtors under section 1930 of chapter 123 of title 28 of the United States Code.

1.2. ***Affiliate*** has the meaning ascribed to such term in section 101(2) of the Bankruptcy Code.

1.3. ***Allowed*** means, with reference to a Claim, (i) a Claim against a Debtor that has been listed by such Debtor in the Schedules, as such Schedules may be amended by the Debtors from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent and for which no contrary proof of claim has been filed, (ii) a Claim that has been timely filed and as to which no objection to allowance or request for estimation has been timely interposed and not withdrawn, or (iii) any Claim expressly allowed by a Final Order or hereunder, *provided* that any Claim that is allowed for the limited purpose of voting to accept or reject the Plan pursuant to an order of the Bankruptcy Court shall not be considered "Allowed" for the purpose of Distributions hereunder; and, *provided, further*, that an "Allowed" Claim shall not include, for purposes of calculating Distributions under the Plan, interest on such Claim from and after the Petition Date, except as provided in section 506(b) of the Bankruptcy Code, any applicable Final Order, or as otherwise expressly set forth in this Plan.

1.4. ***Bankruptcy Code*** means title 11 of the United States Code, as amended from time to time, as applicable to the Reorganization Cases.

1.5. ***Bankruptcy Court*** means the United States Bankruptcy Court for the District of Delaware, or any other court with jurisdiction over the Reorganization Cases, and, to the extent of any reference made under section 157 of title 28 of the United States Code, the unit of such District Court having jurisdiction over the Reorganization Cases under section 151 of title 28 of the United States Code.

1.6. ***Bankruptcy Rules*** means, collectively, the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as amended from time to time, applicable to the Reorganization Cases, and any Local Rules of the Bankruptcy Court.

1.7. ***Bedding Holdco*** means Bedding Holdco Incorporated, a Delaware corporation.

1.8. ***Business Day*** means any day other than a Saturday, a Sunday, or any other day on which banking institutions in New York, New York are required or authorized to close by law or executive order.

1.9. ***Cash*** means legal tender of the United States of America.

1.10. ***Claim*** has the meaning set forth in section 101(5) of the Bankruptcy Code.

1.11. ***Class*** means any group of Claims or Equity Interests classified by the Plan of Reorganization pursuant to section 1122(a)(1) of the Bankruptcy Code.

1.12. ***Class 5 Residual Amount*** means $5,000,000 less an amount equal to one-third of the Restructuring Expenses in excess of $42,125,000, as determined pursuant to Section 5.6 herein, provided that the Class 5 Residual Payment shall not be less than $0.

1.13. ***Class 6 Excess Amount*** means the amount by which the Restructuring Expenses are less than $37,125,000, as determined pursuant to Section 5.6 herein.

1.14. ***Class 6 Parent Stock*** means shares of the Class A membership interests issued by AOT Bedding Super Holdings, LLC, having the rights and privileges described in the Equity Term Sheet attached hereto as Exhibit A.

1.15. ***Class 6 Residual Amount*** means $5,000,000 less an amount equal to one-third of the Restructuring Expenses in excess of $42,125,000, as determined pursuant to Section 5.6 herein, provided that the Class 6 Residual shall not be less than $0.

1.16. ***Commencement Date*** means [ ], 2009.

1.17. ***Confirmation Date*** means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order.

1.18. ***Confirmation Order*** means the order of the Bankruptcy Court confirming the Plan of Reorganization pursuant to section 1129 of the Bankruptcy Code.

1.19. ***Debtors*** means, collectively, Holdco, Bedding Holdco, SBC, The Simmons Manufacturing Co., LLC, Windsor Bedding Co., LLC, World of Sleep Outlets, LLC, Simmons Contract Sales, LLC, Dreamwell, Ltd., Simmons Capital Management, LLC, and Simmons Export Co. (each individually a "Debtor," and, when the context so requires, in its capacity as a debtor and debtors in possession under sections 1107 and 1108 of the Bankruptcy Code). When the term "Debtors" is used with respect to periods after the Effective Date, "Debtors" shall mean the "Reorganized Debtors."

1.20. ***Debtors in Possession*** means the Debtors in their capacity as debtors in possession in the Reorganization Cases pursuant to sections 1101, 1107(a), and 1108 of the Bankruptcy Code.

1.21. ***DIP Facility*** means the debtor in possession credit facility, dated as of [____________,] 2009, among the Debtors in Possession, Deutsche Bank Trust Company Americas, as administrative agent and collateral agent, and the lenders party thereto.

1.22. ***Disbursing Agent*** means any entity (including any applicable Debtor if it acts in such capacity) in its capacity as a disbursing agent under section 6.3 hereof.

1.23. ***Disputed Claim*** means any Claim that has not been Allowed, provided that any Claim asserted against the Debtors that has been disallowed or expunged by the Bankruptcy Court or withdrawn by the entity asserting such Claim shall, at that point, no longer be a Claim against the Debtors.

1.24. ***Effective Date*** means a Business Day on or after the Confirmation Date specified by the Debtors on which (i) no stay of the Confirmation Order is in effect and (ii) the conditions to the effectiveness of the Plan of Reorganization specified in section 9 hereof have been satisfied or waived.

1.25. ***Equity Interest*** means any equity security (as defined in section 101(16) of the Bankruptcy Code) or general or limited partnership interest in any of the Debtors.

1.26. ***Final Order*** means an order or judgment of the Bankruptcy Court entered by the Clerk of the Bankruptcy Court on the docket in the Reorganization Cases, no portion of which has been reversed, vacated, or stayed and as to which (i) the time to appeal, petition for *certiorari*, or move for a new trial, reargument, or rehearing has expired and as to which no appeal, petition for *certiorari*, or other proceedings for a new trial, reargument, or rehearing shall then be pending, or (ii) if an appeal, writ of *certiorari*, new trial, reargument, or rehearing thereof has been sought, such order or judgment of the Bankruptcy Court shall have been affirmed by the highest court to which such order was appealed, or *certiorari* shall have been denied, or a new trial, reargument, or rehearing shall have been denied or resulted in no modification of such order, and the time to take any further appeal, petition for *certiorari* or move for a new trial, reargument, or rehearing shall have expired; *provided*, *however*, that the possibility that a motion under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order shall not cause such order to not be a Final Order.

1.27. ***General Unsecured Claim*** means an unsecured Claim other than an SBC Note Claim or a Holdco Note Claim that is not entitled to priority under section 507 of the Bankruptcy Code, including the claims of suppliers and other vendors, landlords with prepetition rent claims and/or claims based on rejection of leases, litigation claimants to the extent not covered by insurance, parties to contracts with the Debtors that are being rejected, deficiency claims of mortgage lenders, and other general unsecured claimants.

1.28. ***Holdco*** means Simmons Company.

1.29. ***Holdco Note Claims*** means all Claims against Holdco arising under Holdco's 10% Senior Discount Notes due 2014.

1.30. ***Holdco Subordinated Guaranty Claims*** means all Claims against Holdco arising under that certain Supplemental Indenture, dated as of December 29, 2005, pursuant to which Holdco guarantied the SBC Note Claims. Pursuant to the indenture governing the SBC Note Claims, Claims arising under such guaranty are expressly subordinated to senior indebtedness of Holdco, which includes the Holdco Note Claims.

1.31. ***Impaired*** means, with reference to a Claim or Equity Interest, that the treatment of such Claim or Equity Interest under the Plan does not satisfy the requirements specified in either subsection 1124(1) or 1124(2) of the Bankruptcy Code.

1.32. ***Intercompany Claim*** means (i) any account reflecting intercompany book entries by or against any Debtor with respect to any Affiliate, (ii) any Claim that is not reflected in such book entries and is held by or against any Debtor with respect to any Affiliate or (iii) Claims arising under any contract or other agreement between any Debtor and its Affiliate.

1.33. ***IRB Claims*** means the Claims arising under that certain Placement Contract, dated as of December 23, 1996 (as may be or has been amended, modified or supplemented to date), by and among the City of Shawnee, Kansas, The Simmons Manufacturing Co., LLC (by assignment from Simmons Company), and SunTrust Bank, Atlanta, as placement agent.

1.34. ***New ABL Financing*** means [the new asset based revolving credit agreement provided by Wells Fargo Foothill].

1.35. ***New Common Stock*** means 1,000,000 shares of common stock of Bedding Holdco authorized for issuance under Section 5.17 of the Plan.

1.36. ***New Notes*** means SBC's 11.25% senior secured notes due 2015. The New Notes are governed by that certain New Notes Indenture, the form of which is set forth in the Plan Supplement.

1.37. ***New Notes Financing*** means the $425,000,000 of exit financing on the terms and conditions of that certain Commitment to Purchase, dated as of September 24, 2009, among AOT Bedding Intermediate Holdings LLC and various Commitment Parties (as defined therein), including all exhibits and other attachments thereto, to finance the transactions set forth in the Plan and the Plan Sponsor Agreement and to provide post Effective Date funding for the Reorganized Debtors' working capital requirements.

1.38. ***New Notes Indenture*** means that certain indenture, dated as of the Effective Date, in the form set forth in the Plan Supplement.

1.39. ***New Notes Indenture Documents*** has the meaning set forth in Section 5.15 herein.

1.40. ***New Notes Purchasers*** means the holders from time to time of the New Notes in respect of the New Notes Financing.

1.41. ***New Securities and Documents*** has the meaning set forth in Section 5.13 herein.

1.42. ***Other Priority Claim*** means any Claim against any of the Debtors other than an Administrative Expense Claim or a Priority Tax Claim, entitled to priority in payment as specified in section 507(a)(3), (4), (5), (6), (7), or (9) of the Bankruptcy Code.

1.43. ***Other Secured Claim*** means any Secured Claim other than SBC Credit Agreement Claims.

1.44. ***Person*** means an individual, partnership, corporation, limited liability company, cooperative, trust, unincorporated organization, association, joint venture, government or agency or political subdivision thereof or any other form of legal entity.

1.45. ***Plan*** or ***Plan of Reorganization*** means this joint chapter 11 plan of reorganization, including the exhibits hereto, as the same may be amended or modified from time to time in accordance with the provisions of the Bankruptcy Code and the terms hereof.

1.46. ***Plan Sponsor Agreement*** means that certain Plan Sponsor Agreement, dated as of September 24, 2009, by and among Purchasers, Holdco, Bedding Holdco, SBC, and SBC's subsidiary Debtors.

1.47. ***Plan Supplement*** means the compilation of documents, including any exhibits to the Plan of Reorganization not included herewith, that the Debtors may file with the Bankruptcy Court on or before the date that is five (5) Business Days prior to the commencement of the hearing to confirm the Plan.

1.48. ***Priority Tax Claim*** means any Claim of a governmental unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code that is due and payable on or before the Effective Date. Any Claims asserted by a governmental unit on account of penalties shall not be Priority Tax Claims.

1.49. ***Purchasers*** means AOT Bedding Super Holdings, LLC, a Delaware limited liability company and its wholly-owned subsidiary, AOT Bedding Intermediate Holdings, LLC, a Delaware limited liability company.

1.50. ***Purchaser Approval*** means, with respect to any action, that the action is taken in consultation with the Purchasers and the Purchasers have consented thereto, such consent not to be unreasonably withheld or delayed in the case of any action that is reasonably necessary for the consummation of the transactions specified in the Plan. Without limiting the generality of the foregoing, the Purchasers may withhold their consent in their sole discretion to any action that (i) would materially and adversely affect the Purchasers, the Reorganized Debtors or their Subsidiaries at and after Closing, or the rights and remedies of the Purchasers under the Plan Sponsor Agreement, Plan Sponsor Order, Confirmation Order, or Plan or (ii) would have the effect of (A) increasing any amount payable by or any liabilities of the Purchasers or their Affiliates (other than the Reorganized Debtors or their Subsidiaries), (B) the Purchasers paying (or incurring any liability to pay) from funds or property that would otherwise be available to the Reorganized Debtors any consideration to any creditor or equity holder of the Debtors impaired by the Plan other than (1) distributions specified in the Plan as in effect on the date hereof and (2) Restructuring Expenses, (C) changing or preventing the satisfaction of any condition to the effectiveness of the Plan, or (D) modifying or amending the terms and conditions of the Plan Sponsor Agreement or any other agreement signed by any Purchaser, Sponsor, or their respective Affiliates.

1.51. ***Reorganization Cases*** means the above-captioned, jointly administered cases under chapter 11 of the Bankruptcy Code.

1.52. ***Reorganized Bedding Holdco*** means Bedding Holdco, as reorganized on and after the Effective Date (including any successor corporation, partnership or limited liability company by merger).

1.53. ***Reorganized Debtors*** means the Debtors, as reorganized on and after the Effective Date in accordance with the terms of the Plan of Reorganization.

1.54. ***Reorganized SBC*** means Simmons Bedding Company, as reorganized on and after the Effective Date (including any successor corporation, partnership or limited liability company by merger).

1.55. ***Restructuring Expenses*** has the meaning assigned to that term in the Plan Sponsor Agreement.

1.56. ***SBC*** means Simmons Bedding Company, a Delaware corporation.

1.57. ***SBC Credit Agreement Claims*** means all Claims (including all Secured Obligations and Hedge Agreements as defined in the Pledge and Security Agreement referenced below) against the Debtors arising under (x) the Second Amended and Restated Credit and Guaranty Agreement, dated as of May 25, 2006, as has been or may be further amended, restated, supplemented or otherwise modified from time to time, among (i) Simmons Bedding Company, as borrower, (ii) Bedding Holdco Incorporated, The Simmons Manufacturing Co., LLC, World of Sleep Outlets, LLC, Simmons Contract Sales, LLC, Windsor Bedding Co., LLC, Simmons Export Co., Dreamwell Ltd., and Simmons Capital Management, LLC, as guarantors, (iii) Deutsche Bank AG, New York Branch, as administrative agent (the "***Prepetition Agent***"), and (iv) the other lenders and issuing banks from time to time, parties thereto (the "***SBC Credit Agreement***") (y) the Pledge and Security Agreement, dated as of December 19, 2003, and each other Collateral Document (as defined in the SBC Credit Agreement), in each case, as has been or may be further amended, restated, supplemented or otherwise modified from time to time, among SBC, the guarantors party thereto and the Prepetition Agent, and (z) any bilateral letter of credit arrangements among the Debtors and the Prepetition Agent in its individual capacity that are collateralized by Cash.

1.58. ***SBC Note Claims*** means all Claims against SBC arising under SBC's 7.875% Senior Subordinated Notes due 2014 and all Claims against SBC's Debtor subsidiaries for guarantying the Claims against SBC.

1.59. ***Schedules*** means the schedules of assets and liabilities and the statement of financial affairs filed by the Debtors under section 521 of the Bankruptcy Code, Bankruptcy Rule 1007, and the Official Bankruptcy Forms of the Bankruptcy Rules as such schedules and statements have been or may be supplemented or amended from time to time through the Confirmation Date.

1.60. ***Secured Claim*** means a Claim, the amount of which (i) has been determined by a Final Order to be secured pursuant to section 506(a) and, if applicable, section 1111 of the Bankruptcy Code or (ii) in the absence of such Final Order, has been agreed by the Debtors to be secured (as set forth in the Plan or otherwise).

1.61. ***Simmons Group*** means (i) the affiliated group of corporations, within the meaning of Section 1504 of the Tax Code, of which Bedding Superholdco Incorporated is the common parent, and (ii) any other group of corporations filing consolidated, combined or unitary tax returns for state or local tax purposes of which Bedding Superholdco Incorporated is the common parent.

1.62. ***Tax Code*** means the Internal Revenue Code of 1986, as amended from time to time, and the Treasury regulations promulgated thereunder.

1.63. ***Unimpaired*** means, with reference to a Claim or Equity Interest, that the treatment of such Claim or Equity Interest under the Plan satisfies the requirements specified in either subsection 1124(1) or 1124(2) of the Bankruptcy Code.

B. **Rules of Interpretation; Application of Definitions and Rules of Construction.**

Unless otherwise specified, all section or exhibit references in the Plan of Reorganization are to the respective section in, or exhibit to, the Plan of Reorganization, as the same may be amended or modified from time to time. The words "herein," "hereof," "hereto," "hereunder," and other words of similar import refer to the Plan of Reorganization as a whole and not to any particular section, subsection, or clause contained therein. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the Plan of Reorganization. The headings in the Plan of Reorganization are for convenience of reference only and shall not limit or otherwise affect the provisions hereof.

SECTION 2. **ADMINISTRATIVE EXPENSE AND PRIORITY CLAIMS**

2.1. *Administrative Expense Claims.*

Except to the extent that a holder of an Allowed Administrative Expense Claim agrees to a different treatment, the Debtors shall pay to such holder Cash in an amount equal to such Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date or (ii) the first Business Day after the date that is thirty (30) calendar days after the date such Administrative Expense Claim becomes Allowed; *provided, however*, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business by the Debtors, as debtors in possession, or liabilities arising under loans, advances, or other financial accommodations made to or other obligations incurred by the Debtors, as debtors in possession, whether or not incurred in the ordinary course of business, shall be paid by the Debtors in the ordinary course of business, consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

2.2. ***Compensation and Reimbursement Claims.***

All entities seeking an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under section 503(b)(2), 503(b)(3), 503(b)(4), or 503(b)(5) of the Bankruptcy Code (i) shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the date that is forty-five (45) days after the Effective Date, (ii) shall be paid in full from the Debtors' or Reorganized Debtors' Cash on hand in such amounts as are allowed by the Bankruptcy Court (A) on the later of (x) the Effective Date, or (y) within five (5) Business Days after the date on which the order approving such Allowed Administrative Expense Claim is entered, or (B) on such other terms as may be mutually agreed on between the holder of such an Allowed Administrative Expense Claim and the Debtors or, on and after the Effective Date, the Reorganized Debtors. The Reorganized Debtors are authorized to pay compensation for services rendered or reimbursement of expenses incurred after the Confirmation Date and until the Effective Date in the ordinary course and without the need for Bankruptcy Court approval.

2.3. ***Priority Tax Claims.***

Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, at the option of the Debtors or the Reorganized Debtors, but subject to Purchaser Approval, (i) Cash in an amount equal to such Allowed Priority Tax Claim on, or as soon thereafter as is reasonably practicable, the later of the (a) Effective Date or (b) first Business Day after the date that is thirty (30) calendar days after the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or (ii) equal annual Cash payments in an aggregate amount equal to such Allowed Priority Tax Claim, together with interest at the applicable rate under section 511 of the Bankruptcy Code, over a period not exceeding five (5) years after the date of assessment of such Allowed Priority Tax Claim. The Debtors reserve the right to prepay an Allowed Priority Tax Claim at any time under this option. All Allowed Priority Tax Claims that are not due and payable on or before the Effective Date shall be paid in the ordinary course of business as such obligations become due.

2.4. ***DIP Financing Claims***

Debtors shall pay or cause the payment in Cash on the Effective Date of all amounts outstanding under the DIP Facility approved by the Bankruptcy Court, which payment shall terminate any such agreement other than the provisions thereof that expressly survive termination. On the Effective Date, the Debtors shall either replace or backstop any letters of credit issued thereunder with new letters of credit or provide Cash as collateral for the outstanding obligations under the DIP Facility with respect thereto, in each case, in accordance with the terms of the DIP Facility. On such payment, all of the Debtors' respective obligations, liabilities and indebtedness in respect of the DIP Facility and all liens and security interests securing the same shall be satisfied, discharged, and terminated in full, and the Reorganized Debtors shall have no further obligations, liabilities or indebtedness under the DIP Facility or any documents relating thereto other than the provisions thereof that expressly survive termination and with respect to arrangements relating to letters of credit that are either backstopped or collateralized by Cash as provided in the second sentence of this Section 2.4.

SECTION 3. CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

The following table designates the Classes of Claims against and Equity Interests in the Debtors and specifies which of those Classes are (i) Impaired or Unimpaired by the Plan of Reorganization, (ii) entitled to vote to accept or reject the Plan of Reorganization, and (iii) deemed to accept or reject the Plan of Reorganization. A Claim or Equity Interest is designated in a particular class only to the extent it falls within the description of that class, and is classified in any other class to the extent that a portion thereof falls within the description of such other class.

Classes 4A - 4I consist of SBC Credit Agreement Claims against SBC and guaranty claims against Bedding Holdco and each of SBC's debtor subsidiaries. Classes 5A – 5H consist of SBC Note Claims against SBC and the Claims against each of SBC's debtor subsidiaries for guarantying the SBC Note Claims. Class 6 consists of the Holdco Note Claims and the Holdco Subordinated Guaranty Claims. Classes 7A - 7H consist of General Unsecured Claims against SBC and its debtor subsidiaries.

Class	Designation	Treatment	Entitled to Vote
1	Other Priority Claims	Unimpaired	No (deemed to accept)

2	IRB Claims	Unimpaired	No (deemed to accept)
3	Other Secured Claims	Unimpaired	No (deemed to accept)
4A – 4I	SBC Credit Agreement Claims	Impaired	Yes
5A – 5H	SBC Note Claims	Impaired	Yes
6	Holdco Claims	Impaired	Yes
7A – 7H	General Unsecured Claims	Unimpaired	No (deemed to accept)
8	Equity Interests in SBC	Impaired	No (deemed to reject)
9	Equity Interests in Bedding Holdco	Impaired	Yes
10	Equity Interests in Holdco	Impaired	No (deemed to reject)

SECTION 4. TREATMENT OF CLAIMS AND EQUITY INTERESTS

Except as otherwise specified in the Plan, all distributions will be made on the Effective Date or as soon thereafter as practical.

4.1. *Other Priority Claims (Class 1).*

Except to the extent that a holder of an Allowed Other Priority Claim (i) has been paid by a Debtor, in whole or in part, prior to the Effective Date or (ii) agrees to a less favorable treatment, each holder of an Allowed Other Priority Claim shall receive, in full satisfaction, settlement, release, and discharge of, and in exchange for such Other Priority Claim, Cash in the full amount of such Allowed Other Priority Claim.

4.2. *IRB Claims (Class 2).*

The IRB Claims shall be reinstated and Unimpaired in accordance with section 1124(2) of the Bankruptcy Code.

4.3. *Other Secured Claims (Class 3).*

Except to the extent that a holder of an Allowed Other Secured Claim agrees to a less favorable treatment, at the option of the Debtors, but subject to Purchaser Approval, (i) each Allowed Other Secured Claim shall be reinstated and Unimpaired in accordance with section 1124(2) of the Bankruptcy Code, or (ii) each holder of an Allowed Other Secured Claim shall receive, in full satisfaction, settlement, release, and discharge of, and in exchange for, such Other Secured Claim, either (w) Cash in the full amount of such Allowed Other Secured Claim, including any postpetition interest accrued pursuant to section 506(b) of the Bankruptcy Code, (x) the proceeds of the sale or disposition of the collateral securing such Allowed Other Secured Claim to the extent of the value of the holder's secured interest in such collateral, (y) the collateral securing such Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the

Bankruptcy Code, or (z) such other distribution as necessary to satisfy the requirements of section 1129 of the Bankruptcy Code.

4.4. ***SBC Credit Agreement Claims (Class 4A-4I).***

For purposes of the Plan, the Claims in Class 4A-4I are Allowed in the amount of $542,281,142. Each holder of an Allowed SBC Credit Agreement Claim shall receive, in full satisfaction of such Claim, Cash from SBC equal to the Allowed amount of such Claim, plus accrued interest at the contractual non-default rate and other amounts through the Effective Date. Each letter of credit outstanding on the Effective Date that would give rise to a SBC Credit Agreement Claim either shall be replaced with a new letter of credit under the New ABL Facility or shall be collateralized by Cash on or before the Effective Date in accordance with the restated SBC Credit Agreement for the SBC Credit Agreement Claims or any other applicable bilateral agreements.

4.5. ***SBC Note Claims (Class 5A-H).***

For purposes of the Plan, the Claims in Class 5A-H are Allowed in the amount of $221,767,758. Each holder of an Allowed SBC Note Claim against SBC and SBC's debtor subsidiaries shall receive from SBC, in full satisfaction of such Claim, its pro rata share of Cash in the amount of (i) $185,000,000 plus (ii) the Class 5 Residual Amount.

4.6. ***Holdco Claims (Class 6).***

For purposes of the Plan, the Claims in Class 6 are Allowed in the amount of $298,775,125 which consists of $267,007,367 for the Holdco Note Claims and $31,767,758 for the Holdco Subordinated Guaranty Claims. Each holder of an Allowed Claim in Class 6 shall receive from Holdco, in full satisfaction of such Claim, its pro rata share of Cash in an amount equal to (i) $10,000,000 plus (ii) the Class 6 Residual Amount plus (iii) the Class 6 Excess Amount, *provided, however,* that pursuant to section 510(a) of the Bankruptcy Code, the contractual subordination of the Holdco Subordinated Guaranty Claims to the Holdco Note Claims shall be enforced and all distributions to which holders of Allowed Holdco Subordinated Guaranty Claims are entitled under this Section shall be made pro rata to holders of Allowed Holdco Note Claims.

In addition, each holder of an Allowed Claim in Class 6 who is entitled to receive a Cash distribution under this Section and who is (a) a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) or an affiliated fund of a "qualified institutional buyer," (b) an "accredited investor" (as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended), and (c) not an "underwriter" as defined in Section 1145(b) of the Bankruptcy Code, shall have the right to use all but not part of its distribution under clause (i) and clause (ii) (but not clause (iii)) of the previous paragraph to purchase shares of Class 6 Parent Stock at a price per share equal to the per share subscription price paid for Class A membership interests in AOT Beddings Super Holdings, LLC by Parent, as calculated pursuant to the terms set forth on the Equity Term Sheet attached hereto as Exhibit A; provided, however, that in order to avoid AOT Beddings Super Holdings LLC becoming a public reporting company, the holders of the 400 largest Allowed Holdco Note Claims electing and eligible to purchase Class 6 Parent Stock shall be the only holders entitled to purchase such shares. Holders entitled to purchase shares of Class 6 Parent Stock shall make such election on the ballot to accept the Plan, and such election shall be subject to the accuracy of the representations and warranties as to securities law matters described on the ballot. No fractional shares of Class 6 Parent Stock shall be issued or distributed under the Plan. Each holder electing to purchase Class 6 Parent Stock shall receive the total number of whole shares of Class 6 Parent Stock to which such Person is entitled, and Cash in lieu of any fraction of a share.

4.7. *General Unsecured Claims (Class 7A-7H).*

Except to the extent that a holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, the claims in Class 7A-7H are Unimpaired. Holders of trade payables in the ordinary course as of the Effective Date shall receive payment after the Effective Date on customary payment terms consistent with past practice, except as any such holder and the applicable Reorganized Debtor shall otherwise agree.

4.8. *Equity Interests in SBC (Class 8).*

The holder of Equity Interests in Class 8 shall receive no property under the Plan and such Equity Interests shall be cancelled as of the Effective Date.

4.9. *Equity Interests in Bedding Holdco (Class 9).*

The holder of Equity Interests in Class 9 shall receive Cash (i) in an amount equal to $10,000,000 plus (ii) the Class 6 Residual Amount, solely for distributions to holders of Allowed Claims in Class 6 in accordance with the treatment of such Class under Section 4.6 hereof. The Equity Interests in Class 9 shall be cancelled as of the Effective Date.

4.10. *Equity Interests in Holdco (Class 10).*

The holder of Equity Interests in Class 10 shall receive no property under the Plan and such Equity Interests shall be cancelled as of the Effective Date.

SECTION 5. **MEANS FOR IMPLEMENTATION**

5.1. *Effect of Distribution to Creditors.*

Except as specifically provided herein, all Plan distributions made to creditors holding Allowed Claims in any Class are intended to be and shall be final, and no Plan distribution to the holder of a Claim in one Class shall be subject to being shared with or reallocated to the holders of any Claim in another Class by virtue of any prepetition collateral trust agreement, shared collateral agreement, subordination agreement, or other similar inter-creditor arrangement.

5.2. *Joint Chapter 11 Plan.*

The Plan is a joint chapter 11 plan for each of the Debtors, with the Plan for each Debtor being non-severable and mutually dependent on the Plan for each other Debtor.

5.3. *Continued Corporate Existence.*

On or after the Effective Date, Holdco may, in its discretion, liquidate or, with the agreement of Purchasers, merge into any of the other Reorganized Debtors. Except as provided herein, each Debtor will, as a Reorganized Debtor, continue to exist after the Effective Date as a separate corporate or limited liability entity with all the powers of a corporation under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, dissolution, or otherwise) under applicable state law. On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire, and dispose of property and compromise or settle claims without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan of Reorganization or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs on or after the date the Confirmation Order is entered for professional fees and expenses, disbursements, expenses related to support services (including fees relating to the preparation of professional fee applications) without application to, or approval of, the Bankruptcy Court. Windsor Bedding Co., LLC, one of the above-captioned Debtors which has no assets, shall be dissolved as soon as practical after the Effective Date.

5.4. ***Plan Sponsor Agreement.***

The Plan Sponsor Agreement previously has been approved by the Bankruptcy Court. In accordance with the Plan Sponsor Agreement, the Debtors shall issue and sell to the Purchasers and the Purchasers shall purchase all the shares of New Common Stock on the Effective Date for the purchase price specified therein.

5.5. ***Investment in Reorganized SBC.***

On the Effective Date, Reorganized Bedding Holdco shall invest the Cash it receives from Purchasers pursuant to the Plan Sponsor Agreement in Reorganized SBC in exchange for 100% of the newly issued common stock of Reorganized SBC.

5.6. ***Determination of Class 5 and Class 6 Residual Payments.***

The Reorganized Debtors shall (i) follow the procedures specified in Section 2.3 of the Plan Sponsor Agreement to determine the amount of the Restructuring Expenses, (ii) use such amount to calculate the Class 5 Residual Payment, the Class 6 Excess Amount, and the Class 6 Residual Payment, and (iii) distribute such amounts in accordance with Sections 4.5 and 4.6 of the Plan.

5.7. ***Payment of Certain Fees and Expenses.***

On the Effective Date, the Reorganized Debtors shall pay the reasonable fees and expenses of the (i) administrative agent under the DIP Facility and the restated Credit and Guaranty Agreement for the SBC Credit Agreement Claims, (ii) the respective indenture trustees for the holders of the SBC Note Claims and the Holdco Note Claims, (iii) counsel to DDJ Capital Management, LLC and its affiliates and accounts and Farallon Capital Management, L.L.C. and its affiliates and accounts, (iv) counsel and financial advisor to JP Morgan Asset Management, MSD SBI, L.P., and Oaktree Capital Management, L.P. (on behalf of various funds and accounts) and (v) counsel to the directors of the Debtors.

5.8. ***Cancellation of Agreements and Securities.***

Except (i) for purposes of evidencing a right to distributions under the Plan, (ii) with respect to executory contracts and unexpired leases assumed by the Debtors with Purchaser Approval, or (iii) otherwise as provided herein, all the agreements and other documents evidencing the Claims (other than with respect to Claims in Classes 7A – 7H), Equity Interest, or rights of any holder of a Claim or Equity Interests Impaired under the Plan shall be cancelled on the Effective Date, *provided, however*, that the indenture governing the SBC Note Claims, the indenture governing the Holdco Note Claims and the credit agreement governing the SBC Credit Agreement Claims shall continue in effect solely for the purposes of (a) allowing the indenture trustee or administrative agent, as applicable, to make distributions on account of Classes 4, 5 and 6 respectively, and to perform such other necessary administrative functions with respect thereto and (b) permitting such parties to maintain any rights or liens they may have for fees, costs, and expenses thereunder.

5.9. ***Directors and Executive Officers.***

On the Effective Date, the term of each member of the current Boards of Directors of Bedding Holdco and SBC shall automatically expire. The size and composition of the board of directors of Reorganized Bedding Holdco and Reorganized SBC on and after the Effective Date have not been determined, but will consist of certain individuals to be designated by the Purchasers prior to the hearing to confirm the Plan. The persons serving as executive officers of Bedding Holdco and SBC immediately before the Effective Date shall maintain their current positions after the Effective Date, subject to new employment agreements or arrangements as set forth in the Plan Supplement.

5.10. ***Management Incentive Plan.***

Reorganized Bedding Holdco and Reorganized SBC shall adopt the new management incentive plan set forth in the Plan Supplement.

5.11. ***Effectuating Documents; Further Transactions.***

The chairman of the board of directors, president, chief financial officer, any executive vice-president or senior vice-president, or any other appropriate officer of each Debtor shall be authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents, and take such other actions, as may be necessary/ or appropriate, to effectuate and further evidence the terms and conditions of the Plan of Reorganization. The secretary or assistant secretary of the appropriate Debtor shall be authorized to certify or attest to any of the foregoing actions.

5.12. ***Sources of Consideration for Plan Distributions.***

Except as otherwise provided in the Plan of Reorganization or the Confirmation Order, all consideration necessary for the Reorganized Debtors to make payments pursuant to the Plan shall be obtained from the existing Cash balances of the Debtors, the purchase price specified in the Plan Sponsor Agreement, the New ABL Financing, the New Notes Financing, the issuance of the New Common Stock, and the operations of the Debtors or the Reorganized Debtors. The Reorganized Debtors may also make such payments using Cash received from their subsidiaries through the Reorganized Debtors' consolidated cash management systems.

5.13. ***Intercompany Claims.***

Except as otherwise expressly provided in the Plan of Reorganization to the contrary, on the Effective Date, the Intercompany Claims of Debtors against Debtors and their Affiliates shall be reinstated or discharged and satisfied at the option of Reorganized SBC by contributions, distributions or otherwise.

5.14. ***Issuance of New Securities and Related Documentation.***

On, or as soon as reasonably practicable after, the Effective Date, Reorganized SBC is authorized to and shall distribute, or cause to be distributed, its new common stock, the New Notes, and any and all other securities, notes, instruments, certificates and other documents or agreements required to be issued, executed or delivered pursuant to the Plan of Reorganization (collectively the "***New Securities and Documents***"), in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person. All documents, agreements and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of the Plan of Reorganization, and any other agreement or document related to or entered into in connection with same, shall become, and shall remain, effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person (other than as expressly required by such applicable agreement).

5.15. ***Authorization of New Securities and Plan-Related Documents.***

Each of the Reorganized Debtors is authorized to enter into all agreements necessary for the New ABL Financing and the New Notes Financing. On, or as soon as reasonably practicable after, the Effective Date, Reorganized Bedding Holdco is authorized to and shall distribute, or cause to be distributed, New Common Stock and other New Securities and Documents, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person or any further corporate action. All documents, agreements and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of the Plan of Reorganization, and any other agreement or document related to or entered into in connection with same, shall become, and shall remain, effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person or any further corporate action (other than as expressly required by such applicable agreement).

5.16. ***New Notes Financing.***

On the Effective Date, the Reorganized Debtors shall enter into the New Notes Financing and shall execute and deliver, and are authorized to execute, deliver, file, record and issue the New Notes Indenture and all other related documents (collectively, the "***New Notes Indenture Documents***"), and the Reorganized Debtors and Debtors are further authorized to execute, deliver, file, record and issue any other agreements, instruments or documents reasonably requested by the trustee under the New Notes Indenture to effectuate or memorialize the New Notes Financing, in each case, without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person (other than as expressly required by the New Notes Indenture). Upon the effectiveness of the New Notes Financing in accordance with the terms of the New Notes Indenture Documents, (i) the Debtors or Reorganized Debtors, as applicable, are authorized to perform their obligations thereunder including, without limitation, the payment or reimbursement of any fees, expenses, losses, damages or indemnities, (ii) the New Notes Indenture Documents shall constitute the legal, valid and binding obligations of the Reorganized Debtors which are parties thereto, enforceable in accordance with their respective terms, and (iii) no obligation, payment, transfer or grant of security under the New Notes Indenture Documents shall be stayed, restrained, voidable, or recoverable under the Bankruptcy Code or under any applicable law or subject to any defense, reduction, recoupment, setoff or counterclaim. Confirmation of the Plan shall be deemed approval of the New Notes Financing (including the transactions contemplated thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred by the Reorganized Debtors and the Debtors in connection therewith, including the payment of all fees, indemnities, and expenses provided for therein) and authorization for the Reorganized Debtors to enter into and execute the New Notes Indenture Documents. The Reorganized Debtors may use the New Notes Financing for any purpose permitted thereunder, including the funding of obligations under the Plan and satisfaction of ongoing working capital needs.

The Debtors and the Reorganized Debtors, as applicable, and the other persons granting any liens and security interests to secure the obligations under the New Notes Indenture Documents are authorized to make all filings and recordings, and to obtain all governmental approvals and consents necessary or desirable to establish and further evidence perfection of such liens and security interests under the provisions of any applicable federal, state, provincial or other law (whether domestic or foreign) (it being understood that perfection shall occur automatically by virtue of the entry of the Confirmation Order without the need for any such filings, recordings, approvals and consents), and will thereafter cooperate to make all other filings and recordings that otherwise would be necessary under applicable law to give notice of such liens and security interests to third parties.

5.17. *New Common Stock.*

Upon the Effective Date, all shares of New Common Stock will be, or will be deemed to be, duly authorized and validly issued and be, or deemed to be, fully paid and non assessable, and issued in compliance with all applicable federal and state securities laws and any preemptive rights or rights of first refusal of any Person, and not listed on any stock exchange or regulated market.

SECTION 6. **DISTRIBUTIONS**

6.1. *Distribution Record Date.*

At the close of business on the Confirmation Date, the transfer ledgers for holders of the Classes of Claims or Equity Interests (other than the New Common Stock) maintained by the Debtors shall be closed, and there shall be no further changes in the record holders of such debt. The Reorganized Debtors and the Disbursing Agent, if any, shall have no obligation to recognize any transfer of any such Claims or Equity Interests occurring after the Confirmation Date and shall be entitled instead to recognize and deal for all purposes under the Plan of Reorganization with only those record holders listed on the transfer ledgers as of the close of business on the Confirmation Date.

6.2. *Date of Distributions.*

Except as otherwise provided herein, distributions and deliveries under the Plan with respect to Allowed Claims shall be made on the Effective Date or as soon thereafter as is practicable. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on or as soon as reasonably practicable after the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

6.3. *Disbursing Agent.*

The Disbursing Agent shall make all distributions required under the Plan of Reorganization, except with respect to a holder of a Claim whose distribution is governed by an indenture or other agreement and is administered by an indenture trustee, agent, or servicer, which distributions shall be deposited with the appropriate indenture trustee, agent, or servicer, who shall deliver such distributions to the holders of Claims in accordance with the provisions of the Plan of Reorganization and the terms of the relevant indenture or other governing agreement.

If the Disbursing Agent is an independent third party designated by the Reorganized Debtors to serve in such capacity (or, in the case of an indenture or other agreement that governs distributions and is administered by an indenture trustee, agent, or servicer), such Disbursing Agent, indenture trustee, agent, or servicer shall receive, without further Bankruptcy Court approval, reasonable compensation for distribution services rendered pursuant to the Plan of Reorganization and reimbursement of reasonable out-of-pocket expenses incurred in connection with such services from the Reorganized Debtors on terms acceptable to the Reorganized Debtors. No Disbursing Agent shall be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court. If otherwise so ordered, all costs and expenses of procuring any such bond shall be paid by the Reorganized Debtors.

6.4. ***Powers of Disbursing Agent.***

The Disbursing Agent shall be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties hereunder, (ii) make all distributions contemplated hereby, and (iii) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court or pursuant to the Plan of Reorganization.

6.5. ***Surrender of Securities or Instruments.***

Except with respect to holders of SBC Credit Agreement Claims, as a condition to receiving any distribution under the Plan of Reorganization, each holder of a certificated instrument or note must surrender such instrument or note held by it to the Disbursing Agent or its designee. Any holder of such instrument or note that fails to (i) surrender such instrument or note, or (ii) execute and deliver an affidavit of loss and/or indemnity reasonably satisfactory to the Disbursing Agent and furnish a bond in form, substance, and amount reasonably satisfactory to the Disbursing Agent before the first anniversary of the Effective Date shall be deemed to have forfeited all rights and Claims and may not participate in any distribution hereunder. Any distribution so forfeited shall become property of the Reorganized Debtors.

6.6. ***Delivery of Distributions.***

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made to the Disbursing Agent, the indenture trustee, or the Prepetition Agent for the holders of the SBC Credit Agreement Claims, as the case may be, who shall transmit such distribution to the last known address of the applicable holders of Allowed Claims. In the event that any distribution to any holder is returned as undeliverable, the Disbursing Agent shall use reasonable efforts to determine the current address of such holder, but no distribution to such holder shall be made unless and until the Disbursing Agent has determined the then-current address of such holder, at which time such distribution shall be made to such holder without interest; *provided* that such distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one (1) year from the Effective Date. After such date, all unclaimed property or interest in property shall revert to the Reorganized Debtors, and the Claim of any other holder to such property or interest in property shall be discharged and forever barred.

6.7. *Manner of Payment Under Plan of Reorganization.*

At the option of the Debtors, any Cash payment to be made hereunder may be made by a check, wire transfer, or such other commercially reasonable manner as the payor shall determine in its sole discretion, or as otherwise required or provided in applicable agreements. Any distributions that revert to any of the Reorganized Debtors or are otherwise cancelled (such as to the extent any distributions have not been claimed within one year or are cancelled pursuant to Section 6.6 hereof) shall revest solely in Reorganized SBC.

6.8. *Calculation of Distribution Amounts of New Common Stock.*

No fractional shares of New Common Stock shall be issued or distributed under the Plan. Each Person entitled to receive New Common Stock shall receive the total number of whole shares of New Common Stock to which such Person is entitled. Whenever any distribution to a particular Person would otherwise call for distribution of a fraction of a share of New Common Stock, such number of shares to be distributed shall be rounded down to the nearest whole number.

6.9. *Withholding and Reporting Requirements.*

In connection with the Plan of Reorganization and all distributions thereunder, the Disbursing Agent shall, to the extent applicable as determined in its sole discretion, comply with all tax withholding and reporting requirements imposed by any federal, state, local, or foreign taxing authority, and all distributions under the Plan of Reorganization shall be subject to any such withholding and reporting requirements. The Disbursing Agent shall be authorized to take all actions necessary or appropriate to comply with such withholding and reporting requirements. All persons holding Claims shall be required to provide any information necessary to effect information reporting and the withholding of such taxes. Notwithstanding any other provisions of the Plan of Reorganization to the contrary, (a) each holder of an Allowed Claim shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such distributions, and (b) no distribution shall be made to or on behalf of such holder pursuant to the Plan of Reorganization unless and until such holder has made arrangements satisfactory to the Disbursing Agent for the payment and satisfaction of such tax obligations. Any Cash, New Common Stock, other New Securities and Documents and/or other consideration or property to be distributed pursuant to the Plan of Reorganization shall, pending the implementation of such arrangements, be treated as an unclaimed distribution pursuant to Section 6.6 herein. Any party issuing any instruments or making any distribution under the Plan has the right, but not the obligation, to not make a distribution until such holder has made arrangements satisfactory to such issuing or distributing party for payment of any such tax obligations.

6.10. *Setoffs.*

The Debtors and the Reorganized Debtors may, but shall not be required to, set off against any Claim (for purposes of determining the Allowed amount of such Claim on which distribution shall be made), any claims of any nature whatsoever that the Debtors or the Reorganized Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors or the Reorganized Debtors of any such claim the Debtors or the Reorganized Debtors may have against the holder of such Claim. Nothing in the Plan of Reorganization shall be deemed to expand rights to setoff under applicable non-bankruptcy law. Notwithstanding the foregoing, the Reorganized Debtors shall be deemed to waive and shall have no right of setoff or recoupment against the holders of the SBC Credit Agreement Claims, the SBC Note Claims and the Holdco Note Claims.

6.11. *Distributions After Effective Date.*

Distributions made after the Effective Date to holders of Disputed Claims that are not Allowed Claims as of the Effective Date but which later become Allowed Claims shall be deemed to have been made on the Effective Date.

6.12. *Allocation of Distributions Between Principal and Interest.*

To the extent that any Allowed Claim entitled to a distribution under the Plan of Reorganization is comprised of indebtedness and accrued but unpaid interest thereon, such distribution shall be allocated to the principal amount (as determined for federal income tax purposes) of the Claim first, and then to accrued but unpaid interest.

6.13. *Postpetition Interest on Claims.*

Except as provided in the DIP Facility and with respect to the SBC Credit Agreement Claims (for the avoidance of doubt, each of which shall accrue and be paid postpetition interest in accordance with the terms set forth in the agreements governing the DIP Facility and the SBC Credit Agreement Claims (at the non-default rate), as applicable), as, required by applicable bankruptcy law or as expressly set forth in the Plan, postpetition interest shall not accrue on or after the Commencement Date.

6.14. *Minimum Distributions.*

The Reorganized Debtors shall not be obligated to make a distribution of less than $1,000.00 on account of an Allowed Claim to any holder of a Claim unless a request therefor is made in writing to the Reorganized Debtors.

SECTION 7. **PROCEDURES FOR RESOLVING DISPUTED, CONTINGENT, AND UNLIQUIDATED CLAIMS**

7.1. *Objections to Claims.*

The Reorganized Debtors shall be entitled to object to Claims. Any objections to Claims shall be served and filed on or before the later of (i) one hundred twenty (120) days after the Effective Date or (ii) such date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clause (i) above.

7.2. *Payments and Distributions with Respect to Disputed Claims.*

Notwithstanding any other provision hereof, if any portion of a Claim is a Disputed Claim, no payment or distribution provided hereunder shall be made on account of such Claim unless and until such Disputed Claim becomes an Allowed Claim.

7.3. *Estimation of Claims.*

The Reorganized Debtors may at any time request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code or other applicable law regardless of whether an objection was previously filed with the Bankruptcy Court with respect to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Reorganized Debtors may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

7.4. *Distributions Relating to Disputed Claims.*

At such time as a Disputed Claim becomes an Allowed Claim, the Disbursing Agent shall distribute to the holder of such Claim, such holder's pro rata portion of the property distributable with respect to the Class in which such Claim belongs. To the extent that all or a portion of a Disputed Claim is disallowed, the holder of such Claim shall not receive any distribution on account of the portion of such Claim that is disallowed and any property withheld pending the resolution of such Claim shall be reallocated pro rata to the holders of Allowed Claims in the same class.

7.5. *Preservation of Rights to Settle Claims.*

In accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtors shall retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing) all Claims, rights, causes of action, suits, and proceedings, whether in law or in equity, whether known or unknown, that the Debtors or their estates may hold against any Person or entity without the approval of the Bankruptcy Court, subject to the terms of Section 7.1 hereof, the Confirmation Order and any contract, instrument, release, indenture, or other agreement entered into in connection herewith. The Reorganized Debtors or their successor(s) may pursue such retained Claims, rights, or causes of action, suits, or proceedings, as appropriate, in accordance with the best interests of the Reorganized Debtors or their successor(s) who hold such rights.

7.6. *Disallowed Claims.*

All Claims held by Persons or entities against whom or which any Debtor or Reorganized Debtor has commenced a proceeding asserting a cause of action under sections 542, 543, 544, 545, 547, 548, 549, and/or 550 of the Bankruptcy Code shall be deemed "disallowed" claims pursuant to section 502(d) of the Bankruptcy Code and holders of such claims shall not be entitled to vote to accept or reject the Plan of Reorganization. Claims that are deemed disallowed pursuant to this section shall continue to be disallowed for all purposes until the avoidance action against such party has been settled or resolved by Final Order and any sums due to the Debtors or the Reorganized Debtors from such party have been paid.

SECTION 8. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1. *Plan Sponsor Agreement.*

As of the Effective Date, Bedding Holdco and SBC hereby expressly assume the Plan Sponsor Agreement.

8.2. *General Treatment.*

Except as otherwise provided in the Plan of Reorganization, or in any contract, instrument, release, indenture, or other agreement or document entered in connection with the Plan of Reorganization, as of the Effective Date, all executory contracts and unexpired leases to which any of the Debtors are parties are hereby assumed except for an executory contract or unexpired lease that (i) previously has been assumed or rejected pursuant to Final Order, (ii) previously expired or terminated by its own terms, (iii) is set forth in a schedule, as an executory contract or unexpired lease to be rejected, filed as part of the Plan Supplement, (iv) are rejected pursuant to the terms of the Plan, (v) are not capable of assumption pursuant to section 365(c) of the Bankruptcy Code, or (vi) is the subject of a separate motion to assume or reject such executory contract or unexpired lease filed by the Debtors with Purchaser Approval under section 365 of the Bankruptcy Code prior to the Confirmation Date.

8.3. *Cure of Defaults.*

Except to the extent that different treatment has been agreed to by the non-debtor party or parties to any executory contract or unexpired lease to be assumed pursuant to Section 8.2 hereof, the Debtors or Reorganized Debtors shall, pursuant to the provisions of sections 1123(a)(5)(G) and 1123(b)(2) of the Bankruptcy Code and consistent with the requirements of section 365 of the Bankruptcy Code, within thirty (30) days after the Confirmation Date, file and serve a pleading (such pleading subject to Purchaser Approval) with the Bankruptcy Court listing the cure amounts of all executory contracts or unexpired leases to be assumed. The parties to such executory contracts or unexpired leases to be assumed by the Debtors or Reorganized Debtors shall have fifteen (15) days from service to object to the cure amounts listed by the Debtors or Reorganized Debtors. If there are any objections filed, the Bankruptcy Court shall hold a hearing. The Debtors or Reorganized Debtors shall retain their right, with Purchaser Approval, to reject any of their executory contracts or unexpired leases, including contracts or leases that are subject to a dispute concerning amounts necessary to cure any defaults.

8.4. *Rejection Claims.*

In the event that the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to the Plan of Reorganization results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a timely filed proof of claim, shall be forever barred and shall not be enforceable against the Debtors or the Reorganized Debtors, or their respective properties or interests in property as agents, successors, or assigns, unless a proof of claim is filed with the Bankruptcy Court and served on counsel for the Debtors and the Reorganized Debtors on or before the date that is thirty (30) days after the Confirmation Date or such later rejection date that occurs as a result of a dispute concerning amounts necessary to cure any defaults.

8.5. *Assignment.*

Pursuant to sections 105(a), 363 and 365 of the Bankruptcy Code, the Debtors (with Purchaser Approval) or Reorganized Debtors may transfer and assign any of their executory contracts or unexpired leases that have not been rejected without any further act, authority, or notice. Any executory contract or unexpired lease so transferred and assigned shall remain in full force and effect for the benefit of the transferee or assignee in accordance with its terms, notwithstanding any provision in such executory contract or unexpired lease (including those of the type described in sections 365(b)(2) of the Bankruptcy Code) that prohibits, restricts, or conditions such transfer or assignment. Any provision that prohibits, restricts, or conditions the assignment or transfer of any such executory contract or unexpired lease or that terminates or modifies such executory contract or unexpired lease or allows the counterparty to such executory contract or unexpired lease to terminate, modify, recapture, impose any penalty, condition renewal or extension, or modify any term or condition on any such transfer and assignment constitutes an unenforceable anti-assignment provision and is void and of no force or effect.

8.6. ***Survival of the Debtors' Indemnification Obligations.***

Subject to Section 10.7 herein, any obligations of the Debtors pursuant to any separate indemnification agreements with current and former officers and directors or pursuant to their corporate charters and bylaws or other organizational documents to indemnify current and former officers, directors, agents, and/or employees with respect to actions, suits, and proceedings against such parties, shall not be discharged or impaired by confirmation of the Plan of Reorganization and such obligations shall be deemed and treated as executory contracts assumed by the Debtors hereunder and shall continue as obligations of the Reorganized Debtors.

8.7. ***Survival of Other Employment Arrangements.***

Except and to the extent previously assumed by an order of the Bankruptcy Court, on or before the Confirmation Date, all employee compensation and benefit plans of the Debtors, including benefit plans and programs subject to sections 1114 and 1129(a)(13) of the Bankruptcy Code, entered into before or after the Commencement Date and not since terminated, shall be deemed to be, and shall be treated as if they were, executory contracts that are to be assumed under the Plan of Reorganization. The Debtors' obligations under such plans and programs shall survive confirmation of the Plan of Reorganization. Notwithstanding anything in this Section 8.7 to the contrary, any equity incentive plans of Bedding Superholdco Incorporated or any of the Debtors, including but not limited to the Third Amended and Restated Simmons Holdco, Inc. Equity Incentive Plan, and any stock option, restricted stock or other equity agreements and any stock appreciation rights or similar equity incentives or equity based incentives or other obligations or liabilities the value of which depend on the price of, or distributions paid with respect to, equity securities, shall be cancelled as of the Effective Date and the Debtors shall have no liability or responsibility in respect of such equity interests.

8.8. ***Insurance Policies.***

All insurance policies pursuant to which the Debtors have rights and obligations as of the date of the entry of the Confirmation Order and that qualify as executory contracts shall be assumed by the respective Debtors and Reorganized Debtors and shall continue in full force and effect. All insurance policies shall revest in the Reorganized Debtors.

8.9. ***Existing Management Agreement.***

If the releases provided in Section 10.5 hereof and the exculpation provided in Section 10.6 hereof are effective and no less favorable to all of (i) the Released Parties that are party to that certain Management Agreement, dated as of the 19th day of December, 2003, between SBC and THL Managers V, LLC or any other prepetition management agreement between the Debtors and their direct or indirect shareholders (or any affiliates of their direct or indirect shareholders) (each, a "Management Agreement") and (ii) all affiliates of THL Managers V, LLC, than provided under the terms of the Plan, dated October 13, 2009, then each such Management Agreement as of the Effective Date shall be terminated and any outstanding Claims arising thereunder shall be waived and discharged. For the avoidance of doubt, if a Management Agreement survives the Effective Date, all defenses with respect to amounts due thereunder also shall survive the Effective Date, notwithstanding the releases provided in Section 10.5.

8.10. ***Workers' Compensation Programs.***

Except as otherwise expressly provided in the Plan of Reorganization, as of the Effective Date, the Debtors and the Reorganized Debtors shall continue to honor their obligations under (i) all applicable workers' compensation laws in states in which the Reorganized Debtors operate and (ii) the Debtors' written contracts, agreements, agreements of indemnity, self-insurer workers' compensation bonds and any other policies, programs and plans regarding or relating to workers' compensation and workers' compensation insurance. All such contracts and agreements are treated as executory contracts under the Plan of Reorganization and on the Effective Date will be assumed pursuant to the provisions of sections 365 and 1123 of the Bankruptcy Code, with a cure amount of zero.

SECTION 9. **CONDITIONS PRECEDENT.**

9.1. ***Conditions Precedent to Confirmation.***

The confirmation of the Plan of Reorganization is subject to the satisfaction or waiver of the following conditions precedent:

(a) the Confirmation Order shall be in form and substance reasonably acceptable to the Debtors and the Purchasers; and

(b) the Plan Sponsor Agreement shall not have been terminated.

9.2. ***Conditions Precedent to the Effective Date.***

The occurrence of the Effective Date of the Plan of Reorganization is subject to the satisfaction or waiver of the following conditions precedent:

(a) the Confirmation Order, in form and substance satisfactory to the Debtors and the Purchasers, shall have been entered ten (10) days prior to the Effective Date and shall be in full force and effect and there shall not be a stay or injunction in effect with respect thereto;

(b) the Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions, or documents that are necessary to implement the Plan of Reorganization and required by law, regulation, or order;

(c) the conditions in the New Notes Financing shall have been satisfied or waived; and

(d) the conditions to Closing (as defined in the Plan Sponsor Agreement) shall have been satisfied or waived in accordance with the terms thereof, other than those conditions to be satisfied simultaneously with the Closing under the Plan Sponsor Agreement.

9.3. *Effect of Failure of Conditions to Effective Date.*

If the Plan Sponsor Agreement is terminated in accordance with its terms after the Confirmation Date or the Effective Date has not occurred by March 15, 2010, then (i) the Confirmation Order shall be vacated, (ii) no distributions under the Plan of Reorganization shall be made, (iii) the Debtors and all holders of Claims and Equity Interests shall be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred, and (iv) all the Debtors' obligations with respect to the Claims and the Equity Interests shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtors or any other entity or to prejudice in any manner the rights of the Debtors or any other entity in any further proceedings involving the Debtors or otherwise.

9.4. *Waiver of Conditions.*

Each of the conditions set forth in Sections 9.1 and 9.2, other than as set forth in subsections 9.2(a) and (b) thereof, may be waived in whole or in part by the Debtors, with the consent of the Purchasers in their sole discretion, without any notice to other parties in interest or the Bankruptcy Court and without a hearing.

9.5. *Effect of Termination of Plan Sponsor Agreement.*

Upon the termination of the Plan Sponsor Agreement at any time, (i) the Plan shall automatically be null and void, (ii) all votes cast in respect of the Plan shall automatically be null and void and deemed withdrawn, and (iii) the Debtors and all holders of Claims and Equity Interests shall be restored to the status quo ante as of the day immediately preceding such termination of the Plan Sponsor Agreement, and (iv) all the Debtors' obligations with respect to the Claims and the Equity Interests shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtors or any other entity or to prejudice in any manner the rights of the Debtors or any other entity in any further proceedings involving the Debtors or otherwise.

SECTION 10. **EFFECT OF CONFIRMATION**

10.1. *Vesting of Assets.*

On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property of the Debtors' estates shall vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges, and other interests, except for the liens and security interests granted to secure the New Notes Financing and the New ABL Financing and except as provided herein. The Reorganized Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, except as provided herein.

10.2. *Discharge of Claims and Termination of Equity Interests.*

Upon the Effective Date and in consideration of the rights afforded herein and the payments and distributions to be made hereunder, except as otherwise expressly provided herein or in the Confirmation Order, each holder (as well as any trustees and agents on behalf of each holder) of a Claim against the Debtors or Equity Interest and any affiliate of such holder shall be deemed to have forever waived, released and discharged the Debtors to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, Equity Interests, rights and liabilities of any kind, nature or description that arose prior to the Effective Date. On the Effective Date, all holders of such Claims and Equity Interests shall be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting or asserting any such discharged Claim against the Debtors, Reorganized Debtors, or any of their assets or properties, or the terminated Equity Interests based on any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder has filed a proof of Claim or proof of Equity Interest.

Except as otherwise provided herein or in the Confirmation Order, all persons or entities who have held, now hold or may hold Claims against any of the Debtors or Equity Interests and all other parties in interest, along with their respective present and former employees, agents, officers, directors, principals and affiliates, are permanently enjoined from and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to such Claim or Equity Interest against the Debtors or the Reorganized Debtors, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtors or the Reorganized Debtors with respect to such Claim or Equity Interest, (c) creating, perfecting or enforcing any encumbrance of any kind against the Debtors or the Reorganized Debtors or against the property or interests in property of the Debtors or the Reorganized Debtors with respect to such Claim or Equity Interest, or (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligations due from Debtors or the Reorganized Debtors, with respect to such Claim or Equity Interest. Such injunction shall extend to any successors of the Debtors and Reorganized Debtors and their respective properties and interest in properties.

10.3. ***Term of Injunctions or Stays.***

(a) Unless otherwise provided, all injunctions or stays arising under or entered during the Reorganization Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the later of the Effective Date and the date indicated in the order providing for such injunction or stay.

(b) Unless otherwise ordered by the Bankruptcy Court, on or after the Confirmation Date, any person or group of persons constituting a "fifty percent shareholder" of Bedding Superholdco Incorporated within the meaning of section 382(g)(4)(D) of the Tax Code shall be enjoined from claiming a worthless stock deduction with respect to any Equity Interests in Bedding Superholdco Incorporated held by such person(s) (or otherwise treating such Equity Interests as worthless for U.S. federal income tax purposes) for any taxable year of such person(s) ending prior to the Effective Date.

10.4. ***Injunction Against Interference with Plan of Reorganization.***

On the entry of the Confirmation Order, all holders of Claims and Equity Interests and other parties-in-interest, along with their respective present or former employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan of Reorganization.

10.5. ***Releases.***

For purposes of this section, "***Released Party***" means (i) each Debtor or Reorganized Debtor, (ii) each direct or indirect shareholder of the Debtors, including Thomas H. Lee Equity Fund V, L.P., Thomas H. Lee Parallel Fund V, L.P., Thomas H. Lee Cayman Fund V, L.P., 1997 Thomas H. Lee Nominee Trust, Thomas H. Lee Investors Limited Partnership, Thomas H. Lee Partners, L.P., Great-West Investors, L.P., Putnam Investments Employees' Securities Company I, LLC, Putnam Investments

Employees' Securities Company II, LLC, and Fenway Partners Capital Fund II, L.P., (iii) each holder of a SBC Credit Agreement Claim who votes to accept the Plan and the administrative agent and collateral agent for the holders of the SBC Credit Agreement Claims, (iv) each holder of a SBC Note Claim who votes to accept the Plan, (v) each holder of a Holdco Note Claim who votes to accept the Plan, (vi) each of the Purchasers, (vii) DDJ Capital Management, LLC and its affiliates and accounts, Farallon Capital Management, L.L.C. and its affiliates and accounts, Sola Ltd and Solus Core Opportunities Master Fund Ltd and their respective affiliates, JP Morgan Asset Management and its affiliates, MSD SBI, L.P. and its affiliates, and Oaktree Capital Management, L.P. (on behalf of various funds and accounts) and its affiliates, (viii) each entity or person providing management services to a Debtor, including THL Managers V, LLC, and (ix) with respect to each of the forgoing, each of their respective direct or indirect subsidiaries, current and former officers and directors, managers, members, employees, agents, representatives, financial advisors, professionals, accountants, and attorneys, and each of their predecessors, successors, and assigns.

As of the Confirmation Date, but subject to the occurrence of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, each Released Party and any person seeking to exercise the rights of the Debtors' estates, including, without limitation, any successor to the Debtors or any estate representative appointed or selected pursuant to section 1123(b)(3) of the Bankruptcy Code, shall be deemed to unconditionally, forever release, waive, and discharge each other Released Party, from any and all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever in connection with or related in any way to the Debtors, the operation of the Debtors' businesses, the incurrence by the Debtors of any indebtedness or the use of proceeds thereof, the Reorganization Cases, and the Plan of Reorganization, including any distributions to be made by any indenture trustee or agent under indentures or other agreements, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or part on any act, omission, transaction, event, or other occurrence taking place on or prior to the Effective Date; *provided, however*, that nothing in this Section 10.5 shall be deemed to (i) prohibit the Debtors or the Reorganized Debtors from asserting and enforcing any claims, obligations, suits, judgments, demands, debts, rights, causes of action or liabilities they may have against (A) any current or former employee that are based on an alleged breach of a confidentiality, non-compete, or any other contractual obligation owed to the Debtors through the Effective Date or (B) any current or former employee (other than executive officers) that is based on an alleged breach of a fiduciary obligation owed to the Debtors through the Effective Date, (ii) release indemnities (or any liabilities or obligations thereunder) set forth in any applicable credit agreement or indenture that survive the termination thereof, (iii) waive or modify in any manner any written agreement entered into by a Released Party on or after September 21, 2009, or any Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities arising thereunder, (iv) waive or release the rights of the Released Parties to enforce the Restructuring Support Agreement, made and entered into as of September 24, 2009, among the Debtors, AOT Bedding Super Holdings, LLC, AOT Bedding Intermediate Holdings, LLC, and the creditors and lenders party thereto or the Plan and the contracts, instruments, indentures, and other agreements or documents delivered or assumed thereunder or in connection therewith, and (v) operate as a waiver or release from any causes of action based on gross negligence, intentional fraud, or criminal misconduct, in each case as determined by a final order entered by a court of competent jurisdiction.

Without limiting the generality of the foregoing, as of the Effective Date, the Debtors shall be deemed to have waived the right to prosecute, and to have settled and released for fair value, any avoidance or recovery actions under sections 545, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code or other applicable law that belong to the Debtors and/or which the Debtors could have prosecuted as debtors or debtors in possession against the other Released Parties relating to distributions made on account of principal, interest, fees, or other obligations under and relating to the SBC Credit Agreement Claims, the SBC Note Claims, the Holdco Note Claims, or management fees or expense reimbursements whether brought under the Bankruptcy Code or other applicable law.

10.6. ***Exculpation.***

Notwithstanding anything provided herein, as of the Effective Date and subject to the occurrence of the Effective Date, the following parties, entities, and individuals shall have no liability for any action or failure to act with respect to formulation, negotiation, preparation, confirmation, or consummation of the Plan or the administration of the Reorganization Cases (other than liability determined by a final order of a court of competent jurisdiction for actions or failure to act amounting to willful misconduct, intentional fraud, or criminal conduct arising out of the Reorganization Cases or any liability arising out of an express contractual obligation)): (i) the Debtors; (ii) the direct or indirect shareholders of the Debtors, including Thomas H. Lee Equity Fund V, L.P., Thomas H. Lee Parallel Fund V, L.P., Thomas H. Lee Cayman Fund V, L.P., 1997 Thomas H. Lee Nominee Trust, Thomas H. Lee Investors Limited Partnership, Thomas H. Lee Partners, L.P., Great-West Investors, L.P., Putnam Investments Employees' Securities Company I, LLC, Putnam Investments Employees' Securities Company II, LLC, and Fenway Partners Capital Fund II, L.P.; (iii) the agent and the informal steering committee for the holders of the SBC Credit Agreement Claims; (iv) the indenture trustee for the holders of the SBC Note Claims; (v) the Purchasers; (vi) the New Notes Purchasers; (vii) DDJ Capital Management, LLC and its affiliates and accounts, Farallon Capital Management, L.L.C. and its affiliates and accounts, Sola Ltd and Solus Core Opportunities Master Fund Ltd and their respective affiliates, JP Morgan Asset Management and its affiliates, MSD SBI, L.P. and its affiliates, and Oaktree Capital Management, L.P. and its affiliates (on behalf of various funds and accounts); (viii) the entities and persons providing management services to a Debtor, including THL Managers V, LLC; and (ix) each of their respective direct or indirect subsidiaries, current and former officers and directors, managers, members, employees, agents, representatives, financial advisors, professionals, accountants, and attorneys, and each of their predecessors, successors, and assigns. Any act or omission taken with the approval of the Bankruptcy Court will be conclusively deemed not to constitute gross negligence or willful misconduct.

10.7. ***Retention of Causes of Action/Reservation of Rights***

(a) Except with respect to the releases and exculpation provided hereunder, the Debtors and the Reorganized Debtors shall retain all causes of action, Claims, rights of setoff or recoupment, rights under the Bankruptcy Code, including, without limitation, the right to require the turnover of property of the Debtors' estates, or any applicable non-bankruptcy law or rule, common law, equitable principle or other source of right or obligation, including, without limitation, (i) any and all Claims against any person or entity, to the extent such person or entity asserts a crossclaim, counterclaim, and/or Claim for setoff which seeks affirmative relief against the Debtors, the Reorganized Debtors, their officers, directors, or representatives; and (ii) the turnover of any property of the Debtors' estates.

(b) Nothing contained herein or in the Confirmation Order shall be deemed to be a waiver or relinquishment of any claim, cause of action, right of setoff, or other legal or equitable defense which the Debtors had immediately prior to the Commencement Date, against or with respect to any Claim left unimpaired by the Plan of Reorganization. The Reorganized Debtors shall have, retain, reserve and be entitled to assert all such claims, causes of action, rights of setoff, and other legal or equitable defenses which they had immediately prior to the Commencement Date fully as if the Reorganization Cases had not been commenced, and all of the Reorganized Debtors' legal and equitable rights respecting any Claim left unimpaired by the Plan of Reorganization may be asserted after the Confirmation Date to the same extent as if the Reorganization Cases had not been commenced.

(c) Nothing in clauses (a) and (b) of this Section 10.7 shall be deemed to limit or otherwise modify Section 10.5 or Section 10.6 hereof.

10.8. *Solicitation of the Plan of Reorganization.*

As of and subject to the occurrence of the Confirmation Date: (i) the Debtors shall be deemed to have solicited acceptances of the Plan of Reorganization in good faith and in compliance with the applicable provisions of the Bankruptcy Code, including without limitation, sections 1125(a) and (e) of the Bankruptcy Code, and any applicable non-bankruptcy law, rule, or regulation governing the adequacy of disclosure in connection with such solicitation and (ii) the Debtors and each of their respective directors, officers, employees, affiliates, agents, financial advisors, investment bankers, professionals, accountants, and attorneys shall be deemed to have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer and issuance of any securities under the Plan of Reorganization, and therefore are not, and on account of such offer, issuance, and solicitation will not be, liable at any time for any violation of any applicable law, rule or regulation governing the solicitation of acceptances or rejections of the Plan of Reorganization or the offer and issuance of any securities under the Plan of Reorganization.

10.9. *Exemption from Certain Transfer Taxes.*

Pursuant to section 1146(a) of the Bankruptcy Code, (a) the issuance, transfer or exchange (or deemed issuance, transfer or exchange) of a security, (b) the creation of any mortgage, deed of trust, Lien, pledge or other security interest, (c) the making or assignment of any lease or sublease, or (d) the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan of Reorganization (including, without limitation, any merger agreements, agreements of consolidation, restructuring, disposition, liquidation, dissolution, deeds, bills of sale and transfers of tangible property) will not be subject to any stamp tax, recording tax, personal property tax, real estate transfer tax, sales tax, use tax, transaction privilege tax (including, without limitation, such taxes on prime contracting and owner-builder sales), privilege taxes (including, without limitation, privilege taxes on construction contracting with regard to speculative builders and owner builders) or other similar taxes. Unless the Bankruptcy Court orders otherwise, all sales, transfers and assignments of owned and leased property approved by the Bankruptcy Court on or prior to the Effective Date shall be deemed to have been in furtherance of or in connection with the Plan of Reorganization.

10.10. *Other Exemptions.*

(a) Pursuant to section 4(2) and Regulation D of the Securities Act of 1933, the offer and sale of the New Common Stock to Purchasers and the new common stock of SBC to Bedding Holdco shall be exempt from registration.

(b) Pursuant to section 1145 of the Bankruptcy Code, section 5 of the Securities Act of 1933 and any state or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker or dealer in, a security, do not apply to the offer or sale of the Class 6 Parent Stock to holders of Claims in Class 6 to any person that is not an underwriter as defined in section 1145(b) of the Bankruptcy Code.

(c) Pursuant to section 1125 of the Bankruptcy Code, any Person that solicits the acceptance of the Plan or any participation (in good faith and in compliance with the applicable provisions of the Bankruptcy Code) in the offer, issuance, sale or purchase of a security, offered or sold under the Plan (including without limitation the Class 6 Parent Stock), shall not be liable for violation of any applicable law, rule, or regulation governing solicitation of acceptance of a plan or the offer, issuance, sale, or purchase of securities.

10.11. *Corporate Action.*

(a) Upon the Effective Date, all matters provided herein that would otherwise require approval of the stockholders or directors of one or more of the Debtors or Reorganized Debtors, including, without limitation, (i) adoption or assumption, as applicable, of executory contracts and unexpired leases, (ii) selection of the directors and officers, as appropriate, for the Reorganized Debtors, (iii) the execution and entry into the New ABL Financing and the New Notes Financing, (iv) the distribution of the New Common Stock, and (v) all other actions contemplated by the Plan (whether to occur before, on or after the Effective Date) shall be deemed to have occurred and shall be in effect from and after the Effective Date pursuant to the applicable general corporation law of the states in which the Debtors or the Reorganized Debtors are incorporated, without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Debtors.

(b) On or (as applicable) prior to the Effective Date, the appropriate officers of the Debtors or the Reorganized Debtors (including, any vice-president, president, chief executive officer, treasurer or chief financial officer of any Debtor or Reorganized Debtor), as applicable, shall be authorized and directed to issue, execute and deliver the agreements, documents, securities, and instruments contemplated by the Plan (or necessary or desirable to effect the transactions contemplated by the Plan) in the name of and on behalf of the Reorganized Debtors, including (i) the New ABL Financing and the New Notes Financing, (ii) the organizational documents of the Reorganized Debtors, and (iii) any and all other agreements, documents, securities and instruments relating to the foregoing. The authorizations and approvals contemplated by this Section shall be effective notwithstanding any requirements under nonbankruptcy law. The issuance of the New Common Stock shall be exempt from the requirements of section 16(b) of the Securities and Exchange Act of 1934 (pursuant to rule 16b-3 promulgated thereunder) with respect to any acquisition of such securities by an officer or director (or a director deputized for purposes thereof) as of the Effective Date.

10.12. ***Termination of Subordination Rights and Settlement of Related Claims.***

The classification and manner of satisfying all Claims and Equity Interests under the Plan of Reorganization take into consideration all subordination rights, whether arising by contract or under general principles of equitable subordination, section 510(b) and (c) of the Bankruptcy Code or otherwise. All subordination rights that a holder of a Claim or Equity Interest may have with respect to any distribution to be made pursuant to the Plan of Reorganization will be discharged and terminated and all actions related to the enforcement of such subordination rights will be permanently enjoined. Accordingly, distributions pursuant to the Plan of Reorganization to holders of Allowed Claims will not be subject to payment to a beneficiary of such terminated subordination rights or to levy, garnishment, attachment or other legal process by a beneficiary of such terminated subordination rights; provided, however, that nothing contained herein shall preclude any Person or entity from exercising their rights pursuant to and consistent with the terms of the Plan of Reorganization and the contracts, instruments, releases, indentures and other agreements or documents delivered under or in connection with the Plan.

SECTION 11. **RETENTION OF JURISDICTION**

On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under, and related to the Reorganization Cases for, among other things, the following purposes:

(a) to hear and determine motions and/or applications for the assumption or rejection of executory contracts or unexpired leases and the allowance, classification, priority, compromise, estimation, or payment of Claims resulting therefrom;

(b) to determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date;

(c) to ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

(d) to allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Equity Interest, including the resolution of any request for payment of any Administrative Expense Claim and the resolution of any objections to the allowance or priority of Claims or Equity Interests;

(e) to resolve any matters related to the assumption, assumption and assignment or rejection of any executory contract or unexpired lease to which any Debtor is party or with respect to which any Debtor or Reorganized Debtor may be liable, including, without limitation, any matter relating to the terms and conditions of any such executory contract or unexpired lease as assumed or assigned, or the obligation of any party to perform thereunder, and to hear, determine, and if necessary, liquidate any Claims arising therefrom;

(f) to enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(g) to issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation, or enforcement of the Plan of Reorganization, the Confirmation Order, or any other order of the Bankruptcy Court;

(h) to hear and determine any application to modify the Plan of Reorganization in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan of Reorganization, the disclosure statement for the Plan or Reorganization, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(i) to hear and determine all applications under sections 330, 331, and 503(b) of the Bankruptcy Code for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date;

(j) to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan of Reorganization, the Confirmation Order, any transactions or payments contemplated hereby, or any agreement, instrument, or other document governing or relating to any of the foregoing, provided that, notwithstanding the foregoing, any forum selection provisions in such agreements, instruments, or other documents shall be respected;

(k) to take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan of Reorganization or to maintain the integrity of the Plan of Reorganization following consummation;

(l) to hear any disputes arising out of, and to enforce, the order approving alternative dispute resolution procedures to resolve personal injury, employment litigation, and similar claims pursuant to section 105(a) of the Bankruptcy Code;

(m) to determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(n) to hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including any requests for expedited determinations under section 505(b) of the Bankruptcy Code);

(o) to hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code;

(p) to enter a final decree closing the Reorganization Cases;

(q) to enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Reorganization Cases;

(r) to recover all assets of the Debtors and property of the Debtors' estates, wherever located; and

(s) to hear and determine any rights, Claims, or causes of action held by or accruing to the Debtors pursuant to the Confirmation Order, the Bankruptcy Code or any federal statute or legal theory.

SECTION 12. **MISCELLANEOUS PROVISIONS**

12.1. ***Payment of Statutory Fees.***

On the Effective Date, and thereafter as may be required, the Debtors shall pay all fees payable pursuant to section 1930 of chapter 123 of title 28 of the United States Code.

12.2. ***Dissolution of Committees.***

Any creditor or equity committee appointed pursuant to section 1102 of the Bankruptcy Code in the Reorganization Cases shall dissolve on the Effective Date.

12.3. ***Substantial Consummation.***

On the Effective Date, the Plan of Reorganization shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

12.4. *Request for Expedited Determination of Taxes.*

The Reorganized Debtors shall have the right to request an expedited determination under section 505(b) of the Bankruptcy Code with respect to tax returns filed, or to be filed, for any and all taxable periods ending after the Commencement Date through the Effective Date.

12.5. *Determination of Tax Filings and Taxes.*

(a) For all taxable periods ending on or prior to, or including, the Effective Date, Bedding Holdco shall prepare and file (or cause to be prepared and filed) on behalf of the Simmons Group, all combined, consolidated or unitary tax returns, reports, certificates, forms or similar statements or documents for any group of entities that include Bedding Holdco (collectively, "***Group Tax Returns***") required to be filed or that Bedding Holdco otherwise deems appropriate, including the filing of amended Group Tax Returns or requests for refunds. If requested by Bedding Holdco, Bedding Superholdco Incorporated or Holdco, as appropriate, shall promptly execute or cause to be executed and filed any Group Tax Returns of the Simmons Group submitted by Bedding Holdco to Bedding Superholdco Incorporated, or Holdco (as applicable) for execution or filing. Neither Bedding Superholdco Incorporated nor Holdco shall file or amend any Group Tax Return for any taxable periods (or portions thereof) described in the first sentence of this clause (a) without Bedding Holdco's prior written consent.

(b) Bedding Superholdco Incorporated, Holdco, and Bedding Holdco shall cooperate fully with each other regarding the implementation of this Section 12.5(b) of the Plan (including the execution of appropriate powers of attorney) and shall make available to each other as reasonably requested all information, records and documents relating to taxes governed by this Section 12.5 until the expiration of the applicable statute of limitations or extension thereof or at the conclusion of all audits, appeals or litigation with respect to such taxes. Without limiting the generality of the foregoing, Bedding Superholdco Incorporated shall execute on or prior to the Effective Date a power of attorney authorizing Bedding Holdco to correspond, sign, collect, negotiate, settle and administer tax payments and Group Tax Returns for the taxable periods described in Section 12.4.

(c) If Bedding Superholdco Incorporated or Holdco receives written notice from a taxing authority of any pending examination, claim, settlement, proposed adjustment or related matters with respect to taxes that could affect any other member of the Simmons Group (by operation of law or by reason of this Plan), it shall so notify Bedding Holdco in writing within ten (10) business days thereafter. Bedding Holdco shall have the sole right, at its expense, to control, conduct, compromise and settle any tax contest, audit or administrative or court proceeding relating to any liability for taxes of the Simmons Group. With respect to any such proceeding and with respect to the preparation and filing of any Group Tax Returns of the Simmons Group, Bedding Holdco may act in its own self-interest and in the interest of its subsidiaries and affiliates, without regard to any adverse consequences to Bedding Superholdco Inc. or Holdco.

(d) If Bedding Superholdco Incorporated or Holdco is dissolved, merged out of existence, or otherwise treated in a manner that terminates the Simmons Group for applicable tax purposes, immediately before such termination, Bedding Superholdco Inc. or Holdco (as applicable) shall designate Bedding Holdco as the "substitute agent" (within the meaning of Treasury Regulation Section 1.1502-77) for the Simmons Group in accordance with Treasury Regulation Section 1.1502-77 and Rev. Proc. 2002-43, 2002-2 C.B. 99, in either case, as amended or supplemented, and any comparable provision under state or local law, with respect to all taxable periods ending on or before, or including, the Effective Date.

(e) Bedding Holdco shall be entitled to the entire amount of any refunds and credits (including interest thereon) with respect to or otherwise relating to any taxes of the Simmons Group, including for any taxable period ending on or prior to, or including, the Effective Date. Within five (5) business days after receipt of any such refunds or credits, Bedding Superholdco Incorporated or Holdco (as applicable) shall notify Bedding Holdco thereof and shall transfer any such refunds to Bedding Holdco by wire transfer or otherwise in accordance with written instructions provided by Bedding Holdco.

12.6. *Amendments.*

(a) *Plan of Reorganization Modifications.* The Plan of Reorganization may be amended, modified, or supplemented by the Debtors or the Reorganized Debtors in the manner provided for by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code; *provided however*, that the Debtors or Reorganized Debtors shall not amend or modify (i) the Plan so as to violate Section 1.2(d) of the Restructuring Support Agreement, made and entered into as of September 24, 2009, among the Debtors, AOT Bedding Super Holdings, LLC, AOT Bedding Intermediate Holdings, LLC, and the creditors and lenders party thereto and (ii) Section 8.9 of the Plan without the prior written consent of THL Managers V, LLC. Such amendment shall be made only with Purchaser Approval. In addition, after the Confirmation Date, the Debtors (with Purchaser Approval) or Reorganized Debtors may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan of Reorganization or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan of Reorganization.

(b) *Other Amendments.* Subject to the terms of the Plan Sponsor Agreement, prior to the Effective Date, the Debtors, with Purchaser Approval, may make appropriate technical adjustments and modifications to the Plan of Reorganization without further order or approval of the Bankruptcy Court.

12.7. ***Effectuating Documents and Further Transactions.***

Each of the officers of the Reorganized Debtors is authorized, in accordance with his or her authority under the resolutions of the applicable board of directors, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan of Reorganization.

12.8. ***Revocation, Withdrawal, or Non-Consummation of the Plan.***

Subject to the terms of the Plan Sponsor Agreement, the Debtors reserve the right to revoke or withdraw the Plan at any time prior to the Confirmation Date and to file other plans of reorganization. If the Debtors revoke or withdraw the Plan, or if Confirmation Order is not entered or consummation of the Plan does not occur, then (i) the Plan shall be null and void in all respects, (ii) any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount any Claim or Class of Claims), assumption or rejection of executory contracts or leases effected by the Plan, and any document or agreement executed pursuant to the Plan shall be deemed null and void, (iii) nothing contained in the Plan, and no acts taken in preparation for consummation of the Plan, shall (a) constitute or be deemed to constitute a waiver or release of any Claims by or against, or any Equity Interests in, the Debtors or any other Person, (b) prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors, or (c) constitute an admission of any sort by the Debtors or any other Person, and (iv) the Plan Sponsor Agreement and the Plan Sponsor Order shall continue in full force and effect.

12.9. ***Severability.***

If, prior to the entry of the Confirmation Order, any term or provision of the Plan of Reorganization is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, at the request of the Debtors, with Purchaser Approval, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan of Reorganization will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan or Reorganization, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms. No alteration or interpretation of the Plan of Reorganization pursuant to this section shall operate to modify or amend the terms and conditions of the Plan Sponsor Agreement without the consent of the Purchasers in their sole discretion.

12.10. ***Governing Law.***

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit hereto or a schedule in the Plan Supplement provides otherwise, the rights, duties, and obligations arising under the Plan of Reorganization shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflict of laws thereof.

12.11. ***Time.***

In computing any period of time prescribed or allowed by the Plan of Reorganization, unless otherwise set forth herein or determined by the Bankruptcy Court, the provisions of Bankruptcy Rule 9006 shall apply.

12.12. ***Binding Effect.***

The Plan of Reorganization shall be binding on and inure to the benefit of the Debtors, the holders of Claims and Equity Interests, and each of their respective successors and assigns, including, without limitation, the Reorganized Debtors, and all other parties-in-interest in the Reorganization Cases.

12.13. ***Notices.***

All notices, requests, or demands to or on the Debtors or Reorganized Debtors shall be (i) in writing, (ii) served by certified mail (return receipt requested), hand delivery, overnight delivery service, first class mail, or facsimile transmission, and, (iii) unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

For the Reorganized Debtors:

SIMMONS BEDDING COMPANY
One Concourse Parkway
Atlanta, Georgia 30328-5369
Attn: Kristen K. McGuffey
Telephone: (770) 392-2502
Telecopier: (770) 206-2669

- and -

WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, New York 10153
Attn: Michael F. Walsh, Esq.
Telephone: (212) 310-8000
Telecopier: (212) 310-8007

For the Purchasers:

AOT BEDDING INTERMEDIATE HOLDINGS, LLC
c/o National Bedding Company, L.L.C.
2600 Forbs Avenue
Hoffman Estates, IL 60192
Attn: Romeo Leemrijse
Nav Rahemtulla
Telecopier: (416) 730-5082
- and -
(310) 432-8641

- and -

SULLIVAN & CROMWELL LLP
125 Broad Street
New York, New York 10004-2498
Attn: Andrew G. Dietderich
Telephone: (212) 558-3830
Telecopier: (212) 558-3588

For the administrative agent for holders of SBC Credit Agreement Claims:

DEUTSCHE BANK AG, NEW YORK BRANCH
60 Wall Street, 2nd Floor
New York, New York 10005
Attn: Vincent D'Amore
Telecopier: (212) 797-5695

- and -

SIMPSON, THATCHER & BARTLETT LLP
425 Lexington Avenue
New York, New York 10017-3954
Attn: Sandeep Qusba
Telephone: (212) 455-2000
Telecopier: (212) 455-2502

For certain holders of SBC Note Claims:

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Attn: Brian Hermann
Julie M. D'Ambruoso
Telephone: (212) 373-3000
Telecopier: (212) 757-3990

For certain holders of Holdco Note Claims:

GOODWIN PROCTER LLP
620 Eighth Avenue
New York, NY 10018
Attn: Allan S. Brilliant
Telephone: (212) 813-8800
Telecopier: (212) 355-3333

Dated: New York, New York
October 13, 2009

Respectfully submitted,

SIMMONS BEDDING COMPANY ON BEHALF OF ITSELF AND THE DIRECT AND INDIRECT SUBSIDIARIES SET FORTH ON EXHIBIT B

By: ______________________________
Name:

Title:

SIMMONS COMPANY

By: ______________________________
Name:

Title:

BEDDING HOLDCO INCORPORATED (f/k/a THL-SC BEDDING COMPANY)

By: ______________________________
Name:

Title:

AOT Bedding Intermediate Holdings, LLC

By: ______________________________

Name:

Title:

SULLIVAN & CROMWELL LLP

Attorneys for AOT Bedding Intermediate Holdings, LLC

By: ______________________________

Andrew G. Dietderich

EXHIBITS AND SCHEDULES

TO THE PLAN OF REORGANIZATION

Exhibit A

EQUITY TERM SHEET

The following is a summary of the material terms of the Class A Units being offered to Eligible Investors and certain related provisions of the Amended and Restated Operating Agreement of New Parent (the "Operating Agreement") and of the Delaware Limited Liability Company Act ("DLLCA"). In addition to reviewing this description, Eligible Investors contemplating a purchase of Class A Units should review SECTION XII – "CERTAIN FACTORS TO BE CONSIDERED" of the Disclosure Statement for a discussion of some of risks that should be considered prior to making any investment decision.

Issuer	New Parent, the direct or indirect owner of the Company and AOT after effectiveness of the Plan.
Class A Units	Class A units in New Parent having a subscription price of $1,000 per unit ("Class A Units"). Upon effectiveness of the Plan, Class A Units will be held by: (i) the Sponsors and their affiliates and co-investors who currently are the equity holders of AOT, (ii) the owners of other assets contributed to New Parent at or prior to effectiveness of the Plan, (iii) management, employees and independent directors pursuant to a management and employee compensation and stock ownership plan approved by the Sponsors, and (iii) any Eligible Investors holding allowed Holdco Note Claims that elect to use cash distributions under the Plan to purchase Class A Units in accordance with the Plan (the "Permitted Class A Units" and, together with the Permitted Class B Units, the "Permitted Initial Interests"). Class A Units shall be subscribed for and purchased at par. The aggregate subscription price for the initial Class A Units issued in exchange for the capital stock of AOT and other assets contributed to New Parent at or prior to Closing in connection with the transactions contemplated by the Plan shall be $200 million, provided that such amount shall be increased by the aggregate amount received by AOT after September 24, 2009 representing the exercise price for any options to acquire AOT stock exercised during such period. New Parent reserves the right to divide the Class A Units for purposes of the definitive Operating Agreement into two sub-classes, Class A-1 Units and Class A-2 Units. Only Ontario Teachers (for a portion of its Units) will hold Class A-2 Units. The Class A-1 Units and Class A-2 Units would be identical, except that the Class A-2 Units shall not vote with respect to election of the Board of Managers ("Board") of New Parent and shall be entitled to receive supplemental distributions in an amount equal to the management fees payable to Ares and its affiliates provided that the aggregate of management fees and the supplemental distributions referenced above payable to the Sponsors and their affiliates shall not exceed $2 million annually, plus documented out-of-pocket expenses. Such supplement distributions will be payable prior to the application of the Distribution Waterfall described below.

Class B Units	New Parent also is issuing upon effectiveness of the Plan Class B units in New Parent having a subscription price of $1,000 per unit ("Class B Units"), to finance a portion of the costs of acquiring the Company pursuant to the Plan Sponsor Agreement, together with related fees and expenses of New Parent, and potentially to finance other acquisitions of assets by New Parent and its subsidiaries from licensees or other parties. New Parent estimates that the aggregate subscription price of Class B Units initially issued will be less than $365 million, although the final amount of Class B Units to be issued will depend upon the financial requirements of New Parent. New Parent does not intend to raise indebtedness to finance the Plan, but reserves the right to do so or to raise indebtedness at any time thereafter. New cash investments by the Sponsors, their affiliates and co-investors in New Parent at effectiveness of the Plan will be made by purchasing Class B Units. The Sponsors may subscribe for the necessary Class B Units themselves or may seek to obtain acquisition financing commitments from others. For example, New Parent has obtained acquisition financing commitments from DDJ Capital Management, LLC, Farallon Capital Management, LLC, Sola Ltd, and Solus Core Opportunities Master Fund Ltd. (the "New Parent Financing Parties") to purchase $55 million of the Class B Units. However, the Sponsors have agreed with the Debtors that, regardless of the commitments from the New Parent Financing Parties or any other person, each Sponsor remains obligated with respect to its guarantee of the purchase price due at Closing under the Plan Sponsor Agreement to the extent described under "SECTION IV.D. –EVENTS LEADING TO THE CHAPTER 11 CASES –GUARANTEE" in the Disclosure Statement, subject to the terms and conditions of the Plan Sponsor Agreement.
Initial Capitalization	Other than the Class A Units and the Class B Units upon confirmation of the Plan, New Parent will have no other outstanding equity or equity-like securities or instruments or options, rights, convertible securities or similar securities providing for the issuance of any additional equity or equity-like securities or instruments. There is no limit on the number of Class A Units or Class B Units that may be issued upon effectiveness of the Plan. In addition, subject to the preemptive rights in favor of Class B Units (but not Class A Units), the Operating Agreement authorizes the Board to issue additional units at any time and from time to time, whether of an existing class or series or a new class or series, in each case on such terms and conditions as the Board may determine.
Liquidation Preference	Class A Units have no liquidation preference. Class B Units are entitled to a "Liquidation Preference" equal to the initial subscription price per share as reduced from time to time by the aggregate amount of all distributions paid per share of Class B Units. The then outstanding Liquidation Preference shall accrete at a 6% rate, compounded annually. The Liquidation Preference shall never be less than zero.

Distributions	All cash or non-cash dividends or distributions paid with respect to the equity securities of New Parent (other than supplemental distributions with respect to Class A-2 Units or pursuant to management and employee compensation and stock ownership plans approved by the Sponsors) shall be applied as follows (the "Distribution Waterfall"): *first*, to make distributions on a pro rata basis on the Class B Units until such time as their Liquidation Preference has been reduced to zero; *second*, to make distributions on a pro rata basis on the Class A Units other than those issued pursuant to an equity incentive or ownership plan until such time as there has been paid $1,000 per such unit; *third*, to make distributions on a pro rata basis on certain Class A Units issued pursuant to an equity incentive or ownership plan until such time as there has been paid $1,000 per such unit; *fourth*, to make "catch-up" distributions on a pro rata basis to all Class A Units until the aggregate amount of distributions for each such Class A Unit since the Closing equals the aggregate amount of distributions for each Class B Units since the Closing; and *fifth*, to make distributions on Class A Units and Class B Units on a pro rata basis. 100% of all distributable net cash and non-cash proceeds received by New Parent arising from a "Sale of the Company", defined as the sale of all or substantially all of the consolidated assets of New Parent (whether held by New Parent or one or more of its subsidiaries and whether by way of an asset sale, security sale, tender offer, merger or other similar transaction) shall be distributed to New Parent's equity holders in accordance with the Distribution Waterfall, unless New Parent and each holder of Class B Units other than those held by the Sponsors or their affiliates consent in writing.
Conversion Upon IPO	In connection with an initial public offering of common stock by New Parent (an "IPO"), the Class A Units and the Class B Units shall automatically convert, without any action by the holders thereof, into fully paid and nonassessable shares of common stock or other similar equity securities (the "Converted Securities"). The amount of Converted Securities to be issued to any holder of Class A or Class B Units shall be determined by applying the Distribution Waterfall to the market value of all Class A and Class B Units pursuant to such procedure as the Board shall approve.
Management; Limited	The Board will have the exclusive right and full power and authority to manage and control the business and affairs of New Parent. The Board

Voting Rights	will be elected by the holders of Class A-1 Units holding a plurality of the Class A-1 Units present in person or represented by proxy and entitled to vote on the election of managers at any meeting of members. As of the effective date of the Plan, because of the level of their holdings of Class A-1 Units, the Sponsors will control the vote with respect to the election of managers. It is not anticipated that other holders of Class A-1 Units, whether individually or in the aggregate, other than the Sponsors, will have any representation on the Board or influence in the manner in which New Parent is managed. The Operating Agreement also will specify that the members of the Board are subject to fiduciary duties to the members of New Parent to the extent of the fiduciary duties owed by directors of a Delaware corporation to its stockholders; provided, however, that the corporate opportunity doctrine will not apply and that the Operating Agreement may eliminate or limit the personal liability of the managers to the extent permitted under Section 102(b)(7) of the Delaware General Corporation Law. These are important limitations on investors' rights, and Eligible Investors considering an investment in the Class A-1 Units should consult with their own legal counsel prior to making an investment decision. The Class A Units do not have special voting or approval rights or other minority protections available in some other private companies. However, the majority in interest of the Class B Units which are not held by the Sponsors or any of their affiliates or co-investors do have the right to approve the entrance into or material amendment or modification of any related party transactions among New Parent and/or its controlled subsidiaries, on the one hand, and the Sponsors and/or any of their affiliates (other than New Parent and/or its controlled affiliates), on the other hand (other than (x) management fees to Ares or its affiliates pursuant to a management agreement and supplemental distributions to Ontario Teachers with respect to its Class A-2 Units which in the aggregate shall not exceed $2 million in the aggregate during any calendar year, plus reasonable documented out-of-pocket expenses, and (y) the participation by the Sponsors and/or their affiliates in the financing of the transactions contemplated by the Plan), to the extent any such transaction is not at least as favorable to New Parent or the applicable controlled subsidiary as a transaction with a third party on arm's-length terms.
Reporting	New Parent will provide to each holder of Class A or Class B Units annual and quarterly consolidated financial statements, including a balance sheet, income statement and statement of cash flows. In addition, New Parent has agreed to provide the New Parent Financing Parties and their affiliates committing to invest in Class B Units with the following additional information so long as they maintain a certain minimum holding of Class B Units: (a) such quarterly reporting as AOT Bedding Holdings Corp. (or its subsidiaries), Holdco (or its subsidiaries) and/or New Parent provides to its debt investors from time

to time, and (b) reasonable access to Sponsor directors and officers on the Board. New Parent may or may not agree to provide additional financial information from time to time. The provision of all information shall be subject to such confidentiality restrictions as New Parent or the Sponsors may reasonably require.

Drag and Tag Rights	The Sponsors will have the right to drag-along holders of the Class A or Class B Units in a transaction (a "Change of Control Transaction") involving (i) a Sale of the Company to any person or entity other than a Sponsor or any of its affiliates or (ii) a sale to any person or entity other than a Sponsor or any of its affiliates of a majority of the equity interests in New Parent. In the case of any drag-along sale, holders of Class A or Class B Units shall be entitled to participate in the net cash or non cash proceeds of the sale in accordance with the Distribution Waterfall as provided in "Distributions" above, and shall only be required to sell their units (a) in proportion to the sale by the Sponsors of their Class A and/or Class B Units in such sale, (b) on no less favorable terms and conditions as the Sponsors and (c) without giving any representations or warranties (or otherwise having liability) to the purchaser other than as to clear title, due authority, required approvals and absence of conflicts. Notwithstanding the foregoing, drag-along rights shall expire upon an IPO. Following the disposition of one-third, in the aggregate, taking into consideration all prior transfers, of the outstanding Class A Units by the Sponsors, the holders of Class A or Class B Units will have the right to tag-along, in connection with any disposition of Class A Units by the Sponsors, provided that the holders of Class B Units will tag on an as converted basis and without separate payment of the Liquidation Preference. Following the disposition of one-third, in the aggregate, taking into consideration all prior transfers, of the outstanding Class B Units by the Sponsors, the holders of Class B Units will have the right to tag-along in connection with any disposition of Class B Units by the Sponsors. Notwithstanding the foregoing, tag-along rights will not apply to transfers among the Sponsors and/or their affiliates and/or limited partners. Subject to the drag-along outlined above, the holders of Class A and Class B Units shall also be permitted to tag-along in any Change of Control transaction and all proceeds from the sale of interests in such Change of Control transaction shall be distributed pursuant to the Distribution Waterfall. In addition, tag-along rights shall expire upon an IPO.
Transfer Restrictions	The Class A Units are subject to significant restrictions on transfer. Prior to an initial public offering of New Parent, no member shall transfer any Class A Units, other than in one of the following transactions: • with respect to a transfer by Ares or Ontario Teachers, a transfer with the prior written consent of the other;

- a transfer pursuant to the drag-along or tag-along provisions described in "Drag and Tag Rights" above;

- a transfer to a Permitted Transferee (as defined below);

- a transfer to a person that is also a member immediately prior to the consummation of such transfer or to its Permitted Transferee;

- a transfer of Class A Units with the prior written consent of New Parent, which shall not be unreasonably withheld, conditioned or delayed, subject to a right of first refusal in favor of the Sponsors and New Parent providing for a five business day period in which the Sponsors and New Parent may elect to accept or reject the offer and, if the offer is rejected, a 60-day selling period for the transferring member; or

- if a member holds Class A Units and Class B Units, a transfer of all or a portion of the Class B Units and all of the Class A Units held by such member, if any, with the prior written consent of New Parent, which shall not be unreasonably withheld, conditioned or delayed, subject to a right of first offer in favor of the Sponsors and New Parent providing for a five business day period in which the Sponsors and New Parent may elect to accept or reject the offer and, if the offer is rejected, a 60-day selling period for the transferring member.

"Permitted Transferee" means:

- with respect to any member who is a natural person, (a) such member's spouse, parents, grandparents and descendents, including adopted relationships and the spouses of all such persons (the foregoing persons being a "Family Group") and (b) any trust which is for the primary benefit of such Member and/or such Member's Family Group (a "Trust") or a charitable organization which is controlled by such member;

- with respect to any member that is a Trust, such Trust's beneficiaries, the members of the Trust's beneficiaries' respective Family Groups, and any corporation, partnership, limited liability company or other entity in which the beneficial owners of all the equity interests are members of such Trust's beneficiaries' respective Family Groups and/or the Trust; and

- with respect to any member that is a fund, (a) any investment manager, investment advisor or general partner of such member, (b) any investment fund, investment account or investment entity whose investment manager, investment advisor or general partner is such member or (c) any investment fund, investment account or investment entity whose investment manager, investment advisor or general partner is the same entity as such member's investment manager, investment advisor or general partner, provided that in no event shall the limited partners of such member constitute Permitted Transferees.

Notwithstanding the foregoing, a proposed transfer of units will not be effective:

- if the proposed transferee is any of New Parent's competitors, customers or suppliers or any of their respective controlled, commonly controlled or controlling affiliates;

- until the proposed transferee, if not already a party to the Operating Agreement, has executed a joinder and any other standard and customary documentation as may be required by New Parent form time to time;

- if such transfer is for units in minimum denominations of less than $5 million in initial subscription price, unless such units represent all of the units held by the transferring member;

- if the proposed transferee is not a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) or a fund or account under common management with a "qualified institutional buyer";

- if such transfer does not comply with applicable securities laws; and

- if, after giving effect to such transfer, more than 400 persons (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries) would hold of record equity securities of any class of New Parent for purposes of Section 12(g) of the Exchange Act.

In addition, the Operating Agreement limits the total number of record holders that may hold any class of equity securities of New Parent at any one time to 400 (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries) (or such larger number established by the Board) and authorizes New Parent (i) to notify an Affected Member (as defined below) that it has 10 days to (x) rescind the transaction causing such member to become an Affected Member or (y) otherwise reconfigure its ownership of the units to cause such member to no longer be an Affected Member and (ii) if the member remains an Affected Member after such 10-day period, to (xx) require that the Affected Member transfer its units to an existing member (not affiliated with any Sponsor) in the event that the limit is exceeded or (yy) if no transfer is practicable in a timely manner to avoid the registration requirements of Section 12(g), New Parent may redeem an Affected Member's units to reduce the number of record holders to 400 (or such larger number established by the Board). The price at which such transfer or redemption shall be effected will not be less than the greater of (x) the fair market value of the units as determined in good faith by the Board and (y) the subscription price of the units. Pending such a compulsory transfer or redemption, the Affected Member whose units are to be transferred or redeemed shall not have the right to vote or receive distributions in respect of such units. The Board may from time to time, without the approval of the members, increase the maximum number of record holders that may hold any class of equity securities of New Parent at any one time. "Affected Member" shall mean (i) a member which is the purported transferee of units pursuant to a transfer which causes the record holders that hold any class of equity securities of New Parent at any one time to exceed 400 (or such larger number established by the Board) as calculated for purposes of Section 12(g) of the Securities Exchange Act of 1934 (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries) or (ii) (x) if New Parent concludes that record holders that held any class of equity securities of New Parent on the Effective Date of the Plan exceeded 400 (or such larger number established by the Board) as calculated for purposes of Section 12(g) (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries), those members holding the smallest number of units of such class of equity securities of New Parent on the Effective Date of the Plan required to transfer their units to cause the record holders of such class of equity securities of New Parent at such time to equal 400 (or such larger number established by the Board) as calculated for purposes of Section 12(g) (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries) or (y) if New Parent concludes that record holders that held any class of equity securities of New Parent exceeded 400 (or such larger number established by the Board) as calculated for purposes of Section 12(g) (excluding the Sponsors, their respective affiliates, and the managers, officers and employees of New Parent and its subsidiaries) after the Effective Date of the Plan as the result of a change in the nature of the ownership of a member's units, the member the nature of whose ownership so changed.

Preemptive Rights	Holders of Class A Units will not benefit from preemptive rights. The Sponsors and other holders of Class B Units will have preemptive rights as they may agree from time to time.
Registration Rights	The Class A Units will be issued to Eligible Investors will be offered and sold in reliance on the exemption afforded under section 1145(a)(1) of the Bankruptcy Code and deemed to be made in a public offering under section 1145(c) of the Bankruptcy Code. Accordingly, as a general matter, Eligible Holders, other than underwriters or affiliates of the issuer, should be free to resell such securities without registration under the Securities Act and New Parent is not undertaking to provide registration rights to all of its members. New Parent reserves the right to grant to underwriters, affiliates or purchasers of larger positions,

whether in Class A Units, Class B Units or other interests, such registration rights as may be separately agreed from time to time.

Tax Matters

New Parent will elect to be classified as a corporation for U.S. federal income tax purposes effective as of the date of its formation; provided, however, that if New Parent subsequently elects to be classified as a partnership for U.S. federal income tax purposes, New Parent shall comply with the tax covenants set forth below.

Neither New Parent nor Holdings shall engage, directly or indirectly through any entity owned by New Parent or Holdings that is treated as a pass-through entity for U.S. federal income tax purposes, in any activity that could result in unrelated business taxable income within the meaning of Section 512 of the Internal Revenue Code of 1986, as amended (the "Code") (including by reason of Section 514 of the Code) or income effectively connected with a U.S. trade or business for U.S. federal income tax purposes being allocated to any of the members of New Parent or Holdings, or that could result in a member of New Parent or Holdings being treated as engaged in a U.S. trade or business for U.S. federal income tax purposes by reason of its investments.

The Operating Agreement shall include such other provisions relating to tax matters as investors in the Class B Units or as New Parent may determine from time to time, subject to the rights of the Sponsors and other investors in New Parent.

Dissolution

New Parent will be dissolved and liquidated upon the earliest to occur of the following events:

- the determination by the Board that continued operation of New Parent is not in the best interest of the members;
- any event which makes it unlawful for New Parent to be continued; or
- the entry of a decree of judicial dissolution pursuant to the DLLCA.

The proceeds of sale and all other assets of New Parent will be applied in accordance with the provisions described under "—Distributions" above after the prior payment with respect to the debts and liabilities of New Parent and the expenses of liquidation or distribution, as may be determined by the Board, and the setting up of any reserves which the Board shall determine to be reasonably necessary for contingent, unliquidated or unforeseen liabilities or obligations of New Parent or the members arising out of or in connection with New Parent.

Amendments

Except as expressly provided in the Operating Agreement, any provision of the Operating Agreement may be amended from time to time by the Board. Notwithstanding the foregoing, (a) any amendment or modification to the Operating Agreement which adversely affects the rights or privileges of the Class B Units shall require the affirmative vote by members holding at least a majority of the issued and outstanding Class B Units, other than those held by the Sponsors, their respective affiliates or Ares' co-investors, and (b) any amendment or modification of the preemptive rights in favor of holders of Class B Units which adversely affects the rights or privileges of the Class B Units shall require the affirmative vote by each member holding Class B Units.

Exhibit B

Signatory Direct and Indirect Subsidiaries of Simmons Bedding Company

1. The Simmons Manufacturing Co., LLC
2. Windsor Bedding Co., LLC
3. World of Sleep Outlets, LLC
4. Simmons Contract Sales, LLC
5. Dreamwell, Ltd.
6. Simmons Capital Management, LLC
7. Simmons Export Co.

EXHIBIT B-1

Simmons Company's Form 10-K for the year ended December 29, 2008

Please see attached.

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

FORM 10-K

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

For the fiscal year ended December 27, 2008

☐ **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 333-124138

SIMMONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware	20-0646221
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Concourse Parkway, Suite 800, Atlanta, Georgia	30328
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (770) 512-7700

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Name of each exchange on which registered
Not applicable	Not applicable

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes: ☐ No: ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: ☑ No: ☐

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: ☐ No: ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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 (§ 229.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer: ☐ Accelerated filer: ☐ Non-accelerated filer: ☑ Smaller reporting company: ☐

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates computed by reference to the price at the common equity was last sold, or average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, June 27, 2008: Not applicable

The number of shares of the registrant's common stock outstanding as of June 10, 2009: 100

DOCUMENTS OR PARTS THEREOF INCORPORATED BY REFERENCE: None

As used within this report, the term “Holdings” refers only to Simmons Company, a Delaware corporation, the terms “Company,” “Simmons,” “we,” “our,” and “us” refer to Simmons Company and its subsidiaries, and the term “Simmons Bedding” refers to Simmons Bedding Company, a Delaware corporation, and its subsidiaries. We refer to our parent company, Simmons Holdco, Inc., as “Simmons Holdco.” Holdings is a holding company with no material assets other than its ownership of the common stock of its wholly-owned subsidiary, THL-SC Bedding Company (“THL-SC”), which is also a holding company with no material assets other than its ownership of the common stock of its wholly-owned subsidiary, Simmons Bedding. All of Holdings’ business operations are conducted by Simmons Bedding. Holdings was incorporated in 2003. We principally manufacture and sell adult-sized bedding products which we refer to as “conventional bedding products” throughout this report.

We are a voluntary filer with the Securities and Exchange Commission (“SEC”). Copies of our quarterly reports on Form 10-Q and annual reports on Form 10-K along with other reports and information filed with the SEC can be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our information may also be obtained electronically by accessing the SEC’s web site at http://www.sec.gov.

PART I

ITEM 1. BUSINESS.

OVERVIEW

Founded in 1870, Simmons is one of the world’s largest mattress manufacturers, manufacturing and marketing a broad range of products under our well-recognized brand names. The majority of our products are conventional innerspring mattresses and foundations that utilize our Pocketed Coil® and patented Advanced Pocketed Coil™ technologies and are marketed under our Beautyrest®, Beautyrest Black®, Beautyrest NxG™ and Beautyrest Studio™ brand names. In addition, we manufacture and market open coil innerspring mattresses under our DeepSleep® and BeautySleep® brand names and specialty (non-innerspring) visco-elastic products that utilize a patented NxG™ Advanced Memory Foam under our ComforPedic by Simmons™ brand name and specialty products made from natural latex under our Natural Care® brand names. We manufacture, sell and distribute our premium branded bedding products principally to retail and hospitality customers throughout the U.S. and Canada. Additionally, we license our intellectual property to international companies that manufacture and sell our premium branded bedding products throughout the world and to U.S. and Canadian manufacturers and distributors of bedding accessories, furniture, airbeds and other products. We sell products through a diverse North American base of approximately 3,300 retailers, representing over 15,500 outlets, including furniture stores, specialty sleep shops, department stores, furniture rental stores, mass merchandisers and juvenile specialty stores.

We believe that we are the industry leader in product innovation which helps drive unit sales and average unit selling price (“AUSP”) increases. Over our almost 140-year history, we have developed numerous innovations, including the first mass-produced innerspring mattress, the Pocketed Coil® and patented Advanced Pocketed Coil™ innersprings, the “Murphy Bed,” the Hide-a-Bed® sofa and our patented “no flip” mattress. We have proven research and development capabilities which we apply to design, develop, manufacture and market innovative sleep products that provide consumers with a better night’s sleep.

We operate 19 conventional bedding manufacturing facilities and two juvenile bedding manufacturing facilities strategically located throughout the U.S., Canada and Puerto Rico and, because we have national in-house manufacturing capabilities, we have the ability to service multi-state accounts, maintain consistent quality of products and leverage research and development activities. Our just-in-time manufacturing capability enables us to manufacture and ship almost all orders to our retail customers within five business days of receiving their order and also minimizes our working capital requirements.

As of December 27, 2008, Simmons Bedding was not in compliance with certain covenants of its $540.0 million senior credit facility and was operating under a forbearance agreement with Simmons Bedding's senior lenders. On January 15, 2009, Simmons Bedding did not make a scheduled payment of interest due on its $200.0 million 7.875% senior subordinated notes (the "Subordinated Notes") resulting in a default under the indenture governing the Subordinated Notes. As a result, we entered into a forbearance agreement with more than a majority of the outstanding Subordinated Notes holders, pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture. Both forbearance agreements, as amended, with our senior lenders and the noteholders provide a forbearance period through June 30, 2009 and, upon meeting certain conditions, a further extension to July 31, 2009. We incurred fees and expenses in connection with the forbearance agreements and related amendments.

As a condition to the forbearance agreement with our senior lenders, we initiated a financing restructuring process in December 2008. A special committee of independent directors was formed by our board of directors on January 23, 2009 to evaluate and oversee proposals for restructuring our debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives of the Company. There can be no assurance that we will be successful in implementing a restructuring. If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance periods as needed to successfully complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. We would not have the ability to repay any amounts accelerated under our various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates. Due to the possibility of such circumstances occurring, we are seeking a negotiated restructuring, including a restructuring of our debt obligations and/or sale of us, our affiliates or our assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing. Any bankruptcy filing could have a material adverse effect on our business, financial condition, liquidity and results of operations. The considerations above raise substantial doubt about our ability to continue as a going concern. For further information regarding our debt covenant violations and related forbearance agreements please see Item 1A "Risk Factors — Risks Related to Our Liquidity" and Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources."

RECENT ACQUISITIONS AND DISPOSITIONS

In June 2007, we acquired certain assets of CP Holdco, Inc., a specialty producer of foam mattresses and pillows (the "ComforPedic Acquisition"). In November 2006, we purchased Simmons Canada Inc. ("Simmons Canada"), a former licensee of Simmons Bedding and one of the largest bedding manufacturers in Canada (the "Canada Acquisition"). In August 2006, we sold our specialty sleep retail stores, Sleep Country USA, LLC ("SCUSA"), and now operate only as a manufacturer and distributor of bedding products principally to retailers or hospitality customers. The sale of SCUSA is referred to as the "SCUSA Disposition".

MERGER AND DISTRIBUTION TO SHAREHOLDERS

In February 2007, Holdings merged with another entity to become a wholly-owned subsidiary of Simmons Holdco, a holding company. Simmons Holdco was established to borrow $300.0 million under a senior unsecured loan ("Toggle Loan") to fund a distribution of $278.3 million to Holdings' then existing class A stockholders (the transactions are collectively referred to as the "2007 Distribution"). After the merger, the ownership structure of Simmons Holdco was identical to Holdings' ownership structure prior to the merger. As of December 27, 2008, Thomas H. Lee Equity Fund V, L.P. and its affiliates ("THL"), Fenway Partners Capital Fund II, L.P. and its affiliates ("Fenway"), and our management and directors held 71.1%, 8.4% and 20.5%, respectively, of Simmons Holdco's voting stock, after giving effect to restricted stock and stock options issued to management and directors under our equity incentive plan.

OUR SEGMENTS

We have two reportable segments organized by geographic area, Domestic (U.S. including Puerto Rico) and Canada. Both reportable segments manufacture, sell and distribute premium branded bedding products to retail customers and institutional users of bedding products, such as the hospitality industry. We derived approximately 87.6% of our 2008 net sales from our Domestic segment.

INDUSTRY

We compete principally in the U.S. wholesale bedding industry, which generated sales of approximately $6.2 billion in 2008, according to the International Sleep Products Association ("ISPA"). While there are over 550 conventional bedding manufacturers in the U.S. according to the U.S. Census Bureau, six companies (including Simmons) accounted for approximately 68% of the conventional bedding industry's 2007 wholesale revenues and the top 15 accounted for approximately 81% of the conventional bedding industry's 2007 wholesale revenues, according to *Furniture/Today*, a home furnishings industry publication. The remainder of the domestic conventional bedding market primarily consists of hundreds of smaller independent local and regional manufacturers.

The U.S. bedding industry has been historically characterized by growing unit demand, rising AUSP, stability in various economic environments, and minimal imports. The compound annual growth rate of total conventional bedding industry sales has been approximately 5.2% over the last 20 years. However, in 2008, the total conventional bedding industry sales declined 9.1%, the largest sales decrease since ISPA has been tracking the industry in the mid-1970s.

COMPETITION

We believe that we principally compete against our top competitors on the basis of product selection, brand recognition, product innovation, quality and customer service programs, including co-operative advertising, sales force training and marketing assistance. We believe we compare favorably to our primary competitors in each of these areas. In addition, only a few companies (including Simmons) have national, company-operated manufacturing and distribution capabilities. According to *Furniture/Today*, we are the second largest bedding manufacturer in the U.S., with an estimated 15.7% share of the industry's wholesale revenues for 2007. In June 2009, Consolidated Bedding, Inc., the maker of Spring Air mattresses and the sixth largest bedding manufacturer in the United States in 2007 according to *Furniture/Today,* filed for Chapter 7 bankruptcy protection and ceased production.

Other than the top six manufacturers, the U.S. bedding industry consists of several smaller national manufacturers, with the remainder being independent local and regional manufacturers. These local and regional manufacturers generally focus on the sale of lower price point products. While we primarily manufacture differentiated bedding products targeted for mid- to upper-end price points, we offer a full line of bedding products to our retailer base.

BEDDING PRODUCTS

Our conventional mattress products are targeted to cover a breadth of marketplace price points (currently $299 to $5,999 per queen set) and offer consumers a wide range of mattress constructions with varying styles, firmnesses and features which enables us to serve the majority of traditional and specialty consumer sleep needs.

Our mattress products are produced utilizing one or a combination of technologies and construction techniques, including Pocketed Coil® springs, patented Advanced Pocketed Coil™ springs, open coil innersprings, gel, latex, visco-elastic, and/or polyurethane foam. The majority of our products are manufactured utilizing our Pocketed Coil® springs, which were originally developed by us in 1925. The Pocketed Coil® springs are made of heavy gauge steel, pre-compressed, then placed in a durable, non-allergenic soft fabric encasements. Pocketed Coil® springs work independently from each other to reduce motion across the sleep surface, resulting in better conformability to the sleeping body and the reduction of motion transferred across the bed from one partner to the other. This technology was upgraded with our patented Advanced Pocketed Coil™ spring technology, which was introduced in October 2003 and utilizes stranded wire for each coil to provide significantly more durability and enhanced motion separation benefits.

Every conventional mattress we manufacture features our innovative “no flip” design, which we were the first to distribute nationally in 2000. This patented design offers enhanced sleep benefits and product durability, along with the consumer convenience of never having to flip the mattress. All of our mattress products were re-engineered during 2007 to comply with the U.S. Consumer Product Safety Commission’s (“CPSC”) new open flame resistance standard that went into effect on July 1, 2007.

The Beautyrest® mattress, our flagship premium product featuring the Pocketed Coil® springs, has been our primary brand since we introduced the Pocketed Coil® spring in 1925 and we expect it to continue generating the majority of our sales. In January 2007, we introduced a new Beautyrest® 2007 product line, which offers higher coil densities and improved comfort features.

In July 2006, we first introduced the Beautyrest Black® product line, which targets the $1,999 — $5,999 queen retail price points, and uses our exclusive and patented Advanced Pocketed Coil™ spring. The Beautyrest Black® product line is targeted to those consumers seeking to indulge themselves with the ultimate in luxury with the very latest technologies. In February 2009, we updated our Beautyrest Black® product line.

In January 2008, we first introduced the Beautyrest NxG™ product line, which targets the $1,999 — $3,499 queen retail price points, and combines the patented NxG™ Advanced Memory Foam with our Pocketed Coil® springs. The Beautyrest NxG™ product line also features our patent pending EvenLoft™ design that utilizes a body contouring stretch knit fabric.

In July 2008, we first introduced the Beautyrest Studio™ product line, which targets the $499 — $799 queen retail price points, to provide a new lower price point entry into the Beautyrest® Pocketed Coil® spring technology. The Beautyrest Studio™ line features a European low profile design along with soft knit fabrics.

Our DeepSleep® product line is targeted at the queen retail price points under $1,000 for the value conscious consumers. The DeepSleep® product line is constructed utilizing durable open coil innersprings and soft fabrics. After June 2009, distribution of this product line will be replaced by our new BeautySleep® product line, which was introduced in February 2009. The BeautySleep® product line, which targets the $399 — $799 queen retail price points, features open coil innersprings combined with foam encasement, soft knit fabrics, visco memory foam and BackGuard® support. The BeautySleep® product line aggressively targets consumers who are seeking a well-recognized brand name product at velocity price points.

Our specialty bedding products include the ComforPedic by Simmons™ line, memory foam bedding line made with a patented NxG™ Advanced Memory Foam, and the Natural Care® line. Our ComforPedic by Simmons™ product line retails at $1,799 — $4,999 queen retail price points. Our environmentally-friendly Natural Care® product line contains natural rubber tree based latex plus soy enhanced based foam. The Natural Care® product line retails at $1,099 — $4,999 queen retail price points.

Domestically, we also manufacture and sell Simmons® branded crib mattresses, featuring interlocking coil construction for support and comfort that is durable enough to last through the toddler years, and Simmons® branded juvenile soft good products, including items such as vinyl contour changing pads and terry covers, vinyl replacement pads, and other accessory items.

CUSTOMERS

Our strong brand names and reputation for high quality products, innovation and service to our customers, together with the attractive retail margins associated with bedding products, have enabled us to establish a strong customer base for conventional bedding products throughout the U.S. and Canada and across major distribution channels, including furniture stores, specialty sleep shops, department stores and rental furniture stores. Additionally, we distribute domestically juvenile bedding products through mass merchandisers, furniture stores and specialty retailers. We manufacture and supply bedding to over 15,500 outlets throughout North America, representing approximately 3,300 retail customers.

We also distribute branded products directly to institutional users of bedding products such as the hospitality industry and certain agencies of the U.S. government. Major hospitality accounts include Starwood Hotels & Resorts Worldwide, Inc. ("Starwood Hotels"), La Quinta Inns, Inc., Best Western International, Inc., Marriott International, Inc., Choices Hotels International, Inc. and Wyndham Worldwide Corporation. In 1999, Starwood Hotels selected our Beautyrest® mattress as a product for their Heavenly Bed® program, which is included in the guest rooms of their Westin properties.

Our five largest customers accounted for approximately 26% of our product shipments for the year ended December 27, 2008 with no one customer representing more than 10% of product shipments for the year.

SALES, MARKETING AND ADVERTISING

Our revenue is principally generated through the wholesale distribution of conventional bedding products, including mattresses and foundations, to retailers. Our sales are dependent on our ability to create brand loyalty for our products with the end consumer. Our selling infrastructure provides retailers with coordinated marketing campaigns, as well as local support tailored to the competitive environments of each individual market. Our sales force is trained extensively in advertising, merchandising and salesmanship, all of which increase the value of the marketing support they provide to retailers. We believe that our focus on better sleep and our training of our sales associates and our customers' retail sales associates differentiates us from our competitors.

We develop advertising and retail sales incentive programs specifically for individual retailers. Point-of-sale materials, including mattresses and foundation displays that we design and supply highlight the differentiating features and benefits of our products. We believe that our sales training and consumer education programs are the most effective in the industry. We have designed these programs to teach retail sales associates product knowledge and sales skills.

PATENTS AND TRADEMARKS

We own many trademarks, including Simmons®, Beautyrest®, Beautyrest Black®, Beautyrest Studio™, ComforPedic®, ComforPedic by Simmons™, Natural Care®, BeautySleep®, Deep Sleep®, Pocketed Coil®, Advanced Pocketed Coil™ and NxG™, most of which are registered or applied for in the U.S. and in many foreign countries. We protect portions of our manufacturing equipment and processes under both trade secret and patent law. We possess several patents on the equipment and processes used to manufacture our Pocketed Coil® and Advanced Pocketed Coil™ springs and the duration of our patents range from 2009 through 2028. We do not consider our overall success to be dependent upon any particular intellectual property rights.

LICENSING

During the late 1980's and early 1990's, we disposed of most of our foreign operations and secondary domestic lines of business via license arrangements. We now license internationally (excluding Canada and Puerto Rico) the Simmons® and Beautyrest® trademarks, and many of our other trademarks, processes and patents to third-party manufacturers which produce and distribute Simmons® branded conventional bedding products within their designated territories. These licensing agreements allow us to reduce our exposure to political and economic risks abroad by minimizing investments in those markets. We have 16 foreign licensees and eight sub-licensees. These foreign licensees have rights to sell Simmons-branded products in over 100 countries.

Additionally, the Company has ten domestic and Canadian third-party licensees. Some of these licensees manufacture and distribute juvenile furniture and healthcare-related furniture, and non-bedding upholstered furniture. Additionally, the Company has licensed the Simmons® trademark and other trademarks, generally for limited terms, to manufacturers of occasional use airbeds, futons, comforters, pillows, mattress pads, sheets, blankets, and other products.

Licensing revenue is recorded as earned, based upon the sales of licensed products by our licensees. For 2008, 2007 and 2006, the Company's licensing agreements as a whole generated royalties and technology fees of approximately $9.5 million, $10.1 million and $8.7 million, respectively.

SUPPLIERS

We purchase substantially all of our conventional bedding raw materials centrally in order to maximize economies of scale and volume discounts. The major raw materials that we purchase are foam, wire, spring components, lumber, insulator pads, innersprings, foundation constructions, and fabrics and other roll goods consisting of fiber and non-wovens. We obtain a large percentage of our required raw materials from a small number of suppliers. For the year ended December 27, 2008, we bought approximately 74% of our raw material needs from ten suppliers. We believe that supplier concentration is common in the bedding industry.

We have supply agreements with several suppliers including Leggett & Platt, Incorporated ("L&P"), Foamex L.P. ("Foamex"), and National Standard Company. With the exception of certain products supplied by L&P, Foamex, and National Standard Company, we believe that we can readily replace supply, if or when the need arises, within 90 days as we have already identified and use alternative resources.

L&P supplies the majority of certain bedding components (including certain spring components, insulator pads, wire, fiber, quilt backing and flange material) to the U.S. bedding industry. In 2008, we purchased approximately 30% of our raw materials from L&P. To ensure an adequate supply of various components, we have entered into agreements with L&P, generally expiring in the year 2010, for the supply of certain spring components. Among other things, these agreements generally require us to purchase a majority of our requirements of several components from L&P. We intend to negotiate a new agreement with L&P to extend the term. National Standard Company is our exclusive supplier for the stranded wire used in our patented Advanced Pocketed Coil™ products. Foamex is our exclusive supplier for NxG™ visco-foam used in our ComforPedic® and Beautyrest NxG™ products.

MANUFACTURING AND FACILITIES

We currently operate 21 manufacturing facilities, two of which only manufacture juvenile bedding, strategically located throughout the U.S., Canada and Puerto Rico. We manufacture most conventional bedding to order and use "just-in-time" production techniques in our manufacturing processes to more efficiently serve our customers' needs and to minimize our inventory carrying costs. We generally schedule, produce and ship almost all of our conventional bedding orders within five business days of receipt of the order. This rapid delivery capability allows us to minimize our inventory of finished products and better satisfy customer demand for prompt shipments.

We invest substantially in new product development, enhancement of existing products and improved operating processes, which we believe is crucial to maintaining our strong industry position. Much of this research is performed at the Simmons Institute of Technology and Education ("SITE"), our 38,000 square foot research and education center in Atlanta, Georgia. Our marketing and manufacturing departments work closely with our engineering staff at SITE to develop and test new products for marketability and durability. Costs associated with the research and development of new products amounted to approximately $2.9 million, $2.8 million and $2.4 million for 2008, 2007 and 2006, respectively.

We also seek to reduce costs and improve productivity by continually developing more efficient manufacturing and distribution processes at SITE. At the same time, we work to ensure that we maintain high quality products by conducting product and materials testing, designing manufacturing facilities and equipment and improving process engineering and development.

We keep abreast of bedding industry developments through sleep research conducted by industry groups and by our own research performed by our marketing and engineering departments. We also participate in the Better Sleep Council, an industry association that promotes awareness of sleep issues, and ISPA.

WARRANTIES AND PRODUCT RETURNS

Our conventional innerspring bedding products generally offer ten-year limited warranties against manufacturing defects and our conventional specialty bedding products offer 20 to 25 year limited warranties against manufacturing defects. Our juvenile bedding products generally offer five-year to lifetime limited warranties against manufacturing defects. We believe that our warranty terms are generally consistent with those of our primary national competitors. The historical costs to us of honoring warranty claims have been within management's expectations. We have also experienced non-warranty returns for reasons generally related to order entry errors and shipping damage. We resell our non-warranty returned products primarily through as-is furniture dealers and our World of Sleep Outlets, LLC ("World of Sleep") stores.

EMPLOYEES

As of December 27, 2008, we had approximately 2,800 full time employees. Employees at eight of our 21 manufacturing facilities (approximately 56% of our workforce) are represented by various labor unions with separate collective bargaining agreements. Our collective bargaining agreements are typically negotiated for two- to five-year terms.

We consider overall relations with our workforce to be satisfactory. We have had no labor-related work stoppages in the United States in over 30 years. In August 2008, the Simmons Canada unionized workforce at our Bramalea, Ontario manufacturing facility commenced a strike during labor negotiations. We permanently closed the facility in September 2008. As a result of the labor strike and subsequent facility closure, we shifted our manufacturing production to our other facilities.

SEASONALITY/OTHER

Our third quarter sales are typically higher than our other fiscal quarters. We attribute this seasonality principally to retailers' sales promotions related to the 4th of July and Labor Day holidays. For the last five years, third quarter sales have represented on average 27% of our consolidated net sales.

Most of our sales are by short term purchase orders. Because the level of production is generally prompted to meet customer demand, we have a negligible backlog of orders. Most finished goods inventories of bedding products are physically stored at manufacturing locations until shipped.

REGULATORY MATTERS

As a manufacturer of bedding and related products, we use and retain on site small quantities of liquid cleaning materials and of a number of substances, such as glue, lubricating oil, solvents, and other petroleum products that are used completely in the production process. Among other state and federal statues, we are subject to the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Air Act, similar Canadian statutes and related state and provincial statutes and regulations. Cleaning materials or lubricants used in the maintenance area are disposed of by licensed and permitted disposal companies and are in such quantities that do not exceed the very small generator threshold which does not require additional regulatory documentation. All required disposal documentation is maintained at the manufacturing facilities. We have made and will continue to make capital and other expenditures to comply with environmental requirements. As is the case with manufacturers in general, if a release of hazardous substances occurs on or from our properties or any associated offsite disposal location, or if contamination from prior activities is discovered at any of our properties, we may be held liable, the amount of such liability could be material and our financial condition or results of operations could be materially adversely affected.

As a result of our efforts to rectify environmental contamination at and in the vicinity of two former facilities in Jacksonville, Florida and Linden/Elizabeth, New Jersey, the current levels of contamination have been diminished to levels allowing for natural attenuation and monitoring as determined by the respective state environmental agencies. Monitoring of the Jacksonville site will continue through at least 2009 on a quarterly basis and will be reevaluated in the fourth quarter of the year. Monitoring at the Linden/Elizabeth site is anticipated to be ongoing. While the current estimate of such liabilities is approximately $0.1 million, future liability for such matters is difficult to predict.

We have recorded an insignificant reserve based upon our best estimate to reflect our potential liability for environmental matters. Because of the uncertainties associated with environmental remediation, the costs incurred with respect to the potential liabilities could exceed our recorded reserves.

Our bedding and other product lines are subject to various federal, state and provincial laws and regulations relating to flammability, sanitation and other standards. We believe that we are in material compliance with all such laws and regulations. Various federal, state and other regulatory agencies may adopt new laws, rules and regulations and compliance with such new laws, rules and regulations may increase our costs, alter our manufacturing processes and/or impair the performance of our products.

ITEM 1A. RISK FACTORS.

Our business, financial condition and liquidity, as well an investment in our and our affiliates' securities, involve substantial risks and uncertainties, including those described below.

Risks Related to Our Liquidity and Restructuring

We are not in compliance with certain covenants under the senior credit facility and the indenture governing the Subordinated Notes, and as a result we have entered into related forbearance agreements. If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance period as needed to complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated, which could lead to a bankruptcy filing. A bankruptcy filing would subject our business and operations to certain risks and have a negative effect on the value of our debt.

Simmons Bedding's senior credit facility requires us to maintain specified consolidated financial ratios and satisfy certain consolidated financial tests. At September 27, 2008, December 27, 2008 and March 28, 2009, Simmons Bedding was not in compliance with the maximum leverage financial covenant and certain other covenants contained in its senior credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Debt — Senior Credit Facility." As a result, as of November 12, 2008, Simmons Bedding has operated under a forbearance agreement with its senior lenders. Pursuant to the forbearance agreement, the senior lenders agreed to, among other things, forbear from exercising their default related rights and remedies under the senior credit facility through March 31, 2009, subject to earlier termination in some circumstances. Simmons Bedding entered into amendments to the forbearance agreement on March 25, 2009 and May 27, 2009 with its senior lenders, whereby the senior lenders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain conditions, a further extension to July 31, 2009. We have incurred fees and expenses in connection with this forbearance agreement and related amendments. In addition, we have entered into deposit account control agreements with our senior lenders that may limit our access to cash held in such accounts in the case of an event of default under the senior credit facility.

On January 15, 2009, Simmons Bedding did not make the scheduled payment of interest due on its Subordinated Notes resulting in a default under the indenture governing the Subordinated Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Debt — Subordinated Notes." On February 4, 2009, Simmons Bedding and the holders of more than a majority of the outstanding Subordinated Notes entered into a forbearance agreement, pursuant to which such holders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture through March 31, 2009. Simmons Bedding entered into amendments to the forbearance agreement on March 25, 2009 and May 27, 2009, whereby such holders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain additional conditions, a further extension to July 31, 2009. Pursuant to the terms of the forbearance agreement, such holders have agreed to take any actions that are necessary to prevent an acceleration of the payments due under the Subordinated Notes during the forbearance period. Because such holders represent more than a majority of the Subordinated Notes, they have the power under the indenture to rescind any acceleration of the Subordinated Notes by either the trustee or the other holders of the Subordinated Notes. We have incurred fees and expenses in connection with this forbearance agreement and related amendments.

If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance period as needed to successfully complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. We would not have the ability to repay any amounts accelerated under our various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates. Due to the possibility of such circumstances occurring, we are seeking a negotiated restructuring, including a restructuring of our debt obligations and/or sale of us, our affiliates or our assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing.

Any bankruptcy by or against us or our affiliates would subject our business and operations to various risks, including (i) the incurrence of significant costs, including expenses for legal counsel and professional advisors, (ii) difficulty maintaining or increasing our sales, (iii) difficulty obtaining and maintaining relationships with dealers, suppliers and vendors, which may require us to pay them on a current cash basis, (iv) difficulty in maintaining our manufacturing operations, (v) difficulty in retaining and motivating key employees or recruiting new employees, (vi) difficulty in maintaining or obtaining sufficient financing to fund our operations and any reorganization plan and meet future obligations, (vii) potential defaults under our contractual obligations such as leases and (viii) the incurrence of cancellation of indebtedness income that is equal to or in excess of our accrued net operating losses and that could result in an increase in our cash tax payments and our effective tax rate and reduce our cash flows from operations. In addition, we may not be able to successfully develop or consummate a plan of reorganization that is acceptable to the bankruptcy court and our creditors, investors and other stakeholders. Any bankruptcy filing would adversely impact the ability of Simmons Bedding, THL-SC, Holdings or Simmons Holdco to repay their respective debt. Any debt or equity holder of Simmons Bedding, Holdings or Simmons Holdco could suffer the loss of a significant part or all of its loan or investment as a result of a bankruptcy filing.

We and our affiliates currently have substantial indebtedness that we or our affiliates may be unable to extend, refinance or repay, and we are seeking to implement a restructuring. Any restructuring could have a negative impact on our business and liquidity and investments in the debt and equity securities of Simmons Bedding, Holdings, and Simmons Holdco. In addition, a restructuring may not be successful. A restructuring or a failure to implement a restructuring could result in a bankruptcy filing, which would have a material adverse effect on our business, financial conditions, liquidity and operations, raise substantial doubt about our ability to continue as a going concern and effect the value of our debt.

We currently have a substantial amount of debt that we may be unable to extend, refinance or repay. If we are unable to refinance or extend our debt, or such debt is accelerated due to our default because we are unable to comply with the terms of the forbearance agreements or otherwise, or if we are unable to extend the forbearance periods as needed to successfully complete a restructuring, our assets will not be sufficient to repay such debt in full, and our available cash flow will not be adequate to maintain our current operations. A special committee of independent directors was formed by our board of directors to evaluate and oversee proposals for a restructuring and/or sale of Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates or the assets of Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates, which could likely occur pursuant to a pre-packaged, pre-arranged or voluntary filing of bankruptcy. Such bankruptcy filing could have the material adverse impacts described above. In addition, any restructuring may require us to obtain debtor-in-possession financing which may not be available in the amounts required, on acceptable terms, on a timely basis or at all. Current credit market conditions could make it more difficult to obtain acceptable debtor-in-possession financing or to refinance our indebtedness as part of any restructuring. If we are unable to obtain any requisite debtor-in-possession financing, we may not be able to successfully implement our restructuring. There can be no assurance that we will be successful in implementing a restructuring.

Even if we are successful in implementing a restructuring, the terms of such restructuring could have a negative impact on our business and liquidity, including (i) limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service or refinancing or to fund operations, (ii) limiting our ability to use or prohibiting our use of any operating cash flow to pay dividends to service our or Simmons Holdco’s debt or fund our business, (iii) limiting our ability to capitalize on our business opportunities and react to competitive pressures and regulatory changes and (iv) limiting our ability or increasing the costs to refinance our debt. In addition, if the restructuring and any related bankruptcy filing involves the sale of Simmons Bedding or its assets, we may not have any remaining operating assets to generate cash flow to repay the debt of Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates and the proceeds may not be sufficient to repay such debt in full, and, as a result, any debt or equity holder of Simmons Bedding, Simmons or Simmons Holdco could suffer the loss of a significant part or all of its loan or investment.

If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements or extend the forbearance periods prior to a successful completion of a restructuring, our senior lenders and holders of Subordinated Notes will be entitled to accelerate their debt upon the termination of the forbearance agreements. If there is an acceleration of payments under the senior credit facility, then Simmons Bedding would be in default under its Subordinated Notes, Holdings would be in default under its Discount Notes, and Simmons Holdco would be in default under its Toggle Loan. We would not have the ability to repay any amounts accelerated under our various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates, which would have the material adverse impacts described above.

Our financial statements have been prepared assuming that we will continue as a going concern. However, if we do not retain the necessary financing to meet our obligations and pay our liabilities when they come due or restructure our debt in a manner satisfactory to our lenders, it could result in a voluntary filing of bankruptcy by Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates, which would have the material adverse impacts described above.

The factors described in this Annual Report on Form 10-K, including in the footnotes to our consolidated financial statements, raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from this uncertainty. In addition, our independent registered public accounting firm has included an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern in their audit report for the fiscal year ended December 27, 2008. No assurances can be made regarding our ability to satisfy our liquidity and working capital requirements, to obtain the necessary financing to meet our obligations and pay our liabilities when they come due or our ability to successfully complete a restructuring. Failure to successfully implement a restructuring on a timely basis or at all would result in depleting our available funds and not being able to pay our obligations when they become due and continue as a going concern. Failure to satisfy such obligations and our other liquidity and working capital requirements could result in a voluntary filing of bankruptcy by Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates, which would have the material adverse impacts described above.

We have received a notice of defaults under the indenture governing the Discount Notes and we may receive additional notices under our debt obligations in the future. If we are unable to cure these defaults under the Discount Notes, payment under our Discount Notes could be accelerated, and could result in further defaults under the senior credit facility and the Subordinated Notes, as well as a default under the Toggle Loan or our other debt obligations.

On April 14, 2009, we received a notice sent on behalf of holders of the Discount Notes, purporting to own more than 25% of the $269.0 million principal amount of the outstanding Discount Notes, pursuant to which such holders have notified us that our failure to furnish to the holders of the Discount Notes (i) a Quarterly Report on Form 10-Q for the quarter ended September 27, 2008 and (ii) an Annual Report on Form 10-K for the fiscal year ended December 27, 2008, each as required under the indenture governing the Discount Notes, constitutes defaults thereunder. Under the indenture governing the Discount Notes, we have until June 13, 2009 to cure these defaults. In addition, having received the notice, if we fail to cure these defaults by June 13, 2009, the forbearance periods under both the forbearance agreements pertaining to the senior credit facility and the Subordinated Notes will terminate. By the filing of this Annual Report on Form 10-K for fiscal year ended December 27, 2008 and the simultaneous filing of the Quarterly Report on Form 10-Q for the quarter ended September 27, 2008, we have cured these defaults within the specified cure period. We have not filed the Quarterly Report on Form 10-Q for the first quarter ended March 28, 2009, and we may receive further notices of default related to such failure or other defaults under the Discount Notes or the Toggle Loan.

If we are unable to cure these or any other defaults, payments under our debt obligations could be accelerated, and result in defaults under the senior credit facility, the Subordinated Notes, the Discount Notes, the Toggle Loan or our other debt obligations. A default or an acceleration of payments under our debt obligations could result in a voluntary filing of bankruptcy by Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates, which would have the material adverse impacts described above.

The senior credit facility and the indentures related to our debt instruments contain various covenants which limit management's discretion in the operation of our business.

The senior credit facility and the indentures related to the Subordinated Notes, the Discount Notes and the Toggle Loan and the existing forbearance agreements related to the senior credit facility and the Subordinated Notes contain various provisions which limit management's discretion in managing our business by, among other things, restricting our ability to:

- borrow money;
- pay dividends on stock or repurchase stock;
- make certain types of investments and other restricted payments;
- create liens;
- sell certain assets or merge with or into other companies;
- enter into certain transactions with affiliates;
- sell stock in certain of our subsidiaries; and
- restrict dividends or other payments from our subsidiaries.

In addition, the senior credit facility requires Simmons Bedding to meet certain financial ratios. Covenants in the senior credit facility require Simmons Bedding to use a portion of the proceeds it receives in specified debt or equity issuances to repay outstanding borrowings under its senior credit facility.

Even if we are able to refinance or extend our indebtedness or enter into a successful restructuring plan, our substantial indebtedness could still adversely affect our financial health and reduce the cash available to support our business and operations.

On a consolidated basis, we are currently highly leveraged. As of December 27, 2008, we had $988.2 million of total indebtedness outstanding and less than $0.1 million available on our revolving loan under our senior credit facility. Even if we are able to successfully complete a restructuring, we may still maintain some indebtedness. Any indebtedness could have important consequences. For example, it could:

- make it more difficult for Simmons to satisfy its obligations with respect to our outstanding debt, and a failure to comply with any financial and other restrictive covenants could result in an event of default under our debt instruments and agreements;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- increase our vulnerability to interest rate increases, as borrowings under the senior credit facility and certain other debt are at variable rates, resulting from financial market conditions, ratings downgrades or other factors;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, among other things, our ability to borrow additional funds.

In addition, we may be able to incur additional indebtedness in the future. If new debt is added, the related risks described above could intensify.

Each of Holdings and Simmons Holdco is a holding company with no operations. Each of Holdings and Simmons Holdco may not have access to the cash flow and other assets of its subsidiaries that may be needed to make payments on its respective debt obligations.

Holdings is a holding company that conducts no operations. Its primary assets are deferred financing fees and the capital stock of THL-SC, which in turn is a holding company that conducts no operations and the only assets of which are the capital stock of Simmons Bedding. Simmons Holdco is our parent company and it has no material assets other than its ownership of our capital stock. Operations are conducted through Simmons Bedding and its subsidiaries, and Holdings' ability to make payments on the Discount Notes and Simmons Holdco's ability to make payments on the Toggle Loan are solely dependent on the earnings and distribution of funds from Simmons Bedding and its subsidiaries through loans, dividends or otherwise. However, none of Holdings' or Simmons Holdco's subsidiaries is obligated to make capital contributions, dividends, loans or other payments available to it for payment on the Discount Notes or the Toggle Loan. The terms of the senior credit facility and the forbearance agreements significantly restrict Simmons Bedding from paying dividends and otherwise transferring assets to Holdings or to Simmons Holdco, except for administrative, legal and accounting services. Further, the Subordinated Notes significantly restrict Simmons Bedding and its subsidiaries from paying dividends to Holdings or to Simmons Holdco and otherwise transferring assets to Holdings or to Simmons Holdco. Given the restrictions in Simmons Bedding's existing debt instruments, we currently anticipate that, in order to pay interest on or the principal amount at maturity of the Discount Notes or Toggle Loan, we would be required to adopt one or more alternatives, such as refinancing all of our indebtedness, selling our equity securities or the equity securities or assets of Simmons Bedding, or seeking capital contributions or loans from our affiliates. There can be no assurance that any of the foregoing actions could be effected as part of the restructuring on satisfactory terms, if at all, or that any of the foregoing actions would enable us to refinance our indebtedness or pay interest on or the principal amount of the Discount Notes or Toggle Loan, or that any of such actions would be permitted by the terms of any other debt instruments of ours or our subsidiaries then in effect. In addition, it is likely that any restructuring that we would implement would not enable us to make any further payments on the Discount Notes or Toggle Loan, and as a result, any equity or debt holder of Simmons Bedding, Holdings or Simmons Holdco could suffer the loss of a significant part or all of its loan or investment.

The actions of Simmons Holdco's controlling stockholder could conflict with the interests of the holders of our debt.

Simmons Holdco's stockholders include affiliates of THL, affiliates of Fenway Partners and certain members of our management and directors. As of December 27, 2008, affiliates of THL owned 71.1% of all voting stock. THL has the ability to elect all of the members of our board of directors, subject to certain voting agreements under our stockholders' agreement, appoint new management and approve any action requiring the approval of our stockholders. The directors have the corporate authority, subject to any restrictions under our debt and forbearance agreements, to make decisions affecting our capital structure, including the issuance of additional indebtedness, the terms of any restructuring and the declaration of dividends. In February 2007, Simmons Holdco borrowed $300.0 million under the Toggle Loan to distribute $278.3 million to certain of Holdings' then existing stockholders. In 2004, the net proceeds of the issuance of the $269.0 million aggregate amount of the Discount Notes were used to pay a dividend to stockholders. In addition, transactions may be pursued that could enhance THL's equity investment while involving risks to our interests or the interests of our investors. In particular, these and other actions of Simmons Holdco's controlling stockholder could negatively impact the debt or equity holders of Simmons Bedding, Holdings or Simmons Holdco.

We are vulnerable to interest rate risk with respect to our debt, which could lead to an increase in interest expense and reduce our cash available for operations.

We are subject to interest rate risk in connection with our variable rate indebtedness. Interest rate changes could increase the amount of our interest payments and thus negatively impact our future earnings and cash flows. Our annual interest expense on our floating rate indebtedness will increase by $0.5 million for each 1/8th percentage point increase in interest rates.

Risks Related to Our Business

Deteriorating economic conditions could negatively affect our revenues and profitability.

General U.S. and world economic conditions have weakened significantly, and we expect this weakness to continue in 2009. The unemployment rate is expected to continue to rise, consumer confidence and spending, including spending on larger homes or second homes, has decreased dramatically and the stock market remains extremely volatile. In addition, tightening credit markets and related interest rate increases for, and limitations on availability of, consumer credit could negatively impact consumer purchases of our mattresses. Given these expected economic conditions, it will be more difficult for us to grow revenue and achieve profitability. In the fourth quarter of 2008, we significantly lowered our projected future operating results for both our Domestic and Canada reporting units based on deterioration of consumer spending and increased material costs. In addition, in an economic recession or under other adverse economic conditions, customers and vendors may be more likely to fail to meet contractual terms or their payment obligations. Such failures will impact our cash flow and ability to repay our indebtedness. A further decline in economic conditions may have continued material adverse effect on our business.

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

The bedding industry is highly competitive. There are approximately 550 bedding manufacturers in the U.S. The top six manufacturers (including us) accounted for approximately 68% of the conventional bedding industry's wholesale revenues in 2007 and the top 15 accounted for 81% of wholesale revenues, according to *Furniture/Today*, an industry publication. The highly competitive nature of the bedding industry means we are continually subject to the potential loss of market share or the inability to gain market share, difficulty in raising prices, and margin reductions. We may not be able to compete effectively in the future. In addition, some of our principal competitors may be less highly-leveraged, have greater access to financial or other resources, have lower cost operations and/or be better able to withstand changing market conditions.

Regulatory requirements relating to our products may increase our costs, alter our manufacturing processes and impair our product performance.

Our products are and will continue to be subject to regulation in the U.S. and Canada by various federal, state, provincial and local regulatory authorities. In addition, other governments and agencies in other jurisdictions regulate the sale and distribution of our products. Compliance with these regulations may negatively impact our business. For example, the products manufactured, distributed and sold by the Company come within the scope of several provisions of the Consumer Product Safety Improvement Act of 2008 ("CPSIA"), which was signed into law on August 14, 2008. CPSIA Section 102 requires that as of November 12, 2008, a Certificate of Compliance ("COC") issued by the manufacturer accompany all products subject to regulation by the CPSC, that the COC be provided to all distributors and retailers to whom such regulated product is shipped, and that the COC be available for inspection upon request of the CPSC. All of the products subject to regulation by the CPSC that we manufacture were accompanied by a COC in advance of the November 12, 2008 deadline, and we are able to produce the COCs upon request, in accordance with current federal law. Further, CPSIA Section 101 establishes limitations on the levels of lead that may be present in certain products intended for use by children; similarly, CPSIA Section 108 regulates the levels of certain phthalates which may be present in certain products intended for use by children. Many of the juvenile products manufactured or distributed by us are subject to and comply with these regulations. We are currently preparing to meet the requirements of CPSIA Section 104, which final rule is to be issued August 14, 2009. CPSIA Section 104 will require registration of certain children's products. We will continue to monitor rulemaking by the CPSC and to work toward compliance with additional requirements of the CPSIA, particularly with respect to juvenile products sold by us, and expect to be in full compliance in advance of the respective effective dates. We incurred and will continue to incur significant costs related to the new standards. In addition, the CPSC and other regulatory agencies may also adopt new laws, rules and regulations relating to other standards. Our product solutions will not necessarily meet all future standards. Compliance with such new laws, rules and regulations may increase our costs, alter our manufacturing processes and impair the performance of our products. Further, any bankruptcy filing by or against us could adversely affect our ability to comply with new laws, rules or regulations on a timely basis.

Legal and regulatory requirements may impose costs or charges on us that impair our business and reduce our profitability.

Our marketing and advertising practices could become the subject of proceedings before regulatory authorities or the subject of claims by other parties which could require us to alter or end these practices or adopt new practices that are not as effective or are more expensive. In addition, our operations are subject to federal, state, provincial and local laws and regulations relating to pollution, environmental protection, occupational health and safety and labor and employee relations. We may not be in complete compliance with all such requirements at all times. Under various environmental laws, we may be held liable for the costs of remediation of releases of hazardous substances at any properties currently or previously owned or operated by us or at any site to which we sent hazardous substances for disposal. Such liability may be imposed without fault, and the amount of such liability could be material. We are subject to investigation under various labor and employment laws and regulations by both governmental entities and employees and former employees. Should liability be imposed as a result of such activity, particularly in the context of class or multi-plaintiff litigation, our profitability could be reduced. Further, any bankruptcy filing by or against us or our affiliates would result in significant expense for legal counsel and professional advisors.

Our new product launches may not be successful, which could cause a decline in our market share and our level of profitability.

Each year we invest significant time and resources in research and development to improve our product offerings. In addition, we incur increased costs in the near term associated with the introduction of new product lines, including training of our employees in new manufacturing, sales processes, and the production and placement of new floor samples for our customers. We are subject to a number of risks inherent in new product introductions, including development delays, failure of new products to achieve anticipated levels of market acceptance, and costs associated with failed product introductions. In addition, we have a limited ability to increase prices on existing products, and any failure of new product introductions may reduce our ability to sell our products at appropriate price levels. Further, any bankruptcy filing by or against us or our affiliates could adversely affect our ability to improve our product offerings.

We may experience further fluctuations in our operating results due to seasonality, which could make sequential quarter to quarter comparison an unreliable indication of our performance.

We have historically experienced and expect to continue to experience seasonal and quarterly fluctuations in net sales and operating income. Our third quarter sales are typically higher than our other fiscal quarters. We attribute this seasonality principally to retailers' sales promotions related to the 4th of July and Labor Day holidays. This seasonality means that a sequential quarter to quarter comparison may not be a good indication of our performance or how we will perform in the future.

We rely on a relatively small number of suppliers and third-party providers, and if we experience difficulty with a major supplier or a major third-party provider, we may have difficulty finding alternative sources. This could disrupt our business.

We purchase substantially all of our conventional bedding raw materials centrally to obtain volume discounts and achieve economies of scale. We obtain a large percentage of our raw materials from a small number of suppliers. For the year ended December 27, 2008, we purchased approximately 74% of our raw materials from ten suppliers. As a result of the current economic climate, our suppliers have experienced and may in the future experience disruptions in their relationships with their suppliers, which disrupt their ability to provide us with requisite supplies and negatively impact our manufacturing. Any future supply disruptions could adversely affect our ability to manufacture our products and sales.

We have supply agreements with several suppliers including L&P, Foamex, and National Standard Company. However, there is no guarantee that we will be able to renew these agreements. With the exception of certain products of L&P, Foamex and National Standard Company, we believe that we can readily replace our supply, if or when the need arises, within 90 days as we have already identified and use alternative resources.

L&P supplies the majority of certain bedding components (including certain spring components, insulator pads, wire, fiber, quilt backing and flange material) to the U.S. bedding industry. In 2008, we purchased approximately 30% of our raw materials from L&P. To ensure an adequate supply of various components, we have entered into agreements with L&P, generally expiring in the year 2010, for the supply of certain spring components. Among other things, these agreements generally require us to purchase a majority of our requirements of several components from L&P. National Standard Company is our exclusive supplier for the stranded wire used in our Advanced Pocketed Coil™ products. Foamex is our exclusive supplier for NxG™ visco-foam used in all of our Comforpedic® and Beautyrest NxG™ products.

Because we may not be able to find alternative sources for some of these components on terms as favorable to us as we currently receive, or at all, our business, financial condition and results of operations could be impaired if we lose L&P, Foamex or National Standard Company as a supplier. Further, if we do not reach committed levels of purchases, various additional payments could be required to be paid to L&P, and certain sales volume rebates or exclusivity to certain products could be lost.

Additionally, our domestic operations primarily utilize two third-party logistics providers which, in the aggregate, accounted for approximately 62% of our outbound wholesale shipments for the year ended December 27, 2008.

Any bankruptcy filing by or against us or our affiliates could adversely affect our ability to obtain new or maintain existing relationships with suppliers and third-party providers. Any instability of, or change in our relationship with, these providers could materially disrupt our business.

We are subject to fluctuations in the cost and availability of raw materials, which could increase our costs or disrupt our production.

The major raw materials that we purchase for production are foam, wire, spring components, lumber, cotton, insulator pads, innersprings, foundation constructions, fabrics and roll goods consisting of fiber, ticking and non-wovens. The price and availability of these raw materials, as well as the cost of fuel to transport our products to market, are subject to market conditions affecting supply and demand. Our material costs continue to be impacted by the higher prices for steel and petroleum based products, which principally affects the cost of foam, innerspring and foundation components. During 2007 and 2008, the cost of these components remained elevated above historical averages. Further, the price of lumber we obtain from Canada has increased as a result of increased tariffs and may increase due to adverse fluctuations in exchange rates. Additionally, during 2007 and 2008, our distribution costs were negatively impacted by the rapid rise in diesel prices. Our financial condition and results of operations may be impaired by further increases in raw material and diesel costs to the extent we are unable to pass those higher costs on to our customers. In addition, if these materials are not available on a timely basis or at all, we may not be able to produce our products, and our sales may decline.

Because we depend on our significant customers, a decrease or interruption in their business with us could reduce our sales and profits.

Our top five customers collectively accounted for approximately 26% of our bedding shipments for the year ended December 27, 2008. Most of our customer arrangements are by purchase order or are terminable at will. Several of our customer arrangements are governed by long-term supply agreements. A substantial decrease or interruption in business from our significant customers could result in a reduction in net sales, an increase in bad debt expense or the loss of future business, any of which could impair our business, financial condition or results of operations. Additionally, the expiration of a long-term supply agreement could result in the loss of future business, or the payment of additional amounts to secure a contract renewal or an increase in required advertising support, any of which could impair our business, financial condition or results of operations. Further, if our customers seek bankruptcy protection, they could act to terminate all or a portion of their business with us, originate new business with our competitors and terminate or assign our long-term supply agreements, which could impair our results of operations. Any loss of revenue from our major customers, including the non-payment or late payment of our invoices, could materially adversely affect our business, results of operations and financial condition.

Retailers may, and in the past some of our retailers did, consolidate, undergo restructurings or reorganizations, or realign their affiliations. These events may result, and have temporarily resulted, in a decrease in the number of stores that carry or carried our products, an increase in the ownership concentration in the retail industry, and/or our being required to record significant bad debt expense. Retailers may decide to carry only a limited number of brands of mattress products, which could affect our ability to sell our products to them on favorable terms, if at all, and could negatively impact our business, financial condition or results of operations. Any bankruptcy by or against us or our affiliates could adversely affect our relationship with retailers, which could impair our business, financial condition or results of operations.

If our cost cutting measures are not successful, we may become less competitive.

A variety of factors could prevent us from achieving our goal of better aligning our product offerings and cost structure with customer needs in the current business environment through reducing our operating expenses and eliminating redundancies. For example, our efforts to consolidate our plants could cause our other facilities to have to operate above optimal capacity and could increase distribution expenses. If we receive unanticipated orders, these incremental volumes could be unprofitable due to the higher costs of operating above our optimal capacity. In addition, we may not be able to sufficiently increase capacity to meet any increased demand. As a result, we may not achieve our expected cost savings in the time anticipated, or at all. In such case, our results of operations and profitability may be negatively impacted, making us less competitive and potentially causing us to lose market share.

A change or deterioration in labor relations or the inability to renew our collective bargaining agreements could disrupt our business operations and increase our costs, which could negatively impact sales and decrease our profitability.

At eight of our 21 manufacturing facilities our employees (approximately 56% of our workforce) are represented by various labor unions with separate collective bargaining agreements. Our collective bargaining agreements are typically negotiated for two- to five-year terms. We may not be able to renew these contracts on a timely basis or on favorable terms. It is possible that labor union efforts to organize employees at additional non-union facilities may be successful. It is also possible that we may experience labor-related work stoppages in the future. Any of these developments could disrupt our business operations or increase costs, which could negatively impact our sales and profitability.

The loss of the services of any member of our executive leadership team could impair our ability to execute our business strategy and negatively impact our business, financial condition and results of operations.

We depend on the continued services of our executive leadership team, including Stephen Fendrich, our President and Chief Operating Officer; Dominick Azevedo, our Executive Vice President — Sales; William Creekmuir, our Executive Vice President and Chief Financial Officer; Kristen McGuffey, our Executive Vice President and General Counsel; Timothy Oakhill, our Executive Vice President — Marketing and Licensing; and Kimberly Samon, our Executive Vice President — Human Resources. The loss of any of our key officers could impair our ability to execute our business strategy and negatively impact our business, financial condition and results of operations. We have non-compete agreements with our executive leadership team. We do not carry key man insurance for any of our management executives. Any bankruptcy filing by or against us or our affiliates could adversely affect our ability to retain and motivate our executive leadership team or other key employees.

Our international operations are subject to foreign exchange, tariff and tax risks and our ability to expand in certain international markets is limited by the terms of licenses we have granted to manufacture and sell Simmons products.

We currently conduct significant operations in Canada. Our Canadian operations are subject to fluctuations in currency exchange rates, the potential imposition of trade restrictions, and tariff and other tax increases. We have also limited our ability to independently expand in certain international markets where we have granted licenses to manufacture and sell Simmons products. Fluctuations in the currency exchange rate between the U.S. dollar and the Canadian dollar may affect our shareholders equity and our financial condition or results of operations. In addition, as a result of a recent tax treaty between the United States and Canada, the withholding tax on transfers of cash from our Canadian operations to our U.S. operations has increased substantially which could impact our results of operations.

We have substantial funds held at few financial institutions that exceed the insurance coverage offered by the FDIC, the loss of which would have a severe negative affect on our operations and liquidity.

As of December 27, 2008, we had approximately $54.9 million held in accounts at few financial institutions in the United States, Canada and Puerto Rico. Although the FDIC insures deposits in banks and thrift institutions up to $250,000 per eligible account, the amount that we have deposited at these banks substantially exceeds the FDIC limit. If any of the financial institutions where we have deposited funds were to fail, we may lose some or all of our deposited funds that exceed the FDIC's $250,000 insurance coverage limit. Such a loss would have a severe negative effect on our operations and liquidity.

We have retirement plans that are currently under funded and we will be required to make cash payments to the plans, reducing the cash available for our business.

We have a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of the employees of Simmons Canada and a retirement compensation arrangements ("RCA") for certain senior officials of Simmons Canada. As of December 27, 2008, the projected benefit obligation exceeded the fair value of the plan assets of the defined benefit segment of the pension plan ("Pension Plan") by $2.9 million. As of December 27, 2008, the fair value of the plan assets exceeded the projected benefit obligation of the RCA by $0.7 million. We expect to make estimated minimum funding contributions totaling approximately $1.1 million in 2009 related to the Pension Plan. No contributions are expected for the RCA in 2009. We also have unfunded supplemental executive retirement plans ("SERP") for certain former executives. As of December 27, 2008, we had a liability of $3.1 million related to the SERP and anticipate making contributions to the SERP of $0.2 million in 2009. If the performance of the assets in the Pension Plan do not meet our expectations, or if other actuarial assumptions are modified, our future cash payments to the Pension Plan could be higher than we expected.

If we are not able to protect or maintain our trademarks, patents, trade secrets and other intellectual property, we may not be able to prevent competitors from developing similar products or from marketing in a manner that capitalizes on our trademarks, patents and other intellectual property.

Brands and branded products are very important to our business. We have a large number of well-known trademarks and service marks registered in the U.S., Canada and abroad, and we continue to pursue many pending applications to register marks domestically and internationally. We also have a significant portfolio of patents and patent applications that have been issued or are being pursued both domestically and abroad. In addition, certain marks, trade secrets, know-how and other proprietary materials that we use in our business are not registered or subject to patent protection. Our intellectual property is important to the design, manufacture, marketing and distribution of our products and services.

To compete effectively with other companies, we must maintain the proprietary nature of our owned and licensed intellectual property and maintain our trade secrets, know-how and other proprietary materials. Despite our efforts, we cannot eliminate the following risks:

- it may be possible for others to circumvent our trademarks and service marks, patents and other rights;
- our products and promotional materials, including trademarks, service marks, may now or in the future violate the proprietary rights of others;
- we may be prevented from using our own trademarks, service marks, product designs or manufacturing technology, if challenged;
- it may be cost prohibitive to enforce or defend our trademarks, service marks, patents and other rights;
- our pending applications regarding trademarks, service marks and patents may not result in marks being registered or patents being issued;
- we may be unable to protect our technological advantages when our patents expire; and
- our trade secrets, know-how and other proprietary materials may be revealed to the public or our competitors and no longer provide protection for the related intellectual property.

The nature and value of our intellectual property may be affected by a change in law domestically or abroad. In light of the political and economic circumstances in certain foreign jurisdictions, our rights may not be enforced or enforceable in foreign countries even if they are validly issued or registered.

While we do not believe that our overall success depends upon any particular intellectual property rights, any inability to maintain the proprietary nature of our intellectual property could have a material negative effect on our business. For example, an action to enforce our rights, or an action brought by a third party challenging our rights, could impair our financial condition or results of operations, either as a result of a negative ruling with respect to our use, the validity or enforceability of our intellectual property or through the time consumed and legal costs involved in bringing or defending such an action.

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

We face an inherent business risk of exposure to product liability claims if the use of any of our products results in personal injury or property damage. In the event that any of our products prove to be defective or if they are determined not to meet state or federal legal requirements, we may be required to recall or redesign those products, which could be costly and impact our profitability. We maintain insurance against product liability claims, but such coverage may not continue to be available on terms acceptable to us and such coverage may not be adequate to cover types of liabilities actually incurred. A successful claim brought against us if not fully covered by available insurance coverage, or any claim or product recall that results in significant adverse publicity against us, could have a material negative effect on our business and/or result in consumers purchasing fewer of our products, which could also reduce our liquidity and profitability.

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

Our return rates may not remain within our historical levels. An increase in return rates could significantly impair our liquidity and profitability. We also generally provide our customers with a limited warranty against manufacturing defects on our conventional innerspring and specialty bedding products of ten and 20 to 25 years, respectively. Our juvenile bedding products generally have warranty periods ranging from five years to a lifetime. The historical costs to us of honoring warranty claims have been within management's expectations. However, as we have released new products in recent years, many new products are fairly early in their product life cycles. Because our products have not been in use by our customers for the full warranty period, we rely on the combination of historical experience and product testing for the development of our estimate for warranty claims. However, our actual level of warranty claims could prove to be greater than the level of warranty claims we estimated based on our products' performance during product testing. We have also experienced non-warranty returns for reasons generally related to order entry errors, shipping damage, and to accommodate customers. If our warranty and non-warranty reserves are not adequate to cover future claims, their inadequacy could reduce our liquidity and profitability.

Additional terrorist attacks in the U.S. or against U.S. targets or actual or threats of war or the escalation of current hostilities involving the U.S. or its allies could negatively impact our business, financial condition or results of operations.

Additional terrorist attacks in the U.S. or against U.S. targets, or threats of war or the escalation of current hostilities involving the U.S. or its allies, or military or trade disruptions impacting our domestic or foreign suppliers of components of our products, may impact our operations, including, but not limited to, causing supply chain disruptions and decreased sales of our products. These events could also cause an increase in oil or other commodity prices, which could adversely affect our raw materials or transportation costs. More generally, any of these events could cause consumer confidence and spending to decrease. These events also could cause or act to prolong an economic recession in the U.S. or abroad. Any of these occurrences could have a significant impact on our business, financial condition or results of operations.

An outbreak of swine flu or a pandemic, or the threat of a pandemic, may adversely impact our ability to produce and deliver our products or may adversely impact consumer demand.

A significant outbreak of swine flu, or a similar pandemic, or even a perceived threat of such an outbreak, could cause significant disruptions to our supply chain, manufacturing capability, corporate support infrastructure or distribution system that could adversely impact our ability to produce and deliver products. Similarly, such events could cause significant adverse impacts on consumer confidence and consumer demand generally. Any of these occurrences could have a significant impact on our business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our corporate offices are located at One Concourse Parkway, Atlanta, Georgia 30328. We also maintain corporate offices in Ontario, Canada for our Canadian operations and a research and development facility in Atlanta, Georgia. The following table sets forth selected information regarding our manufacturing facilities as of December 27, 2008 (square footage in thousands):

LOCATIONS	SQUARE FOOTAGE	Title
United States		
Agawam, Massachusetts (Springfield)	129.0	Leased
Aurora, Colorado (Denver)	129.0	Leased
Charlotte, North Carolina	175.0	Leased
Compton, California (Los Angeles)	223.4	Leased
DFW Airport, Texas (Dallas)	213.0	Leased
Fredericksburg, Virginia	128.5	Leased
Hazleton, Pennsylvania	214.8	Leased
Honolulu, Hawaii	63.3	Leased
Janesville, Wisconsin	290.2	Owned
Mableton, Georgia (Atlanta) (2)	148.3	Leased
Neenah, Wisconsin (1)	40.0	Leased
Salt Lake City, Utah	77.5	Leased
San Leandro, California	257.0	Leased
Shawnee Mission, Kansas (Kansas City)	130.0	Owned
Sumner, Washington (Seattle)	150.0	Leased
Tolleson, Arizona (Phoenix)	103.4	Leased
Waycross, Georgia	217.5	Owned
York, Pennsylvania (1)	29.0	Leased
Canada		
Kirkland, Quebec	157.4	Leased
Bramalea, Ontario (2)	227.1	Leased
Calgary, Alberta	130.0	Owned
Delta, British Columbia	76.2	Leased
Puerto Rico		
Trujillo Alto, Puerto Rico	50.0	Owned
	3,359.6	

(1) These facilities only manufacture juvenile products.

(2) The Bramalea, Ontario and Mableton, Georgia facilities ceased production in August and September 2008, respectively. The Mableton, Georgia facility lease expired on May 31, 2009 and the Bramalea, Ontario facility lease will expire on August 31, 2012.

We believe that our facilities, taken as a whole, have adequate productive capacity and sufficient manufacturing equipment to conduct business at levels exceeding current demand.

In addition, as of December 27, 2008, we operated seven retail outlet stores through our World of Sleep subsidiary. In the first quarter of 2009, we closed one of the retail outlet stores.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we have been involved in various legal proceedings. In November 2008, three former employees filed a wrongful dismissal class action against our subsidiary, Simmons Canada Inc., on behalf of themselves and a proposed class comprised of the unionized former employees who were terminated as a result of our closure of our Bramalea, Ontario facility in September 2008. We have entered into tentative settlement agreements with the plaintiffs, however, the agreement will not be final until certain conditions are met, including plaintiffs’ obtaining leave of court to dismiss the case. Based on the settlement agreements, we have recognized an expense which is included as restructuring charges on our 2008 consolidated statement of operations and comprehensive income. With the exception of this matter, we believe that all current litigation is routine in nature, incidental to the conduct of our business and not material.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

There is no established public trading market for any class of our common equity. As of December 27, 2008, there was one holder of record for our common stock. As of December 27, 2008, there were 56 holders of record of class A common stock and 115 holders of record of class B common stock of Simmons Holdco, which owns 100% of our common stock.

During 2007, Simmons Holdco paid $278.3 million of merger consideration to then existing class A stockholders. Any payment of future dividends or distributions and the amounts thereof will be dependent upon our earnings, fiscal requirements and other factors deemed relevant by our board of directors. Our ability to pay dividends is restricted by the terms of the forbearance agreements, senior credit facility, Discount Notes and Subordinated Notes.

ITEM 6. SELECTED FINANCIAL DATA.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER OPERATING DATA

Set forth below is our selected historical consolidated financial and other operating data. We derived our historical statement of operations and balance sheet data for 2004, 2005, 2006, 2007 and 2008 from our audited consolidated financial statements.

As a result of the SCUSA Disposition and Canada Acquisition, the historical consolidated financial and other data for the periods presented exclude SCUSA's operating results for the periods subsequent to August 2006 and include Simmons Canada's operating results for the periods subsequent to November 2006.

The accompanying selected historical consolidated financial and other operating data contain all adjustments that, in the opinion of management, are necessary to present fairly our financial position for the periods presented. All adjustments in the periods presented herein are normal and recurring in nature unless otherwise disclosed. The information presented below should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited consolidated financial statements and related notes and other financial information appearing elsewhere herein.

	Year Ended				
	Dec. 27, 2008 (52 Weeks)	Dec. 29, 2007 (52 Weeks)	Dec. 30, 2006 (52 Weeks)	Dec. 31, 2005 (53 Weeks)	Dec. 25, 2004 (52 Weeks)
	(Amounts in millions)				
Statement of Operations Data:					
Net sales	$ 1,028.7	$ 1,126.8	$ 961.6	$ 855.3	$ 869.9
Cost of goods sold (1)	648.8	676.3	544.2	488.1	477.1
Selling, general and administrative expenses (1)	328.9	346.2	311.1	293.6	309.6
Amortization of intangibles	6.3	6.1	5.7	5.7	4.9
Goodwill and trademark impairments (2)	547.6	—	—	—	—
Gain on the sale of Sleep Country USA	—	—	(43.3)	—	—
Other (3) (4)	0.7	(10.0)	(7.9)	(8.5)	(1.2)
Operating income (loss)	(503.6)	108.3	152.0	76.3	79.5
Interest expense	73.5	76.2	81.2	70.7	44.3
Interest income	(0.4)	(0.5)	(1.3)	(0.3)	(0.1)
Income (loss) before income taxes	(576.7)	32.6	72.0	5.9	35.3
Income tax expense (benefit)	(84.5)	8.7	24.4	2.6	11.5
Net income (loss)	$ (492.2)	$ 23.9	$ 47.6	$ 3.3	$ 23.8
Balance Sheet Data:					
Working capital (5)	$ 34.5	$ 11.7	$ 6.4	$ 17.0	$ 18.0
Cash and cash equivalents	54.9	27.5	20.8	24.6	24.2
Total assets (2) (6) (7)	890.8	1,477.7	1,373.7	1,280.8	1,307.3
Total debt	988.2	901.5	896.8	907.8	917.7
Total common stockholder's equity (deficit) (6) (7)	(362.3)	188.2	149.9	104.3	102.8
Other Data:					
EBITDA (8)	$ 84.2	$ 139.4	$ 182.0	$ 104.3	$ 102.7
Non-cash stock compensation expense	(0.4)	0.1	0.8	—	3.3
Transaction related expenditures, including cost of products sold	1.4	4.6	1.7	0.6	8.8
Financial restructuring charges	4.9	—	—	—	—
Operating restructuring charges	16.4	—	—	0.3	13.5
Management fees	1.8	1.7	1.7	1.6	1.7
Capital expenditures	17.1	25.1	13.6	6.8	18.2

(1) Certain general and administrative costs were reclassified from selling, general and administrative expenses to cost of products sold. Selling, general and administrative expense decreased and cost of products sold increased \$5.4 million and \$4.8 million for 2005 and 2004, respectively.

(2) In the fourth quarter of fiscal 2008, we significantly lowered our projected future operating results for both our Domestic and Canada reporting units based on deterioration of consumer spending and increased material costs. Based on the lower projected future operating results, we determined that the forecasted earnings and cash flows of the reporting units no longer supported their goodwill and trademark carrying values. As a result, non-cash pretax goodwill and trademark impairment charges were recognized for our Domestic reporting unit of \$294.0 million and \$225.8 million, respectively, and non-cash pretax goodwill and trademark impairment charges were recognized for our Canada reporting unit of \$9.9 million and \$17.9 million, respectively.

(3) Includes the following items to the extent applicable for the periods presented: stock based compensation expense, restructuring charges, transaction expense, and licensing revenues.

(4) In the first quarter of fiscal 2006, we adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), *Share-Based Payments* ("SFAS 123R"). Under SFAS 123R, the fair value of our stock-based compensation awards on the date of grant are recognized as an expense over the vesting period. Prior to the adoption of SFAS 123R, we used the intrinsic value method to account for our stock based awards for our employees and directors in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation. Under APB 25*, compensation cost was measured at the date of grant as the excess of the fair value of the award over the purchase price and recognized as an expense over the vesting period. Upon adoption of SFAS 123R, we made a one-time cumulative adjustment of less than \$0.1 million to record an estimate of future forfeitures on all outstanding restricted stock awards.

(5) Defined as current assets (excluding cash and assets held for sale), less current liabilities (excluding current maturities of long-term debt and liabilities held for sale).

(6) In the first quarter of 2007, we adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the adoption of FIN 48, we recognized an \$18.3 million increase in our liability for uncertain tax positions. This was accounted for as a decrease in retained earnings of \$2.2 million, and increases in goodwill and deferred tax assets of \$12.6 million and \$3.5 million, respectively.

(7) In the fourth quarter of 2007, we adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS 158"). SFAS 158 requires the recognition of the overfunded or underfunded status of a defined benefit post retirement plan as an asset or liability on the Company's balance sheet and the recognition of changes in the funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of the funded status of a plan as of the date of the Company's year end balance sheet. This pronouncement does not require prior periods to be restated to reflect the impact of SFAS 158. The Company adopted SFAS 158 on December 29, 2007. The adoption of the pronouncement reduced accumulated other comprehensive income by \$0.4 million and did not impact the Company's results of operations or cash flows.

(8) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP financial measure that we define as net income before interest expense, income taxes, depreciation, amortization and impairment charges. We use EBITDA, adjusted for other unusual, non-cash or non-recurring items, as a tool to measure our operating performance and, after applying various adjustments, as a basis for determining the following:

- the allocation of our resources;
- the return on investment of acquisitions and major cash expenditures;
- the compensation of our management;
- the vesting of our restricted stock and stock options;
- the valuation of our common stock; and
- our compliance with debt covenants.

We use EBITDA as a tool for measuring our operating performance because we are and have historically had a highly-leveraged capital structure which results in significant interest expense and minimal cash tax expense. We believe EBITDA provides useful information to the holders of our notes and security analysts by assisting them in making informed investment decisions as we have historically been valued and sold based upon multiples of EBITDA. EBITDA differs from Adjusted EBITDA, which is defined by our senior credit facility (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources”).

EBITDA has important limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. For example, EBITDA does not reflect:

- our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- changes in, or cash requirements for, our working capital needs;
- the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts and Simmons Holdco debts;
- tax payments that represent a reduction in cash available to us; and
- any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future.

Because of these and other limitations, we report our results under GAAP and use EBITDA to measure our performance. The following table presents for the periods set forth below a reconciliation of our net income (loss) to EBITDA (amounts in millions):

	Year Ended				
	Dec. 27, 2008	**Dec. 29, 2007**	**Dec. 30, 2006**	**Dec. 31, 2005**	**Dec. 25, 2004**
Net income (loss)	$ (492.2)	$ 23.9	$ 47.6	$ 3.3	$ 23.8
Depreciation and amortization	39.9	30.6	28.7	27.7	23.1
Goodwill and trademark impairments	547.6	—	—	—	—
Income taxes	(84.5)	8.7	24.4	2.6	11.5
Interest expense	73.5	76.2	81.2	70.7	44.3
EBITDA	$ 84.2	$ 139.4	$ 182.0	$ 104.3	$ 102.7

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

We are one of the world's largest mattress manufacturers, manufacturing and marketing a broad range of products under our well-recognized brand names. The majority of our products are conventional innerspring mattresses and foundations that utilize our Pocketed Coil® and Advanced Pocketed Coil™ technologies and are marketed under our Beautyrest®, Beautyrest Studio™, Beautyrest Black®, and Beautyrest NxG™ brand names. In addition, we manufacture and market open coil innerspring products under our DeepSleep® and BeautySleep® brand names, specialty (non-innerspring) visco-elastic products that utilize a patented NxG™ Advanced Memory Foam under our ComforPedic by Simmons™ brand name and specialty products made from natural latex foam under our Natural Care® brand name. We manufacture, sell and distribute our premium branded bedding products principally to retail and hospitality customers throughout the U.S. and Canada. Additionally, we license our intellectual property to international companies that manufacture and sell our premium branded bedding products throughout the world and to U.S. and Canadian manufacturers and distributors of bedding accessories, furniture, water beds, airbeds and other products. We sell products through a diverse North American base of approximately 3,300 retailers, representing over 15,500 outlets, including furniture stores, specialty sleep shops, department stores, furniture rental stores, mass merchandisers and juvenile specialty stores.

In November 2006, we purchased Simmons Canada, a former licensee of Simmons and one of the largest bedding manufacturers in Canada. In August 2006, we sold our specialty sleep retail stores, SCUSA, and now operate only as a manufacturer and distributor of bedding products principally to retailers or hospitality customers. Following the acquisition of Simmons Canada and disposition of SCUSA, we have two reportable segments organized by geographic area, Domestic (U.S. including Puerto Rico) and Canada. In 2008, we derived approximately 87.6% of our net sales from our Domestic segment.

In June 2007, we also expanded our specialty bedding platform by acquiring the ComforPedic® brand of specialty mattresses and pillows which utilize NxG™ Advanced Memory Foam. Also during 2007, we re-engineered all of our products to be compliant with the CPSC's new open flame resistance standard for the bedding industry that went into effect on July 1, 2007 and rolled the new compliant products out to our customers during the first half of 2007. In the process, we incurred $6.7 million of one-time manufacturing costs related to the conversion and the rollout of new products, including inefficiencies that occurred as a result of the disruption of our production processes. Our re-engineered products have added flame-retardant materials which have increased the costs our products. Additionally, we incurred $19.2 million of incremental selling costs (floor sample discounts, marketing materials, etc.) in comparison to 2006 related to the rollout of our new products to our customers.

During 2008, our Domestic conventional bedding net sales decreased $94.2 million, or 9.4%, compared to 2007. We attribute the decrease to an overall mattress industry downturn as a result of slowing consumer spending.

Our material costs continued to be impacted by the higher prices for steel and petroleum based products, which principally affects the cost of our foam, innerspring and foundation components. During 2007 and 2008, the cost of these components remained elevated above historical averages. Additionally, our distribution costs were negatively impacted by the rapid rise in diesel prices during these periods. Due to the significant increase in inflation we experienced during the last half of 2007 and throughout 2008, we have taken steps to eliminate costs from our overall cost structure and have plans to further eliminate additional costs from our future cost structure to help offset the inflation. In 2008, we completed two salaried workforce reductions and closed two conventional bedding manufacturing facilities located in Mableton, Georgia and Bramalea, Ontario. In September 2008, our Chairman and Chief Executive Officer, Charles R. Eitel, resigned and his duties were assumed by Stephen G. Fendrich, our President and Chief Operating Officer, and the executive committee of our board of directors. As a result of these actions, we incurred pre-tax restructuring charges associated with severance and fringe benefits and lease facility costs totaling $10.2 million in 2008.

In addition, to partially offset inflationary pressures, we implemented a price increase for our Domestic innerspring products that targets retail price points above $1,000 and all foundations in November 2007 and implemented a price increase for our Domestic innerspring products that targets retail price points below $1,000 in March 2008. In June 2008, we implemented a further price increase on our Beautyrest®, ComforPedic by SimmonsTM and Natural Care® products and foundations. These price increases in the aggregate raised our prices on average by 9.7%.

As of December 27, 2008, Simmons Bedding was not in compliance with certain covenants of its $540.0 million senior credit facility and was operating under a forbearance agreement with Simmons Bedding's senior lenders. On January 15, 2009, Simmons Bedding did not make a scheduled payment of interest due on its Subordinated Notes resulting in a default under the indenture governing the Subordinated Notes. As a result, we entered into a forbearance agreement with more than a majority of the outstanding Subordinated Notes holders, pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture. Both forbearance agreements, as amended, with our senior lenders and the noteholders provide a forbearance period through June 30, 2009 and, upon meeting certain conditions, a further extension to July 31, 2009. We incurred fees and expenses in connection with the forbearance agreements and related amendments.

As a condition to the forbearance agreement with our senior lenders, we initiated a financing restructuring process in December 2008. A special committee of independent directors was formed by our board of directors on January 23, 2009 to evaluate and oversee proposals for restructuring our debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives of the Company. There can be no assurance that we will be successful in implementing a restructuring. If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance periods as needed to successfully complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. We would not have the ability to repay any amounts accelerated under our various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates. Due to the possibility of such circumstances occurring, we are seeking a negotiated restructuring, including a restructuring of our debt obligations and/or sale of us, our affiliates or our assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing. Any bankruptcy filing could have a material adverse effect on our business, financial condition, liquidity and results of operations. The considerations above raise substantial doubt about our ability to continue as a going concern. For further information regarding our debt covenant violations and related forbearance agreements please see Item 1A "Risk Factors — Risks Related to Our Liquidity" and Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources."

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements in conformity with GAAP, we must make decisions that impact the reported amounts and the related disclosures. Those decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on-going basis. We believe the critical accounting policies described below require management's more significant judgments, assumptions and estimates.

Allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We evaluate the adequacy of the allowance on a periodic basis. The evaluation includes consideration of a review of historical loss experience, the aging of the receivable balances, adverse situations that may affect a customer's ability to pay the receivable, and prevailing economic conditions. If the result of the evaluation of the reserve requirements differs from the actual aggregate allowance, adjustments are made to the allowance. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. As of December 27, 2008 and December 29, 2007, our accounts receivable balance was $95.9 million and $120.0 million, net of the allowances for doubtful accounts, discounts and returns of $5.4 million and $4.6 million, respectively. For 2008, 2007 and 2006, we recorded provisions for bad debt of $7.8 million (0.8% of net sales), $4.3 million (0.4% of net sales) and $1.0 million (0.1% of net sales), respectively, in our results of operations.

Impairment of goodwill. We test goodwill for impairment at the reporting unit level on an annual basis in the fourth quarter by comparing the fair value of its reporting units to their carrying values. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount exceeds the fair value of the reporting unit, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions including revenue growth rates and operating margins, discount rates and future market conditions, among others. Fair value of our reporting units is generally determined based on an equal weighting of the market approach and income approach methodologies. The market approach estimates fair value by applying multiples of potential earnings, such as EBITDA, of similar public entities. Management believes this approach is appropriate because it provides a fair value using multiples from entities with operations and economic characteristics similar to our reporting units. The income approach is based on projected future debt-free cash flow that is discounted to present value using factors that consider the timing and risk of the future cash flows. Management believes this approach is appropriate because it provides a fair value estimate based upon the reporting units expected long-term operating and cash flow performance. The income approach also incorporates the potential impact of cyclical downturns, anticipated changes in product sales mix and inflation and other changes in product costs that could occur in the reporting unit and its industry. The income approach is based on a reporting unit's five year projections of operating results and cash flows that are discounted using the estimate of the market based weighted average cost of capital for the bedding industry. The future operating projections are based on consideration of past performance and the projections and assumptions used in our current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

In the fourth quarter of 2008, we significantly lowered our projected future operating results for both our Domestic and Canada reporting units based on deterioration of consumer spending and increased material costs. Our five year projections of operating results assumed that the current economic downturn would continue through 2009, followed by recovery in the second half of 2010 through 2011, and long-term industry growth rates for 2012 and beyond. Operating margin assumptions during the five year projection periods were consistent with the Company's historical averages. We used a 17% discount rate to calculate the terminal value of our reporting units, which was higher than the 14% discount rate used in 2007. Our discount rate increased principally as a result of higher risk premiums associated with the our debt due to the combination of the Company being in violation of certain debt covenants and disruptions in the credit market as of the testing date. A one percentage point increase in the discount rate would have decreased the fair value of the Domestic and Canada reporting units by $15.0 million and $2.0 million, respectively. A one percentage point decrease in the discount rate would have increased the fair value of the Domestic and Canada reporting units by $15.0 million and $2.5 million, respectively. We used a long-term growth factor of 4% to calculate the terminal value of its reporting units, which is consistent with the rate used in 2007. Based on the lower projected future operating results, we determined that the forecasted earnings and cash flows of the reporting units no longer supported their carrying value of goodwill. As a result, non-cash pretax goodwill impairment charges were recognized for our Domestic and Canada reporting units of $294.0 million and $9.9 million, respectively. We did not recognize any goodwill or trademark impairment charges for 2007 and 2006.

Intangible Assets. Definite-lived intangible assets are amortized using the straight-line method, which we believe is most appropriate, over their estimated period of benefit, ranging from ten to twenty-five years. Since we have the intent and ability to renew our trademarks and our branded products have a long history of being a market leader in the bedding industry, we determined that our trademarks will generate cash flows for an indefinite period of time and consider trademarks to be indefinite-lived intangible assets. Indefinite-lived intangible assets are not amortized. We review the useful lives of definite-lived and indefinite-lived intangible assets every reporting period.

We evaluate indefinite-lived intangible assets for impairment at least annually or whenever events or circumstances indicate their carrying value might be impaired. The carrying value of an indefinite-lived intangible asset is considered impaired when its carrying value exceeds its fair market value. In such an event, an impairment loss is recognized equal to the amount of that excess.

Fair value of our trademarks is determined using a relief of royalty method. The relief of royalty method assumes that, in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of the trademarks. This approach is dependent on a number of factors, including estimate of future operating projections, royalty rates for trademarks, and a discount rate. The future operating projections are based on consideration of past performance and the projections and assumptions used in our current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The royalty rate is based on a combination of our existing agreements to license its trademarks to third-parties and licenses within the furniture and household products industry. The discount rate is based upon the estimate of the market based weighted average cost of capital for the bedding industry. As a result of our lowering our projected future operating results due to deterioration of consumer spending and increased material costs, we recognized a trademark impairment charge in 2008 related to our Domestic and Canada reporting segments of $225.8 million and $17.9 million, respectively. We did not recognize any trademark impairment charges in 2007 and 2006.

Warranty accrual. The conventional innerspring bedding products that we currently manufacture generally include a ten-year non-prorated warranty. The conventional specialty bedding products that we currently manufacture generally include a non-prorated warranty of 20 to 25 years. Our juvenile bedding products have warranty periods ranging from five years to a lifetime. We record the estimated cost of warranty claims when products are sold. Our new products undergo extensive quality control testing and are primarily constructed using similar techniques and materials of our historical products. Therefore, we estimate the cost of warranty claims based on historical sales and warranty returns and the current average costs to settle a warranty claim. We include the estimated impact of recoverable salvage value in the calculation of the current average costs to settle a warranty claim.

The following table presents a reconciliation of our warranty accrual for fiscal years 2008, 2007 and 2006 (in thousands):

	December 27, 2008	December 29, 2007	December 30, 2006
Balance at beginning of year	$ 4,291	$ 3,668	$ 3,009
Additional warranties issued	2,853	2,466	1,627
Accruals related to pre-existing warranties (including change in estimate)	22	296	98
Warranty settlements	(2,403)	(2,139)	(1,066)
Balance at end of year	$ 4,763	$ 4,291	$ 3,668

Co-operative advertising and rebate programs. We enter into agreements with many of our customers to provide funds for advertising and promotion of our products. We also enter into volume and other rebate programs with certain customers whereby funds may be rebated to the customer based on meeting certain sales targets or other metrics. When sales are made to these customers, we record accrued liabilities pursuant to these agreements. Based on achievement of sales levels, management regularly assesses these liabilities based on forecasted and actual sales and claims. In assessing the liabilities, management makes judgment decisions based on its knowledge of customer purchasing habits to determine whether all the co-operative advertising earned will be used by the customer and whether the customer will meet the requirements to receive rebates. Additionally, management must determine whether the co-operative advertising costs meet the requirement for classification as selling, general and administrative expense versus a reduction of sales. Co-operative advertising costs are classified as a selling expense when the customer provides proof of advertising our products and our payments to the customer are less than or equal to the cost of the advertisement. Costs of our co-operative advertising and rebate programs totaled $148.3 million, $146.4 million and $126.5 million for 2008, 2007 and 2006, respectively.

Pensions. We have a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of the employees of Simmons Canada. Under the Pension Plan, benefits are based upon an employee's earnings and years of credited service. The registered defined benefit plan is funded based on the funding requirements of applicable government regulations. In addition, we have retirement compensation arrangements ("RCA") for certain senior officials of Simmons Canada which provide retirement benefits in addition to the Pension Plan. As of December 27, 2008, the projected benefit obligation exceeded the fair value of the plan assets of the Pension Plan by $2.9 million. As of December 27, 2008, the fair value of the plan assets exceeded the projected benefit obligation of the RCA by $0.7 million. We expect to make estimated minimum funding contributions totaling approximately $1.1 million in 2009 related to the Pension Plan. No contributions are expected for the RCA in 2009. We also have unfunded SERP for certain former executives. As of December 27, 2008, we had a liability of $3.1 million related to the SERP and anticipate making contributions to the SERP of $0.2 million in 2009. Pension expenses and the pension obligations are actuarially determined and are affected by our assumptions with respect to the discount rate for obligations, the future rate of increase in compensation levels, and the long term rate of return on plan assets. The assumed discount rate is based upon a portfolio of high-grade corporate bonds, which are used to develop a yield curve. This yield curve is applied to the expected duration of the pension obligation. The rate of increase in compensation levels is based on our assessment of the current and future economic environment and overall salary trends. The expected long-term rate of return considers the allocation of plan assets, the historical performance of total plan assets, and economic and other indicators of future performance.

Income taxes. In the first quarter of 2007, we adopted FIN 48, which prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the adoption of FIN 48, we recognized an $18.3 million increase in our liability for uncertain tax positions. This was accounted for as a decrease in retained earnings of $2.2 million, and increases in goodwill and deferred tax assets of $12.6 million and $3.5 million, respectively.

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (i) the tax position is not "more likely than not" to be sustained, (ii) the tax position is "more likely than not" to be sustained, but for a lesser amount, or (iii) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, (i) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (ii) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (iii) each tax position is evaluated without considerations of the possibility of offset or aggregation with other tax positions taken. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open statutes varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty disappears under any one of the following conditions: (i) the tax position is "more likely than not" to be sustained, (ii) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (iii) the statute of limitations for the tax position has expired.

Tax law may require items to be included in the tax return at different times than when these items are reflected in the consolidated financial statements. As a result, the annual tax rate reflected in our consolidated financial statements is different than that reported in our tax return (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities. The tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which the differences are expected to reverse. Based on the evaluation of all available information, we recognize future tax benefits, such as net operating loss carryforwards, to the extent that realizing these benefits is considered more likely than not. We will have to generate $54.1 million of taxable income to fully recognize the tax benefits of our net operating loss carryforwards for federal income tax purposes of $18.9 million as of December 27, 2008. We will have to generate $108.5 million of taxable income to fully recognize the tax benefits of our net operating loss carryforwards for state income tax purposes of $7.7 million as of December 27, 2008.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. A valuation allowance is required to be established unless we determine that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset. As of December 27, 2008 and December 29, 2007, we had a valuation allowance on our deferred tax assets of $22.8 million and $9.3 million, respectively.

Additionally, deferred tax liabilities are not recorded for undistributed earnings of our foreign subsidiaries that are deemed to be indefinitely reinvested in the foreign jurisdiction.

Self-Insurance liabilities. We retain a portion of the risks related to our general liability, product liability, automobile, worker's compensation and health insurance programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, generally is estimated with the assistance of external actuaries and by considering pending claims and historical trends and data. The estimated accruals for these liabilities could be affected if future occurrences or loss developments significantly differ from utilized assumptions. The estimated liability associated with settling unpaid claims is included in accrued liabilities. As of December 27, 2008 and December 29, 2007, we had recorded $5.7 million and $5.3 million for liabilities for exposures to unpaid self-insured claims.

Litigation and contingent liabilities. From time to time, we are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, patent and intellectual property, commercial, contract, environmental, health and safety, and employment matters, which are handled and defended in the ordinary course of business. We accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. We believe the amounts reserved are adequate for such pending matters; however, results of operations could be negatively affected by significant litigation adverse to us.

RESULTS OF OPERATIONS

The following table sets forth historical consolidated financial information as a percent of net sales:

	Fiscal Years Ended		
	Dec. 27, 2008	**Dec. 29, 2007**	**Dec. 30, 2006**
Net sales	100.0%	100.0%	100.0%
Cost of products sold	63.1%	60.0%	56.6%
Gross margin	36.9%	40.0%	43.4%
Selling, general and administrative	32.0%	30.7%	32.4%
Goodwill impairments	29.5%	0.0%	0.0%
Trademark impairments	23.7%	0.0%	0.0%
Restructuring charges	1.0%	0.0%	0.0%
Gain on sale of SCUSA	0.0%	0.0%	-4.5%
Amortization of intangibles	0.6%	0.5%	0.6%
Licensing revenues	-0.9%	-0.9%	-0.9%
Operating income (loss)	-49.0%	9.6%	15.8%
Interest expense	7.1%	6.8%	8.5%
Interest income	0.0%	0.0%	-0.1%
Income (loss) before income taxes	-56.1%	2.8%	7.4%
Income tax expense (benefit)	-8.2%	0.8%	2.5%
Net income (loss)	-47.9%	2.1%	5.0%

YEAR ENDED DECEMBER 27, 2008 COMPARED TO YEAR ENDED DECEMBER 29, 2007

Net Sales. Our net sales decreased $98.1 million, or 8.7%, to $1,028.7 million for 2008 compared to $1,126.8 million for 2007 principally due to a decline in our Domestic net sales. Our Domestic segment net sales decreased $94.2 million, or 9.4%, to $908.2 million (includes $7.3 million of inter-segment net sales) for 2008 compared to $1,002.4 million (includes $0.9 million of inter-segment net sales) for 2007. Our Domestic segment net sales declined primarily as a result of decreases in our conventional bedding unit volume of 14.1%, or $136.5 million, which was offset slightly by an increase in our average unit selling price ("AUSP") of 5.6%, or $46.4 million, compared to 2007. Our Domestic segment unit volume decreased principally due to an overall U.S. mattress industry downturn as a result of slowing consumer spending in the current economic recession. Our improvement in Domestic segment AUSP was primarily attributable to (i) our product price increases implemented in November 2007, March 2008 and June 2008 and (ii) a shift in our product sales mix to our higher priced products.

Our Canada segment net sales increased $2.5 million, or 2.0%, to $127.8 million for 2008 compared to $125.3 million for 2007. In local currency, our Canada segment net sales decreased for 2008 by 0.1% compared to 2007. The sales decrease was due to a decline in conventional bedding AUSP of 3.5%, partially offset by an increase in conventional bedding unit volume of 5.2%. Our Canada segment unit volume increased principally due to the success of our 2008 Canadian product line, introduced in the first quarter of 2008, and promotional pricing. Our Canadian segment AUSP decreased principally due to promotional pricing and a shift in sales mix to lower priced products. In September 2008, we implemented a price increase on our Canadian product lines.

Gross Profit. Our consolidated gross profit decreased $70.7 million to $379.9 million (36.9% of consolidated net sales) for 2008 compared to $450.6 million (40.0% of consolidated net sales) for 2007. Our Domestic segment gross profit decreased $60.8 million to $351.0 million (38.6% of Domestic segment net sales) for 2008 compared to $411.8 million (41.1% of Domestic segment net sales) for 2007. Our Domestic segment gross margin decrease of 2.5 percentage points for 2008 compared to 2007 was due principally to an increase in our conventional bedding material cost per unit and manufacturing cost per unit of 12.3% and 5.5%, respectively. Our material cost per unit increased primarily due to (i) the addition of flame retardant materials to meet the CPSC's open flame resistance standard which went into effect July 1, 2007; (ii) inflation in the costs of raw materials, particularly in the prices of steel and foam; and (iii) a change in our sales mix to products with higher material content. Our manufacturing cost per unit increased principally due to our fixed manufacturing costs being absorbed by fewer units.

Our Canada segment gross profit decreased $9.9 million to $28.9 million (22.6% of Canada segment net sales) for 2008 compared to $38.8 million (31.0% of Canada segment net sales) for 2007. Our Canada segment gross margin decreased 8.4 percentage points due primarily to (i) the purchasing of product from the Domestic segment following the closure of our Bramalea, Ontario facility at a higher cost than to produce the product; (ii) a shift in sales mix to products with lower gross margin; (iii) inflation in material costs; and (iv) manufacturing inefficiencies related to the new product line introduced in January 2008.

Selling, General and Administrative Expenses ("SG&A"). Our consolidated SG&A decreased $17.3 million to $328.9 million (32.0% of consolidated net sales) for 2008 compared to $346.3 million (30.7% of consolidated net sales) for 2007. Our Domestic segment SG&A decreased $19.6 million to $301.8 million (33.2% of Domestic segment net sales) for 2008 compared to $321.3 million (32.1% of Domestic segment net sales) for 2007. In 2007, our Domestic segment incurred significantly higher product rollout costs as a result of the introduction of our current Beautyrest® product line in 2007. As a result of not introducing a new Beautyrest® product line and other cost savings initiatives, our Domestic segment had $24.0 million less fixed selling and brand development expenses for 2008 compared to 2007. Our Domestic segment also had lower salaries and fringe benefits of $3.8 million in 2008 compared to 2007 principally due to reduced management bonus expense and less employees. Partially offsetting these decreases in 2008, our Domestic segment had higher volume variable selling and distribution expenses of $0.9 million despite lower sales volumes principally due to a $6.8 million increase in co-operative advertising expense. Our co-operative advertising expense increased due to a shift in our sales mix to customer and products with higher subsidies and more co-operative advertising costs being classified as a selling expense rather than a reduction of sales for 2008 compared to 2007. Our Domestic SG&A for 2008 compared to 2007 also included an increase of (i) bad debt expense of $3.5 million primarily as a result of Mattress Discounters Corp. filing for reorganization under Chapter 11 of the Bankruptcy Code in August 2008; (ii) depreciation expense of $1.6 million principally due to the implementation of our new enterprise resource planning ("ERP") system; and (iii) consulting and professional fees of $0.7 million principally due to costs incurred related to the forbearance agreements and associated debt restructuring activities. In addition, our Domestic SG&A for 2008 included a one-time retiree healthcare plan curtailment charge of $1.5 million associated with the closure of our Mableton, Georgia facility in September 2008.

Our Canada segment SG&A increased $2.9 million to $27.8 million (21.7% of Canada segment net sales) for 2008 from $25.0 million (19.9% of Canada segment net sales) for 2007. Our Canada segment SG&A increased principally due to a $1.7 million pension plan curtailment/contractual termination benefits charge in 2008 as a result of the closure of our Bramalea, Ontario facility in September 2008. In addition, our Canada segment SG&A for 2008 increased due to higher distribution expense as a result of increased sales volumes, increased diesel fuel costs and more miles driven following the shift of Bramalea, Ontario production to other manufacturing facilities.

Goodwill and Trademark Impairment Charges. During 2008, we recognized a total non-cash charge of $547.6 million related to the impairment of goodwill and trademarks associated with our Domestic and Canada reporting units. The impairment resulted from our 2008 annual impairment testing of goodwill and trademarks performed in the fourth quarter of 2008. The impairment charges were a result of our lowering our projected future operating results due to decreases in consumer spending and increased material costs. No such impairments were identified in 2007.

Restructuring Charges. For 2008, we recognized pretax restructuring costs of $10.2 million. No such costs were recognized for 2007. The restructuring charges primarily relate to (i) severance and benefits in connection with two salaried workforce reductions announced and completed in 2008 in response to the downturn in the economy since the second half of 2007 and (ii) severance, benefits and lease facility costs associated with the closure of our Mableton, Georgia and Bramalea, Ontario manufacturing facilities announced and completed in 2008.

Amortization of Intangibles. For 2008, amortization of intangibles increased $0.2 million to $6.3 million from $6.1 million for 2007.

Licensing Revenues. For 2008, licensing revenues decreased $0.6 million, or 5.8%, to $9.5 million from $10.1 million for 2007. In 2007, we recognized additional royalties generated from licensee sales audits of previous years. No additional royalties were recognized from sales audits in 2008.

Interest Expense. For 2008, interest expense decreased $2.7 million to $73.5 million from $76.2 million for 2007. The decreased interest expense was primarily due to lower LIBOR base rates on our senior credit facility. Our non-cash interest expense, which includes accretion of our Discount Notes and the amortization of deferred financing fees, increased $2.5 million to $25.1 million for 2008 compared to $22.6 million for 2007.

Interest Income. For 2008, interest income decreased $0.1 million to $0.4 million from $0.5 million for 2007.

Income Taxes. The combined federal, state, and foreign effective income tax rate of (14.7)% for 2008 differs from the federal statutory rate of 35.0% primarily due to goodwill impairment deductions for book purposes that are not deductible for tax purposes. The combined federal, state, and foreign effective income tax rate of 26.6% for 2007 differs from the federal statutory rate of 35.0% primarily due to a decrease in the U.S. multi-state and Canada federal tax rates applied to deferred items and the reversal of valuation allowances, partially offset by an increase in our liabilities for uncertain tax positions.

YEAR ENDED DECEMBER 29, 2007 COMPARED TO YEAR ENDED DECEMBER 30, 2006

Net Sales. Our net sales increased $165.2 million, or 17.2%, to $1,126.8 million for 2007 compared to $961.6 million for 2006. Our consolidated net sales for 2007 included $125.4 million of net sales associated with our Canada segment, which was acquired in November 2006 ($12.7 million of net sales included in our consolidated net sales for 2006). Our consolidated net sales for 2006 included $49.0 million of net sales associated with our retail operations, which were sold in August 2006. Our Domestic segment net sales, which exclude the net sales associated with our Canada segment and our former retail operations, increased $102.4 million, or 11.4%, to $1,002.4 million for 2007 compared to $900.0 million for 2006. Our Domestic segment net sales improved primarily as a result of increases in our conventional bedding unit volume of 10.6%, or $91.3 million, and our AUSP of 1.3%, or $12.8 million, compared to 2006. Our Domestic segment unit volume increased principally due to strong demand for our Beautyrest®, Beautyrest BlackTM and DeepSleep® products, which we attribute to more effective marketing and brand development. Additionally, our sales growth benefited from our products being competitive across a broad range of price points, effective selling practices and strong customer relationships. Our improvement in Domestic segment AUSP was primarily attributable to the increase in products at higher price points exceeding the increase in products sold at lower price points.

Gross Profit. Our consolidated gross profit increased $33.1 million to $450.6 million (40.0% of consolidated net sales) for 2007 compared to $417.5 million (43.4% of consolidated net sales) for 2006. Our decline in consolidated gross margin was principally due to the sale of our former retail operations in August 2006, which sold products at higher gross margins than our wholesale operations, and the acquisition of Simmons Canada in November 2006, which sells products at lower gross margins than our Domestic segment. Our consolidated gross profit for 2007 included a full year of gross profit from our Canada segment, acquired November 2006, of $38.8 million (31.0% of Canada segment net sales), an increase of $35.3 million compared to 2006. Our consolidated gross profit for 2006 included $32.9 million of gross profit associated with our former retail operations (net of eliminations between our wholesale and retail operations), which operated with a gross margin of 67.2% during that period.

Our Domestic segment gross profit increased $30.7 million to $411.8 million (41.1% of Domestic segment net sales) for 2007 compared to $381.1 million (42.3% of Domestic segment net sales) for 2006. Our Domestic segment gross margin decrease of 1.2 percentage points for 2007 compared to 2006 was due principally to an increase in our conventional bedding material cost per unit and manufacturing cost per unit of 5.9% and 0.3%, respectively. Our material cost per unit increased primarily due to the addition of flame retardant materials to meet the CPSC's new regulations relating to open flame resistance standards for the mattress industry that became effective on July 1, 2007 and the change in our sales mix to products with higher material content. Our manufacturing cost per unit increased principally due to manufacturing inefficiencies during the first half of 2007 of $4.4 million resulting from the transition to the new product lines and one-time conversion costs of $2.3 million related to complying with the CPSC's new open flame resistance standard.

SG&A. Our consolidated SG&A increased $34.4 million to $346.3 million (30.7% of consolidated net sales) for 2007 compared to $311.8 million (32.4% of consolidated net sales) for 2006. Our consolidated SG&A for 2007 included $24.9 million of expenses related to our Canada segment (19.9% of Canada segment net sales) acquired in November 2006, an increase of $22.5 million compared to 2006. Our consolidated SG&A for 2006 included $28.2 million of expenses associated with our former retail operations (45.9% of retail net sales). Our Domestic segment SG&A increased $40.1 million to $321.3 million (32.1% of Domestic segment net sales) for 2007 from $281.2 million (31.2% of Domestic segment net sales) for 2006. Our Domestic segment SG&A increased due principally to higher (i) product roll-out costs of $19.2 million resulting primarily from the roll-out of the Beautyrest® 2007 product line that occurred in the first half of 2007; (ii) variable selling expenses of $9.2 million due to incremental unit volume partially offset by lower co-op advertising expenditures due to a shift in sales mix; (iii) consulting and professional fees of $6.5 million due primarily to implementation of a new ERP system, implementation of various cost savings initiatives, and assistance with acquisition integration; (iv) bad debt expense of $3.4 million as a result of increased customer bankruptcies and the overall economic environment; and (iv) salaries and fringe benefits of $3.3 million principally due to increased headcount, partially offset by lower management bonuses.

Amortization of Intangibles. For 2007, amortization of intangibles increased $0.5 million to $6.1 million from $5.7 million for 2006.

Licensing Revenues. For 2007, licensing revenues increased $1.4 million, or 16.0%, to $10.1 million from $8.7 million for 2006. Licensing revenues increased principally as a result of additional royalties generated from licensee sales audits of previous years.

Interest Expense. For 2007, interest expense decreased $5.1 million to $76.2 million from $81.3 million for 2006. Interest expense for 2006 included deferred financing fees and refinancing costs of $6.0 million that were expensed due to the refinancing of our senior credit facility in May 2006 (the "Refinancing"). Excluding the expenses associated with the Refinancing, interest expense increased $0.9 million for 2007 compared to 2006 due principally to more accretion of our Discount Notes. Our non-cash interest expense, which includes accretion of our Discount Notes and the amortization of deferred financing fees, increased $1.2 million to $22.6 million for 2007 compared to $21.4 million for 2006.

Interest Income. For 2007, interest income decreased $0.8 million to $0.5 million from $1.3 million for 2006.

Income Taxes. The combined federal, state, and foreign effective income tax rate of 26.6% for 2007 differs from the federal statutory rate of 35.0% primarily due to a decrease in the U.S. multi-state and Canada federal tax rates applied to deferred items and the reversal of valuation allowances, partially offset by an increase in our liabilities for uncertain tax positions. The combined federal, state, and foreign effective income tax rate of 33.9% for 2006 differs from the federal statutory rate of 35.0% primarily due to a larger book versus tax gain on the sale of SCUSA, partially offset by an increase in tax reserves and the effect of state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of cash to fund liquidity needs have been (i) cash provided by operating activities of Simmons Bedding and its subsidiaries and (ii) borrowings available under Simmons Bedding's senior credit facility. Restrictive covenants in our debt agreements and forbearance agreements restrict our ability to pay cash dividends and make other distributions. Our primary use of funds consists of payments for funding working capital increases, capital expenditures, customer supply agreements, principal and interest for our debt, distributions to service Simmons Holdco's debt, and acquisitions. As of December 27, 2008, we had $54.9 million of cash on hand and less than $0.1 million of availability to borrow under Simmons Bedding's revolving loan facility. As of May 2, 2009, we had $57.5 million of cash on hand.

As of December 27, 2008, Simmons Bedding was not in compliance with certain covenants of its $540.0 million senior credit facility and was operating under a forbearance agreement with Simmons Bedding's senior lenders. On January 15, 2009, Simmons Bedding did not make a scheduled payment of interest due on its Subordinated Notes resulting in a default under the indenture governing the Subordinated Notes. As a result, we entered into a forbearance agreement with more than a majority of the outstanding Subordinated Notes holders, pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture. Both forbearance agreements, as amended, with our senior lenders and the noteholders provide a forbearance period through June 30, 2009 and, upon meeting certain conditions, a further extension to July 31, 2009. We incurred fees and expenses in connection with the forbearance agreements and related amendments.

As a condition to the forbearance agreement with our senior lenders, we initiated a financing restructuring process in December 2008. A special committee of independent directors was formed by our board of directors on January 23, 2009 to evaluate and oversee proposals for restructuring our debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives of the Company. There can be no assurance that we will be successful in implementing a restructuring. If we are unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance periods as needed to successfully complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. We would not have the ability to repay any amounts accelerated under our various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of our affiliates. Due to the possibility of such circumstances occurring, we are seeking a negotiated restructuring, including a restructuring of our debt obligations and/or sale of us, our affiliates or our assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing. Any bankruptcy filing could have a material adverse effect on our business, financial condition, liquidity and results of operations. The considerations above raise substantial doubt about our ability to continue as a going concern.

There are substantial risks related to our liquidity. For further information regarding these risks, please see Item 1A "Risk Factors — Risks Related to Our Liquidity."

The following table summarizes our changes in cash (in millions):

	Fiscal Years Ended		
	December 27, 2008	December 29, 2007	December 30, 2006
Statement of cash flow data:			
Cash flows provided by (used in):			
Operating activities	$ 13.4	$ 66.2	$ 102.3
Investing activities	(17.1)	(40.4)	(74.2)
Financing activities	32.8	(20.9)	(31.6)
Effect of exchange rate changes on cash	(1.7)	1.9	(0.3)
Change in cash and cash equivalents	27.4	6.7	(3.8)
Cash and cash equivalents			
Beginning of year	27.5	20.8	24.6
End of year	$ 54.9	$ 27.5	$ 20.8

Year Ended December 27, 2008 Compared With the Year Ended December 29, 2007

Cash flows from operating activities. For 2008 compared to 2007, our cash flows from operations decreased $52.8 million. The decrease in our cash flow from operations resulted principally from our lower operating results combined with a $9.1 million increase in our working capital (excluding deferred debt issuance costs classified as a current asset in 2008). Our operating results declined in 2008 principally due to lower sales volumes combined with inflation in our material costs resulting in lower gross profit. Our working capital (excluding deferred debt issuance costs), as a percentage of annual net sales, increased to 2.0% as of December 27, 2008 compared to 1.0% as of December 29, 2007. Our working capital increased principally due to a decrease in accounts payable and accrued liabilities of $40.8 million as a result of our sales decrease and timing of vendor and customer payments.

Cash flows used in investing activities. For 2008, our cash flow used in investing activities included $17.1 million for purchases of property, plant and equipment compared to $25.1 million in 2007. For 2007, our cash used in investing activities also included $15.4 million for the ComforPedic Acquisition.

Cash flows provided by (used in) financing activities. For 2008, our financing activities resulted in a $32.8 million source of cash due to borrowings under Simmons Bedding's revolving loan facility of $64.5 million, which was partially offset by dividend payments to Simmons Holdco of $29.1 million for the payment of interest on Simmons Holdco's Toggle Loan. For 2007, our financing activities resulted in a $20.9 million use of cash due principally to a $15.0 million voluntary payment on Simmons Bedding's senior credit facility and a $5.0 million dividend to Simmons Holdco.

Year Ended December 29, 2007 Compared With the Year Ended December 30, 2006

Cash flows from operating activities. For 2007 compared to 2006, our cash flows from operations decreased $36.1 million. The decrease in cash flow from operations resulted primarily from our working capital being a $5.2 million use of cash in 2007 compared to being a $10.6 million source of cash in 2006. Our working capital, as a percentage of net sales, increased to 1.0% as of December 27, 2008 compared to 0.7% as of December 29, 2007. Our working capital was a use of cash in 2007 principally due to a $27.9 million increase in our accounts receivable balance as a result of (i) our sales growth and (ii) our days sales outstanding slowing to 41 days at December 27, 2008 compared to 35 days at December 29, 2007. Our days sales outstanding slowed principally due to customer sales mix and more customers paying based on invoice terms instead of paying early to receive a cash discount. Partially offsetting the increase in receivables, our accrued liabilities increased $21.8 million for 2007 compared to 2006 as a result of the timing of cash payments.

Cash flows used in investing activities. For 2007, our cash flows used in investing activities included $25.1 million for purchases of property, plant and equipment and $15.4 million for the ComforPedic Acquisition. For 2006, our cash used in investing activities included the purchase of Simmons Canada for $113.1 million, net of cash acquired, and capital expenditures of $13.6 million, which were partially offset by the proceeds from the sale of SCUSA of $52.4 million. Our increased purchases of property, plant and equipment in 2007 was principally due to an ongoing upgrade to our Domestic segment ERP system and new manufacturing equipment to help meet increased demand for our products.

Cash flows used in financing activities. For 2007, our financing activities resulted in a $20.9 million use of cash due principally to a $15.0 million voluntary payment on our senior credit facility and a $5.0 million dividend to Simmons Holdco. For 2006, our financing activities resulted in a $31.6 million use of cash due principally to mandatory and voluntary payments on our senior credit facility totaling $29.9 million.

Debt

As of December 27, 2008, our debt outstanding was $988.2 million compared to $901.5 million as of December 29, 2007. Our outstanding debt was primarily Simmons Bedding's senior credit facility and Subordinated Notes and Holdco's Discount Notes.

Senior Credit Facility

The senior credit facility provides for a $75.0 million revolving loan facility and a $465.0 million tranche D term loan facility. The revolving loan under the senior credit facility will expire on the earlier of (a) December 19, 2009 or (b) as revolving credit commitments under the facility terminate. As of December 27, 2008, under the revolving loan facility, Simmons Bedding had $64.5 million of borrowings and $10.4 million that was reserved for its reimbursement obligations with respect to outstanding letters of credit. Simmons Bedding incurs an unused line fee of 0.50% per annum on the unused portion of its revolving loan facility.

The tranche D term loans under the senior credit facility will expire on December 19, 2011. The tranche D term loan has a mandatory principal payment of $113.5 million on March 31, 2011 and quarterly mandatory principal payments of $117.2 million from June 30, 2011 through maturity on December 19, 2011. Depending on Simmons Bedding's leverage ratio, it may be required to prepay a portion of the tranche D term loan with up to 50% of its excess cash flow (as defined in the senior credit facility) from each fiscal year. Simmons Bedding was not required to prepay a portion of the tranche D term loan in fiscal year 2008.

The senior credit facility bears interest at our choice of the Eurodollar Rate or Base Rate (both as defined), plus the applicable interest rate margins. The weighted average interest rate per annum in effect as of December 27, 2008 for the tranche D term loan was 9.6%. The senior credit facility is guaranteed by THL-SC and all of Simmons Bedding's material domestic subsidiaries. Simmons Bedding has pledged substantially all of its assets to the senior credit facility.

The senior credit facility requires Simmons Bedding to maintain certain financial ratios, including cash interest coverage (adjusted EBITDA to cash interest expense) and total leverage (net debt to adjusted EBITDA) ratios. Adjusted EBITDA (as defined in the senior credit facility) differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA, as we interpreted the definition of Adjusted EBITDA from the senior credit facility, also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees; other non-cash items reducing consolidated net income (including, without limitation, non-cash purchase accounting adjustments and debt extinguishment costs); any extraordinary, unusual or non-recurring gains or losses or charges or credits; and any reasonable expenses or charges related to any issuance of securities, investments permitted, permitted acquisitions, recapitalizations, asset sales permitted or indebtedness permitted to be incurred; less other non-cash items increasing consolidated net income (loss), all of the foregoing as determined on a consolidated basis for Simmons Bedding in conformity with GAAP.

The financial covenants are as follows:

1) A minimum cash interest coverage ratio, with compliance levels ranging from cash interest coverage of no less than 2.75:1.00 for December 27, 2008 and 3.00:1.00 from March 31, 2009 through each fiscal quarter ending thereafter.

2) A maximum leverage ratio, with compliance levels ranging from total leverage of no greater than 4.50:1.00 for December 27, 2008 and 4.00:1.00 from March 31, 2009 through each fiscal quarter ending thereafter.

As of September 27, 2008, Simmons Bedding was not in compliance with the maximum leverage financial covenant and certain other covenants contained in its senior credit facility. In response thereto, Simmons Bedding was unable to negotiate a waiver of such defaults with its senior lenders and entered into the First Forbearance Agreement and Second Amendment to the Second Amended and Restated Credit and Guaranty Agreement ("First Forbearance Agreement") on November 12, 2008 and the Second Forbearance Agreement and Third Amendment to the Second Amended and Restated Credit and Guaranty Agreement and First Amendment to the Pledge and Security Agreement (the "Second Forbearance Agreement") on December 10, 2008 with its senior lenders. Based on the terms of the First Forbearance Agreement, the senior lenders agreed to, among other things, forbear from exercising their default-related rights and remedies under the senior credit facility against Simmons Bedding through December 10, 2008, provided that Simmons Bedding satisfied certain conditions. The Second Forbearance Agreement extended the forbearance period through March 31, 2009, subject to earlier termination in some circumstances. Simmons Bedding entered into (i) that certain First Amendment to Second Forbearance Agreement; Fourth Amendment to the Second Amended and Restated Credit and Guaranty Agreement and Second Amendment to the Pledge and Security Agreement (the "First Amendment to the Second Forbearance Agreement") on March 25, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through May 31, 2009 and, upon satisfaction of certain conditions, July 31, 2009 and (ii) that certain Second Amendment to Second Forbearance Agreement; Fifth Amendment to the Second Amended and Restated Credit and Guaranty and Third Amendment to the Pledge and Security Agreement (the "Second Amendment to the Second Forbearance Agreement" and, together with the First Amendment to the Second Forbearance Agreement, the "Amendment to the Second Forbearance Agreement") on May 27, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through June 30, 2009 and, upon satisfaction of certain conditions, July 31, 2009.

During the forbearance period, the senior lenders will provide no additional loans or financial accommodation to Simmons Bedding except for the issuance, renewal, extension or replacement of letters of credit and revolving loans provided in certain limited circumstances related to the letters of credit as set forth in the forbearance agreements. In addition, Simmons Bedding will not be permitted to, directly or indirectly, incur indebtedness or liens, make investments or restricted junior payments, or consummate any asset sales, except in the ordinary course of business, during the forbearance period.

During the forbearance period under the First Forbearance Agreement, the applicable margin on the revolving loans and tranche D term loans increased 2.0% per annum above the rate otherwise applicable. The Second Forbearance Agreement amended the senior credit facility to, among other things:

- Increase the applicable margin for both the revolving loans and the tranche D term loans to either Base Rate plus 5.285% per annum or Eurodollar Rate plus 6.285% per annum;
- Establish a floor for the Base Rate and Eurodollar Rate of 3.25% and 4.25%, respectively, per annum at the earlier of the termination of the Second Forbearance Agreement or March 31, 2009;
- Eliminate the 2% per annum penalty rate applicable to overdue payments of principal or interest; and
- Make interest payable on the revolving loans and tranche D term loans as of the last business calendar day of each month.

The Second Forbearance Agreement also required Simmons Bedding to enter into deposit account control agreements with respect to all its bank accounts, with certain exceptions. The Second Forbearance Agreement included certain covenants including:

- Minimum liquidity requirements whereby Simmons Bedding will maintain a daily cash balance of not less than $2.5 million for any two consecutive business days and an average daily cash balance of not less than $7.5 million for any five consecutive business days;
- Provide a long-term business plan to the senior lenders by January 7, 2009;
- Commence a process to solicit new debt and/or equity investment by January 9, 2009;
- Provide a potential restructuring proposal to the senior lenders by January 26, 2009; and
- Increased financial reporting requirements.

As of December 27, 2008, Simmons Bedding was in compliance with the covenant requirements of the Second Forbearance Agreement.

The Amendment to the Second Forbearance Agreement amended the senior credit facility to, among other things, increase the applicable margin for both revolving loans and tranche D term loans to either Base Rate plus 6.25% per annum or Eurodollar Rate plus 7.25% per annum.

During the forbearance period, as extended by the Amendment to the Second Forbearance Agreement, Simmons Bedding met its requirements, in addition to the other covenants set forth in the Second Forbearance Agreement, to (a) provide the legal and financial advisors to the senior lenders with weekly updates on the ongoing restructuring process and (b) facilitate a meeting between certain senior lenders and the selected bidders before April 17, 2009.

In connection with the First Forbearance Agreement, Simmons Bedding agreed to pay (a) the senior lenders who approved the agreement a forbearance fee equal to 0.125% of the aggregate outstanding amount of such lender's outstanding debt under the senior credit facility and (b) the fees and expenses of the lender's counsel in connection with the First Forbearance Agreement. In connection with the Second Forbearance Agreement, Simmons Bedding agreed to pay (a) the senior lenders who approved the agreement a forbearance fee equal to 0.5% of the aggregate outstanding amount of such lender's outstanding debt under the senior credit facility and (b) the fees and expenses of the lender's counsel and financial advisor in connection with the Second Forbearance Agreement. The Company capitalized the lender fees of $3.3 million, of which $1.3 million were paid in 2009, and expensed the third party fees associated with the forbearance agreements.

Subordinated Notes

Simmons Bedding's Subordinated Notes bear interest at the rate of 7.875% per annum, which is payable semi-annually in cash in arrears on January 15 and July 15. The Subordinated Notes mature on January 15, 2014 and are subordinated in right of payment to all existing and future senior indebtedness of Simmons Bedding.

The Subordinated Notes are redeemable at our option beginning January 15, 2009 at prices decreasing from 103.9% of the principal amount thereof to par on January 15, 2012 and thereafter. We are not required to make mandatory redemption or sinking fund payments with respect to the Subordinated Notes.

Simmons Bedding did not make a scheduled payment of $7.9 million of interest due on January 15, 2009 on the Subordinated Notes resulting in an event of default under the indenture governing the Subordinated Notes. Such event of default enabled the holders of the Subordinated Notes to declare the full amount of the Subordinated Notes immediately due and payable. On February 4, 2009, Simmons Bedding and more than a majority of the outstanding Subordinated Notes holders approved a Forbearance Agreement to the indenture governing the Subordinated Notes ("Subordinated Forbearance Agreement"), pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture through March 31, 2009. In connection with the Subordinated Forbearance Agreement, Simmons Bedding agreed to pay the fees and expenses of the legal and financial advisors of the committee to the noteholders. Simmons Bedding entered into amendments to the Subordinated Forbearance Agreement on March 25, 2009 and May 27, 2009, whereby a majority of the noteholders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain conditions, a further extension to July 31, 2009. Pursuant to the terms of the Subordinated Forbearance Agreement, the noteholders party to the Subordinated Forbearance Agreement have the obligation to take any actions that are necessary to prevent an acceleration of the payments due under the Subordinated Notes during the forbearance period. Because the noteholders party to the Subordinated Forbearance Agreement represent more than a majority of the Subordinated Notes, they have the power under the indenture to rescind any acceleration of the Subordinated Notes by either the trustee or the minority holders of the Subordinated Notes. In consideration for their entry into the amendment to the Subordinated Forbearance Agreement, the noteholders party to the Subordinated Forbearance Agreement received an amendment fee equal to 0.5% of the aggregate outstanding amount of such holder's Subordinated Notes.

The indenture for the Subordinated Notes requires Simmons Bedding to comply with certain restrictive covenants, including restrictions on dividends, and limitations on the occurrence of indebtedness, certain payments and distributions, and sales of Simmons Bedding's assets and stock.

Discount Notes

Our Discount Notes, with an aggregate principal amount at maturity of $269.0 million, bear interest at the rate of 10.0% per annum payable semi-annually in cash in arrears on June 15 and December 15 of each year commencing on June 15, 2010. Prior to December 15, 2009, interest accrues on the Discount Notes in the form of an increase in the accreted value of the Discount Notes. Our ability to make payments on the Discount Notes is dependent on the earnings and distribution of funds from Simmons Bedding to Holdings. Simmons Bedding is prohibited from making certain distributions under the forbearance agreements.

The Discount Notes are redeemable at the our option beginning December 15, 2009 at prices decreasing from 105.0% of the principal amount thereof to par on December 15, 2012 and thereafter. We are not required to make mandatory redemption or sinking fund payments with respect to the Discount Notes.

If any of the Discount Notes are outstanding on June 15, 2010, we are obligated to redeem for cash a portion of each Discount Note then outstanding in an amount equal to (i) the excess of the aggregate amount of accrued and unpaid interest and original issue discount on the Discount Notes over (ii) the issue price of the Discount Notes multiplied by the yield to maturity of the Discount Notes (the "Mandatory Principal Redemption Amount) plus a premium equal to 5.0% (one-half of the coupon) of the Mandatory Principal Redemption Amount. No partial redemption or repurchase of the Discount Notes pursuant to any other provision of the indenture will alter the our obligation to make this redemption with respect to any Discount Notes then outstanding. Assuming no redemptions prior to June 15, 2010, we would be obligated to make a mandatory principal payment of $90.2 million and an interest and premium payment of $18.0 million on June 15, 2010.

The indenture for the Discount Notes requires Holdings to comply with certain restrictive covenants, including a restriction on dividends; and limitations on the incurrence of indebtedness, certain payments and distributions, and sales of Holdings' assets and stock. Pursuant to the reporting covenants contained in the indentures governing Discount Notes, we agreed to furnish its holders of the Discount Notes all quarterly and annual reports that would be required to be filed with the SEC if we were required to file such reports. We failed to timely file our Quarterly Reports on Form 10-Q for the quarters ended September 27, 2008 and March 28, 2009 and our Annual Report on Form 10-K for the fiscal year ending December 27, 2008 (the "Financial Reports") with the SEC resulting in the Company's non-compliance with the reporting covenants. The Company has 60 days after receiving notice from the lenders to cure the non-compliance by providing such information to the lenders. If the Company was unable to cure the non-compliance, there would be an event of default under the indenture governing the Discount Notes.

On April 14, 2009, we received a notice sent on behalf of holders of the Discount Notes, purporting to own more than 25% of the $269.0 million principal amount of the outstanding Discount Notes, pursuant to which such holders have notified us that our failure to furnish to the holders of the Discount Notes (i) a Quarterly Report on Form 10-Q for the third quarter ended September 27, 2008 and (ii) an Annual Report on Form 10-K for the fiscal year ended December 27, 2008, each as required under the indenture governing the Discount Notes, constitutes defaults thereunder. With the filing of this Annual Report on Form 10-K for the fiscal year ending December 27, 2008 along with the filing of the Quarterly Report on Form 10-Q for the third quarter ended September 27, 2008, we have cured these defaults. We have not received notice of non-compliance with the reporting covenant for the Quarterly Report on Form 10-Q for the first quarter ended March 28, 2009. If we receive such notice and were unable to cure the non-compliance within 60 days of receiving such notice, there would be an event of default under the indenture governing the Subordinated Notes.

Toggle Loan

We do not guarantee or have any of our assets pledged as collateral under Simmons Holdco's $300 million Toggle Loan. The Toggle Loan is structurally subordinated in right of payment to any of our existing and future liabilities. Although we are not obligated to make cash distributions to service principal and interest on the Toggle Loan, Simmons Holdco is dependent on our cash flow to meet the interest and principal payments under the Toggle Loan. The Toggle Loan is not included in our financial statements. During 2008, we provided $29.1 million of cash to Simmons Holdco, reflected as a dividend in our financial statements, so that Simmons Holdco could pay interest on the Toggle Loan, repurchase shares of its common stock, and pay operating expenses of Simmons Holdco. Under the terms of the credit agreement governing the Toggle Loan, Simmons Holdco may elect to pay future interest in cash or add such interest to the principal amount of the Toggle Loan. However, the Second Forbearance Agreement, as amended, prohibits the Company from making distributions to its parent companies during the forbearance period, except in the ordinary course of business. Accordingly, Simmons Holdco has elected to make its February and August 2009 interest payments on the Toggle Loan by adding such interest to the principal amount of the Toggle Loan. The Toggle Loan matures in February 2012. An acceleration of indebtedness under the senior credit facility, Subordinated Notes or Discount Notes would trigger an event of default under the Toggle Loan.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and other commercial commitments as of December 27, 2008 (in millions):

		Payment Due by Year			
Contractual obligations:	**Total**	**2009**	**2010-2011**	**2012-2013**	**Thereafter**
Debt (1)	$ 988.2	$ 975.2	$ 1.0	$ 1.1	$ 10.9
Interest payments on long-term debt (2)	330.8	67.1	166.4	68.8	28.5
Operating leases	72.8	17.9	24.4	16.9	13.6
Component purchase commitments	67.6	30.6	37.0	—	—
Other (3)	22.5	3.5	19.0	—	—
Total contractual obligations	$ 1,481.9	$ 1,094.3	$ 247.8	$ 86.8	$ 53.0
Other commercial commitments:					
Standby letters of credit	$ 10.4	$ 10.4	$ —	$ —	$ —

(1) Includes $23.9 million of original issue discount on the Discount Notes.

(2) Anticipated interest payments based on current interest rates and amounts outstanding as of December 27, 2008.

(3) Represents potential earn-out payments related to the ComforPedic Acquisition.

In addition, under the terms of the management agreement entered into in connection with the THL Acquisition, Simmons Bedding is required to pay an affiliate of THL an aggregate fee of no less than $1.5 million a year. The second forbearance agreement prohibits us from paying the THL management fee in cash subsequent to December 10, 2008. Under the terms of the management agreement, it will be terminated by THL upon the consummation of an equity offering and Simmons Bedding will be required to pay THL a termination fee equal to the net present value of the fees payable to THL for a period of seven years from the date of termination. In connection with our restructuring efforts, we have agreed to reimburse the directors of THL for certain legal fees. The management fee is not included in the contractual obligations table.

In 2008, we provided Simmons Holdco $29.1 million of cash in the form of a dividend so that Simmons Holdco could pay cash interest on the Toggle Loan. Simmons Holdco has elected to make its February and August 2009 interest payments on the Toggle Loan by adding such interest to the principal amount of the Toggle Loan. Simmons Holdco may elect to pay future interest in cash or add such interest to the principal amount of the Toggle Loan. The Toggle Loan matures in February 2012. Although we are not an obligor on or guarantor of the Toggle Loan, nor are we obligated to make cash distributions to service principal and interest on the Toggle Loan, Simmons Holdco is dependent on us to make cash distributions to it to make future cash interest and principal payments to service its debt. The interest payment on the Toggle Loan is not included in the contractual obligations table.

Because we are uncertain as to if or when settlements may occur, the contractual obligation table does not reflect our FIN 48 net liability of $17.6 million related to uncertain tax positions. Details regarding this liability are presented in Note B of the Notes to the Consolidated Financial Statements of this Form 10-K.

We anticipate making contributions to the Pension Plan and FAS 106 Plans of approximately $1.1 million and $0.7 million, respectively, in 2009 and no contributions are expected for the RCA in 2009. The contributions principally represent contributions required by funding regulations. Details regarding this liability are presented in Note O of the Notes to the Consolidated Financial Statements of this Form 10-K.

SEASONALITY/OTHER

Our third quarter sales are typically higher than our other fiscal quarters. We attribute this seasonality principally to retailers' sales promotions related to the 4th of July and Labor Day holidays. For the last five years, third quarter sales have represented on average 27% of our consolidated net sales.

Most of our sales are by short term purchase orders. Because our level of production is generally prompted to meet customer demand, we have a negligible backlog of orders. Most finished goods inventories of bedding products are physically stored at manufacturing locations until shipped (usually within days of manufacture).

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note B in the Notes to our Consolidated Financial Statements in Item 8 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations and financial condition, which is incorporated herein by reference.

FORWARD LOOKING STATEMENTS

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995.

This Annual Report on Form 10-K includes forward-looking statements that reflect our current views about future events and financial performance. Words such as "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts" and variations of such words or similar expressions that predict or indicate future events, results or trends, or that do not relate to historical matters, identify forward-looking statements. The forward-looking statements in this report speak only as of the date of this report. These forward-looking statements are expressed in good faith and Simmons believes there is a reasonable basis for them. However, there can be no assurance that the events, results or trends identified in these forward-looking statements will occur or be achieved. Investors should not rely on forward-looking statements because they are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from Simmons's expectations. These factors include, but are not limited to: (i) competitive pressures in the bedding industry; (ii) general economic and industry conditions; (iii) the success of our new products and the future costs to rollout such products; (iv) legal and regulatory requirements; (v) interest rate and credit market risks; (vi) compliance with covenants in, and any defaults under, our debt agreements or instruments; (vii) our ability to comply with the terms of the forbearance agreements, including meeting restructuring milestones, obtain further extensions to the forbearance periods or to develop and implement an organized financial restructuring on acceptable terms, on a timely basis or at all, as well as compliance by the lenders and note holders with the terms of the forbearance agreements; (viii) increased cost of credit and associated fees resulting from the forbearance extensions and any waiver or modification of the senior credit facility by the lenders or any waiver or modification of the Subordinated Notes or other indebtedness; (ix) Simmons being required to immediately repay all amounts outstanding under the senior credit facility resulting from the noncompliance with the covenants which could in turn result in a default under the indebtedness of Simmons as well as Simmons Holdco's indebtedness; (x) our relationships with and viability of its suppliers; (xi) fluctuations in our costs of raw materials and energy prices; (xii) our relationship with and viability of significant customers and licensees; (xiii) our ability to increase prices on our products and the effect of these price increases on its unit sales; (xiv) an increase in our return rates and warranty claims; (xv) our labor relations; (xvi) encroachments on our intellectual property; (xvii) our product liability claims; (xviii) our level of indebtedness; (xix) foreign currency exchange rate risks; (xx) our future acquisitions; (xxi) our ability to achieve the expected benefits from any personnel realignments; (xxii) higher bad debt expense as a result of increased customer bankruptcies due to instability in the economy and slowing consumer spending; (xxiii) our ability to maintain sufficient liquidity to operate its business; and (xxiv) other risks and factors identified from time to time in our reports filed with the SEC.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Annual Report on Form 10-K and are expressly qualified in their entirety by the cautionary statements included in this Annual Report on Form 10-K. Except as may be required by law, we undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The following discussion about our risk-management activities includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. See Item 1 "Business — Forward-Looking Statements" for additional information.

Market Risk

The principal market risks to which we are exposed that may adversely affect our results of operations and financial position include changes in future foreign currency exchange rates, interest rates, commodity prices and equity prices. We seek to minimize or manage these market risks through normal operating and financing activities and through the use of derivative instruments, where practicable. We do not trade or use instruments with the objective of earning financial gains on the market fluctuations, nor do we use instruments where there are not underlying exposures.

Foreign Currency Exposures

As a result of our acquisition of Simmons Canada, our earnings are affected by fluctuations in the value of Canadian dollar (Simmons Canada's functional currency) as compared to the currencies of Simmons Canada's foreign denominated purchases (principally the U.S. dollar). Foreign currency forward contracts are used in some instances as economic hedges against the earnings effects of such fluctuations. The Company had no forward contracts outstanding at December 27, 2008.

Interest Rate Risk

We are exposed to market risks from changes in interest rates. Our senior credit facility and certain of our other debt instruments are floating rate debt. We currently do not have a hedging program in place to manage fluctuations in long-term interest rates.

On December 27, 2008, we had floating rate debt of $533.4 million. All other factors remaining unchanged, a hypothetical 10% increase or decrease in interest rates on our floating rate debt would impact our income before income taxes by $4.2 million in 2008.

Commodity Price Risk

The major raw materials that we purchase for production are foam, wire, spring components, lumber, cotton, insulator pads, innerspring, foundation constructions, fabrics and roll goods consisting of foam, fiber, ticking and non-wovens. The price and availability of these raw materials are subject to market conditions affecting supply and demand. In particular, the price of many of our goods can be impacted by fluctuations in petrochemical and steel prices. Additionally, our distribution costs can be impacted by fluctuations in diesel prices. We currently do not have a hedging program in place to manage fluctuations in commodity prices.

Equity Price Risk

Our defined benefit plans hold investments in both equity and fixed income securities. Our annual contribution amount to such plans is dependent upon, among other things, the return on the plans' assets. The annual contribution amount could increase if equity prices decrease. Our estimated contributions to the plans for 2009 are $1.1 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Simmons Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Simmons Company and its subsidiaries at December 27, 2008 and December 29, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note A to the consolidated financial statements, the Company's non-compliance with its debt covenants, its inability to make scheduled debt repayments and uncertainty about the ability to obtain alternative financing arrangements within the next twelve months raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note A. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note B to the consolidated financial statements, Simmons Company and its subsidiaries changed their method of accounting for uncertainty in income taxes as of December 31, 2006 and their method of accounting for defined benefit pension and other postretirement plans as of December 29, 2007.

/s/ PricewaterhouseCoopers LLP
April 9, 2009, except for Note S to the consolidated financial statements, as to which the date is May 27, 2009

SIMMONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands)

	Fiscal Years Ended		
	December 27, 2008	**December 29, 2007**	**December 30, 2006**
Net sales	$ 1,028,700	$ 1,126,841	$ 961,625
Cost of products sold	648,804	676,255	544,164
Gross profit	379,896	450,586	417,461
Operating expenses:			
Selling, general and administrative expenses	328,928	346,252	311,839
Goodwill impairments	303,885	—	—
Trademark impairments	243,672	—	—
Restructuring charges	10,248	—	—
Gain on sale of Sleep Country USA	—	—	(43,311)
Amortization of intangibles	6,304	6,146	5,655
Licensing revenues	(9,499)	(10,085)	(8,691)
	883,538	342,313	265,492
Operating income (loss)	(503,642)	108,273	151,969
Interest expense	73,479	76,182	81,265
Interest income	(402)	(521)	(1,337)
Income (loss) before income taxes	(576,719)	32,612	72,041
Income tax expense (benefit)	(84,508)	8,663	24,427
Net income (loss)	(492,211)	23,949	47,614
Other comprehensive income (loss):			
Foreign currency translation adjustment	(25,998)	21,774	(2,729)
Changes in retirement plans liabilities, net of tax benefit of $1,362	(2,748)	—	—
Comprehensive income (loss)	$ (520,957)	$ 45,723	$ 44,885

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

SIMMONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 27, 2008	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,930	$ 27,520
Accounts receivable, less allowances for doubtful receivables, discounts and returns of $5,409 and $4,550	95,932	119,984
Inventories	31,838	35,207
Deferred debt issuance costs	13,791	—
Deferred income taxes	3,119	5,953
Prepaid expenses	8,141	11,167
Other current assets	9,735	8,161
Total current assets	217,486	207,992
Property, plant and equipment, net	86,492	87,449
Goodwill	228,325	540,126
Intangible assets, net	340,471	604,547
Other assets	18,023	37,539
Total assets	$ 890,797	$ 1,477,653
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of debt	$ 975,152	$ 772
Accounts payable	50,064	72,484
Accrued liabilities	77,997	96,366
Total current liabilities	1,103,213	169,622
Long-term debt	13,036	900,716
Deferred income taxes	98,761	190,321
Other	38,114	28,842
Total liabilities	1,253,124	1,289,501
Commitments and contingencies (Notes K and P)		
Stockholder's equity:		
Common stock, $0 01 par value: authorized - 1,000 shares; issued - 100 shares	1	1
Additional paid-in capital	100,190	100,613
Retained earnings (deficit)	(452,596)	68,714
Accumulated other comprehensive income (loss)	(9,922)	18,824
Total stockholder's equity (deficit)	(362,327)	188,152
Total liabilities and stockholder's equity (deficit)	$ 890,797	$ 1,477,653

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

SIMMONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(In thousands, except share amounts)

							Accumulated Other Comprehensive Income (Loss) Net Unrealized Gain (Loss) From		
	Common Shares	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Deferred Comp.**	**Common Stock Held in Treasury**	**Currency Translation**	**Benefit Plans**	**Total Stockholder's Equity**
December 31, 2005*	100	1	102,382	4,648	(361)	(2,457)	134	—	104,347
Net income	—	—	—	47,614	—	—	—	—	47,614
Foreign currency translation	—	—	—	—	—	—	(2,729)	—	(2,729)
Comprehensive income (loss)				47,614	—	—	(2,729)	—	44,885
Issuance of common stock held in treasury	—	—	13	(301)	—	542	—	—	254
Stock compensation expense	—	—	760	—	—	—	—	—	760
Adoption of Statement of Financial Standard 123R	—	—	(361)	—	361	—	—	—	—
Tax windfall resulting from restricted stock awards	—	—	49	—	—	—	—	—	49
Purchase of treasury stock, at cost	—	—	—	—	—	(434)	—	—	(434)
December 30, 2006*	100	1	102,843	51,961	—	(2,349)	(2,595)	—	149,861
Net income	—	—	—	23,949	—	—	—	—	23,949
Foreign currency translation	—	—	—	—	—	—	21,774	—	21,774
Comprehensive income				23,949	—	—	21,774	—	45,723
Stock compensation expense	—	—	93	—	—	—	—	—	93
Adoption of Statement of Financial Standard 158	—	—	—	—	—	—	—	(355)	(355)
Retirement of treasury stock	—	—	(2,350)	—	—	2,350	—	—	—
Dividend to Simmons Holdco, Inc. (See Note P)	—	—	—	(4,963)	—	—	—	—	(4,963)
Adoption of FIN 48 (See Note B)	—	—	—	(2,233)	—	—	—	—	(2,233)
Tax windfall resulting from restricted stock awards	—	—	27		—	—	—	—	27
Purchase of treasury stock, at cost	—	—	—	—	—	(1)	—	—	(1)
December 29, 2007	100	$ 1	$ 100,613	$ 68,714	$ —	$ —	$ 19,179	$ (355)	$ 188,152
Net loss	—	—	—	(492,211)	—	—	—	—	(492,211)
Foreign currency translation	—	—	—	—	—	—	(25,998)	—	(25,998)
Change in retirement plans liabilities, net of tax benefit of $1,362	—	—	—	—	—	—	—	(2,748)	(2,748)
Comprehensive loss				(492,211)	—	—	(25,998)	(2,748)	(520,957)
Stock compensation benefit	—	—	(423)	—	—	—	—	—	(423)
Dividend to Simmons Holdco, Inc. (See Note P)	—	—	—	(29,099)	—	—	—	—	(29,099)
December 27, 2008	100	$ 1	$ 100,190	$(452,596)	$ —	$ —	$ (6,819)	$(3,103)	$ (362,327)

* Recast to give effect to the merger (see Note C)

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

SIMMONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Years Ended		
	December 27, 2008	**December 29, 2007**	**December 30, 2006**
Cash flows from operating activities:			
Net income (loss)	$ (492,211)	$ 23,949	$ 47,614
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,855	30,625	28,688
Goodwill impairment	303,885	—	—
Trademark impairment	243,672	—	—
Stock compensation expense (benefit)	(423)	93	760
Provision for bad debts, net	7,788	556	(117)
Provision for deferred income taxes	(85,300)	6,673	23,110
Gain on sale of Sleep Country USA	—	—	(43,311)
Non-cash interest expense	25,083	22,583	27,322
Net changes in operating assets and liabilities, net of effects of business acquisitions and dispositions:			
Accounts receivable	12,035	(24,351)	5,429
Inventories	2,493	(7,366)	4,954
Other current assets	919	31	(3,233)
Accounts payable	(21,386)	11,328	14,557
Accrued liabilities	(19,045)	14,136	4,265
Other, net	(3,918)	(12,074)	(7,770)
Net cash provided by operating activities	13,447	66,183	102,268
Cash flows from investing activities:			
Purchases of property, plant and equipment	(17,103)	(25,055)	(13,553)
Purchase of certain assets of Comfor Products, Inc.	—	(15,379)	—
Purchase of Simmons Canada, net of cash aquired	—	—	(113,098)
Proceeds from the sale of Sleep Country USA, net	—	—	52,417
Net cash used in investing activities	(17,103)	(40,434)	(74,234)
Cash flows from financing activities:			
Borrowings on tranche D term loan	—	—	480,000
Payments on tranche D term loan	—	(15,000)	—
Repayments on tranche C term loan	—	—	(369,933)
Repayment of senior unsecured term loan	—	—	(140,000)
Borrowings on the revolving credit facility	64,532	—	—
Payments of other debt, net	(724)	(950)	(477)
Dividends to Simmons Holdco, Inc.	(29,099)	(4,963)	—
Excess tax benefits from stock-based compensation	—	27	49
Payments of debt issuance costs	(1,944)	—	(1,039)
Other	—	(1)	(181)
Net cash provided by (used in) financing activities	32,765	(20,887)	(31,581)
Net effect of exchange rate changes on cash	(1,699)	1,874	(291)
Change in cash and cash equivalents	27,410	6,736	(3,838)
Cash and cash equivalents, beginning of year	27,520	20,784	24,622
Cash and cash equivalents, end of year	$ 54,930	$ 27,520	$ 20,784
Supplemental cash flow information:			
Cash paid for interest, net of amounts capitalized	$ 50,499	$ 49,625	$ 58,504
Cash paid for income taxes	$ 1,067	$ 1,347	$ 1,569

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

NOTE A — BASIS OF PRESENTATION, LIQUIDITY AND ABILITY TO CONTINUE AS A GOING CONCERN

Company

Simmons Company and its subsidiaries (collectively the “Company” or “Simmons”) is one of the world’s largest mattress manufacturers, manufacturing and marketing a broad range of products under our well-recognized brand names, including Beautyrest®, Beautyrest Black TM, ComforPedic by SimmonsTM, Natural Care®, Beautyrest BeginningsTM, BeautySleep®, and Deep Sleep®. The Company manufactures, sells and distributes its premium branded bedding products principally to retail and hospitality customers, throughout the U.S. and Canada, and licenses its intellectual property to international companies that manufacture and sell the Company’s premium branded bedding products throughout the world. Additionally, the Company has licensed its intellectual property to U.S. and Canadian manufacturers and distributors of bedding accessories, furniture, air beds and other products. The Company sells products through a diverse North American base of approximately 3,300 retailers, representing over 15,500 outlets, including furniture stores, specialty sleep shops, department stores, furniture rental stores, mass merchandisers and juvenile specialty stores.

Simmons Company (“Simmons Company” or “Holdings”) is a holding company with no material assets other than its ownership of the common stock of its wholly-owned subsidiary, THL-SC Bedding Company (“THL-SC”), which is also a holding company with no material assets other than its ownership of the common stock of its wholly-owned subsidiary, Simmons Bedding Company. All of Simmons Company’s business operations are conducted by Simmons Bedding Company and its subsidiaries (collectively “Simmons Bedding”). Simmons Bedding is a wholly-owned subsidiary of Simmons Company as a result of Holdings’ acquisition of Simmons Holdings, Inc. on December 19, 2003 (the “THL Acquisition”).

During 2006, the Company sold its subsidiary Sleep Country USA, LLC (“SCUSA”), which operated specialty sleep stores, and purchased Simmons Canada Inc. (“Simmons Canada”), a former licensee of Simmons and one of the largest bedding manufacturers in Canada (see Note D — Acquisitions and Dispositions).

During 2007, the Company acquired certain assets of Comfor Products, Inc. (the “ComforPedic Acquisition”), a specialty producer of foam mattresses and pillows, for $15.4 million (including transaction expenses) plus additional cash and equity consideration based on future operating performance (see Note D — Acquisitions and Dispositions).

In February 2007, the Company merged with another entity to become a wholly-owned subsidiary of Simmons Holdco, Inc. (“Simmons Holdco”), a holding company established to borrow $300.0 million under a senior unsecured loan (“Toggle Loan”) to fund a distribution of $278.3 million to the then existing class A stockholders of the Company (see Note C — Merger and Distribution to Stockholders).

Liquidity

As of December 27, 2008, the Company had $54.9 million of cash and cash equivalents and no availability to borrow additional amounts from its revolving loan under Simmons Bedding’s senior credit facility. The Company’s outstanding borrowings consisted of Simmons Bedding’s senior credit facility of $529.5 million, Simmons Bedding’s Subordinated Notes, Simmons Bedding’s industrial revenue bonds of $13.6 million, and Holding’s Discount Notes.

As of December 27, 2008, Simmons Bedding was operating under a forbearance agreement with a majority of its senior lenders as a result of Simmons Bedding failing to meet certain covenants of the senior credit facility as of September 27, 2008. Pursuant to the forbearance agreement, the senior lenders agreed to, among other things, forbear from exercising their default related rights and remedies under the senior credit facility through March 31, 2009, subject to earlier termination in some circumstances. Simmons Bedding entered into amendments to the forbearance agreement on March 25, 2009 and May 27, 2009 with its senior lenders, whereby the senior lenders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain conditions, a further extension to July 31, 2009.

On January 15, 2009, Simmons Bedding did not make a scheduled payment of interest due on its Subordinated Notes resulting in a default under the indenture governing the Subordinated Notes. On February 14, 2009 such default matured into an event of default, which enabled the holders of the Subordinated Notes to declare the full amount of the Subordinated Notes immediately due and payable. On February 4, 2009, Simmons Bedding and a majority of the outstanding Subordinated Notes holders entered into a forbearance agreement, pursuant to which those noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture through March 31, 2009. Simmons Bedding entered into amendments to the forbearance agreement on March 25, 2009 and May 27, 2009 with a majority of the Subordinated Notes holders, whereby those noteholders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain conditions, a further extension to July 31, 2009. Pursuant to the terms of the forbearance agreement, the noteholders party to the Subordinated Forbearance Agreement have the obligation to take any actions that are necessary to prevent an acceleration of the payments due under the Subordinated Notes during the forbearance period. Because the noteholders party to the Subordinated Forbearance Agreement represent more than a majority of the Subordinated Notes, they have the power under the indenture to rescind any acceleration of the Subordinated Notes by either the trustee or the minority holders of the Subordinated Notes.

Simmons Company failed to file its Quarterly Reports on Form 10-Q for the quarters ended September 27, 2008 and March 28, 2009 and its Annual Report on Form 10-K for the fiscal year ended December 27, 2008 (the "Financial Reports") with the SEC resulting in the non-compliance with the reporting covenants of the Subordinated Notes, Discount Notes and Toggle Loan. The Company has 60 days after receiving notice from the lenders to cure the non-compliance by providing such information to the lenders. On April 14, 2009, Holdings received notification of non-compliance from the holders of the Discount Notes. With the filing of this Annual Report on Form 10-K for the fiscal year ending December 27, 2008 along with the filing of the Quarterly Report on Form 10-Q for the third quarter ended September 27, 2008, the Company has cured these defaults. The Company has not received notice of non-compliance with the reporting covenant for the Quarterly Report on Form 10-Q for the first quarter ended March 28, 2009. If the Company received such notice and were unable to cure the non-compliance within 60 days of receiving such notice, there would be an event of default under the indenture governing the Subordinated Notes. The Company has not received notification of non-compliance from the Toggle Loan lenders.

As a condition to the forbearance agreement with the senior lenders, the Company initiated a financing restructuring process in December 2008. A special committee of independent directors was formed by our board of directors on January 23, 2009 to evaluate and oversee proposals for restructuring its debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives of the Company. There can be no assurance that the Company will be successful in implementing a restructuring. If the Company is unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance periods as needed to successfully complete a restructuring, Simmons Bedding's payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. Simmons Bedding, Holdings, and Simmons Holdco would not have the ability to repay any amounts accelerated under their various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco or any of their affiliates. Due to the possibility of such circumstances occurring, the Company is seeking a negotiated restructuring, including a restructuring of its debt obligations and/or sale of the Company, its affiliates or its assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing. Any bankruptcy filing could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. The considerations above raise substantial doubt about the Company's ability to continue as a going concern. At December 27, 2008, the Company has recorded all amounts outstanding under the senior credit facility, Subordinated Notes and Discount Notes as a current liability in the accompanying consolidated balance sheet. The unamortized debt issuance costs associated with the senior credit facility, Subordinated Notes and Discount Notes were recorded as a current asset in the accompanying consolidated balance sheet at December 27, 2008 (see Note J — Debt, which contains further information on the Company's debt and the related forbearance agreements).

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Simmons Company and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements. The fiscal year of the Company ends on the last Saturday in December. The fiscal years for the consolidated financial statements presented consist of 52-week periods.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and are presented on the basis that the Company is a going concern. The going concern assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Such financial statements include estimates and assumptions that affect the reported amount of assets and liabilities, and the amounts of revenues and expenses. Actual results could differ from those estimates.

NOTE B — PRINCIPAL ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable consists of trade receivables and miscellaneous receivables recorded net of customer credits and allowances for doubtful receivables, discounts and returns. The Company maintains allowances for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company evaluates the adequacy of the allowance on a periodic basis. The evaluation includes historical loss experience, the aging of the receivable balances, adverse situations that may affect the customer's ability to pay the receivable, and prevailing economic conditions. If the evaluation of the reserve requirements differs from the actual aggregate allowance, adjustments are made to the allowance. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Our allowance for doubtful accounts was $3.6 million and $2.7 million as of December 27, 2008 and December 29, 2007, respectively. The Company recorded provisions for bad debt of $7.8 million, $4.3 million and $1.0 million for 2008, 2007 and 2006, respectively.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The cost of inventories includes raw materials, direct labor and manufacturing overhead costs. The Company expenses abnormal amounts of idle facility costs, freight and handling costs as incurred. The Company allocates fixed production overheads to conversion costs based on the normal capacity of the production facilities. The Company provides inventory reserves for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments and other economic factors.

CUSTOMER SUPPLY AGREEMENTS

The Company from time to time enters into long-term supply agreements with its customers. The Company capitalizes any initial cash or credit memos provided to its customers that are subject to refundability and reduce sales for any initial cash or credit memos provided to its customers that are not subject to refundability. The capitalized costs are included in other assets in the accompanying consolidated balance sheets and are amortized as a reduction of sales based on the terms of the supply agreements. The terms of the supply agreements generally range from one to five years. The consideration used for long-term supply agreements are included in the net change in operating activities "other, net" in the accompanying consolidated statements of cash flows. Amortization related to these contracts was $16.1 million, $10.6 million and $12.3 million in 2008, 2007 and 2006, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost less accumulated depreciation. Depreciation expense is determined principally using the straight-line method over the estimated useful lives for financial reporting and accelerated methods for income tax purposes. Expenditures that substantially increase asset values or extend useful lives are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Leasehold improvements are depreciated no longer than the lease term, except when the lease renewal has been determined to be reasonably assured and failure to renew the lease imposes a penalty on the Company. When property items are retired or otherwise disposed of, amounts applicable to such items are removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is credited or charged to income. Useful lives are generally as follows:

Buildings and improvements	10 - 45 years
Leasehold improvements	2 - 12 years
Machinery and equipment	2 - 15 years
Office furniture and equipment	3 - 7 years

Computer software costs which are capitalized consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal use software and (b) payroll and payroll-related costs for employees who are directly associated with and who devote time to the project. Costs incurred during the preliminary project stage or for data conversion activities, training, maintenance, or overhead are expensed as incurred. Costs that cannot be separated between maintenance of, and relatively minor upgrades and enhancements to, internal use software are also expensed as incurred. The capitalized computer software costs are included in office furniture and equipment and start depreciating when the software is substantially complete and placed in service.

GOODWILL

The Company tests goodwill for impairment at the reporting unit level on an annual basis in the fourth quarter by comparing the fair value of its reporting units to their carrying values. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount exceeds the fair value of the reporting unit, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions including revenue growth rates and operating margins, discount rates and future market conditions, among others. Fair value of the Company's reporting units is generally determined based on an equal weighting of the market approach and income approach methodologies. The market approach estimates fair value by applying multiples of potential earnings, such as EBITDA, of similar public entities. Management believes this approach is appropriate because it provides a fair value using multiples from entities with operations and economic characteristics similar to the Company's reporting units. The income approach is based on projected future debt-free cash flow that is discounted to present value using factors that consider the timing and risk of the future cash flows. Management believes this approach is appropriate because it provides a fair value estimate based upon the reporting units expected long-term operating and cash flow performance. The income approach also incorporates the potential impact of cyclical downturns, anticipated changes in product sales mix and inflation and other changes in product costs that could occur in the reporting unit and its industry. The income approach is based on a reporting unit's five year projections of operating results and cash flows that are discounted using the estimate of the market based weighted average cost of capital for the bedding industry. The future operating projections are based on consideration of past performance and the projections and assumptions used in the Company's current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. As a result of the Company lowering of its projected future operating results due to deterioration of consumer spending and increased material costs, the Company recognized a goodwill impairment charge in 2008 related to its Domestic and Canada reporting units of $294.0 million and $9.9 million, respectively. The Company did not recognize any goodwill impairment charges in 2007 and 2006.

INTANGIBLE ASSETS

Definite-lived intangible assets are amortized using the straight-line method, which the Company believes is most appropriate, over their estimated period of benefit, ranging from ten to twenty-five years. Since the Company has the intent and ability to renew its trademarks and the Company's branded products have a long history of being a market leader in the bedding industry, the Company determined that its trademarks will generate cash flows for an indefinite period of time and consider trademarks to be indefinite-lived intangible assets. Indefinite-lived intangible assets are not amortized. The Company reviews the useful lives of definite-lived and indefinite-lived intangible assets every reporting period.

The Company evaluates indefinite-lived intangible assets for impairment at least annually or whenever events or circumstances indicate their carrying value might be impaired. The carrying value of an indefinite-lived intangible asset is considered impaired when its carrying value exceeds its fair market value. In such an event, an impairment loss is recognized equal to the amount of that excess.

Fair value of the Company's trademarks is determined using a relief of royalty method. The relief of royalty method assumes that, in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of the trademarks. This approach is dependent on a number of factors, including estimate of future operating projections, royalty rates for trademarks, and a discount rate. The future operating projections are based on consideration of past performance and the projections and assumptions used in the Company's current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The royalty rate is based on a combination of the Company's existing agreements to license its trademarks to third-parties and licenses within the furniture and household products industry. The discount rate is based upon the estimate of the market based weighted average cost of capital for the bedding industry. As a result of the Company lowering of its projected future operating results due to deterioration of consumer spending and increased material costs, the Company recognized a trademark impairment charge in 2008 related to its Domestic and Canada reporting segments of $225.8 million and $17.9 million, respectively. The Company did not recognize any trademark impairment charges in 2007 and 2006.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews all of its long-lived assets for impairment whenever events or circumstances indicate their carrying value may not be recoverable. Management reviews whether there has been impairment by comparing anticipated undiscounted future cash flows from operating activities with the carrying value of the asset. The factors considered by management in this assessment include operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. If impairment is deemed to exist, management would record an impairment charge equal to the excess of the carrying value over the fair value of the impaired assets.

DEBT ISSUANCE COSTS

The Company capitalizes costs associated with the issuance of debt and amortizes the cost as additional interest expense over the lives of the debt using the effective interest rate method. Upon prepayment of the related debt, the Company recognizes a proportional amount of the related debt issuance costs as additional interest expense. Amortization of debt issuance costs of $2.1 million, $2.0 million and $7.6 million in 2008, 2007 and 2006, respectively, is included as a non-cash component of interest expense in the accompanying consolidated statements of operations and comprehensive income (loss). Included in the 2006 amortization of debt issuance costs are $5.0 million of costs expensed in connection with the Company amending its senior credit facility and repaying the senior unsecured term loan in 2006.

TREASURY STOCK

Common stock repurchased by the Company is recorded at cost as a reduction of stockholder's equity. The Company uses the first-in first-out method of determining the cost of treasury stock that is subsequently reissued. The difference between the cost of treasury stock and the reissuance price is added or deducted from additional paid in capital or retained earnings.

REVENUE RECOGNITION

The Company recognizes revenue, net of estimated returns, when title and risk of ownership passes, which is generally upon delivery of shipments. An insignificant portion of the Company's revenue is derived from inventory held on consignment with certain customers. The Company recognizes revenue on inventory held on consignment when the title and risk of ownership have transferred to the customer, which is when the inventory held on consignment is used. The Company accrues for estimated costs of warranties, co-op advertising costs, promotional monies and cash discounts at the time the corresponding sales are recognized. Sales are presented net of cash discounts, rebates, returns and certain consideration provided to customers such as co-operative advertising funds, promotional monies, and amortization of supply agreements. The Company uses historical trend information regarding returns to reduce sales for estimated future returns. The Company provides an allowance for bad debts for estimated uncollectible accounts receivable, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

REBATES

The Company provides volume rebates to certain customers for the achievement of various purchase volume levels. The Company recognizes a liability for the rebate at the point of revenue recognition for the underlying revenue transactions that result in progress by the customer towards earning the rebate. Measurement of the liability is based on the estimated number of customers that will ultimately earn the rebates. Once the rebate is earned, the Company provides the customer cash or a credit memo that is netted against the accounts receivable balance. Rebates were $36.5 million, $36.4 million and $20.2 million in 2008, 2007 and 2006, respectively, and are included as a reduction of sales in the accompanying consolidated statements of operations and comprehensive income (loss).

PRODUCT DELIVERY COSTS

The Company incurred $58.9 million, $60.6 million and $54.4 million in shipping and handling costs associated with the delivery of finished mattress products to its customers in 2008, 2007 and 2006, respectively. These costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

STOCK BASED EMPLOYEE COMPENSATION

The Company adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No. 123 (Revised 2004), *Share Based Payment* ("SFAS 123R') on January 1, 2006 (the first day of the 2006 first quarter). Under SFAS 123R, the fair value of the Company's stock based awards on the date of grant are recognized as an expense over the vesting period. Fair value of the stock is determined by the Company's board of directors. Simmons Holdco's enterprise value fluctuates based upon its operating performance, changes in market multiples for comparable publicly traded companies and changes in transaction multiples paid for companies with similar operations as the Company.

The Company used the modified prospective application method of transition under SFAS 123R. Under the modified prospective application method, the Company applies SFAS 123R for new awards granted after January 1, 2006 and for unvested awards as of January 1, 2006. Upon adoption of SFAS 123R, the Company made a one-time cumulative adjustment of less than $0.1 million to record an estimate of the future forfeitures on all outstanding equity awards. Additionally, the Company netted its deferred compensation related to awards issued prior to the adoption of SFAS 123R against additional paid in capital.

FOREIGN CURRENCY

Subsidiaries located outside of the U.S. use the local currency as the functional currency. Assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet date and income and expense accounts at average exchange rates during the year. Resulting translation adjustments are recorded directly to accumulated other comprehensive income (loss), a separate component of stockholder's equity and are not tax effected since they relate to investments, which are permanent in nature. Foreign currency transactions gains and losses are recognized as incurred in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss). The Company recognized a foreign currency transaction loss of $1.0 million for 2008, gain of $0.6 million in 2007, and loss of $0.5 million in 2006.

PRODUCT DEVELOPMENT COSTS

Costs associated with the development of new products and changes to existing products are charged to expense as incurred. These costs amounted to approximately $2.9 million, $2.8 million and $2.4 million in 2008, 2007 and 2006, respectively. Such costs are included in selling, general and administrative expense in the accompanying consolidated statements of operations and comprehensive income (loss).

ADVERTISING COSTS

The Company records the cost of advertising, including co-operative advertising, as an expense or a reduction of sales when incurred or no later than when the advertisement appears or the event is run. Co-operative advertising costs are recorded as a selling expense when the customer provides proof of advertising the Company's products and the payments made to the customer are less than or equal to the cost of the advertisement. Co-operative advertising costs are recorded as a reduction of sales whenever the costs do not meet the criteria for classification as a selling expense. Advertising costs which were recorded as a reduction of sales in the accompanying consolidated statements of operations and comprehensive income (loss) were $23.6 million, $28.6 million and $24.6 million in 2008, 2007 and 2006, respectively. Advertising costs which were recorded as selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss) were $91.6 million, $87.0 million and $89.8 million in 2008, 2007 and 2006, respectively.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized. As of December 27, 2008 and December 29, 2007, we had valuation allowances of $22.9 million and $9.3 million, respectively, against the deferred tax assets related to certain tax loss and certain tax credit carryforwards.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefit of uncertain tax positions are recorded in the Company's financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from taxing authorities. When facts and circumstances change, management reassesses these probabilities and records any changes in the financial statements as appropriate.

In the first quarter of 2007, the Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for income tax by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the adoption of FIN 48, the Company initially recognized an $18.3 million increase in its liability for uncertain tax positions on the first day of its fiscal year 2007. This was accounted for as a decrease in retained earnings of $2.2 million, and increases in goodwill and deferred tax assets of $12.6 and $3.5 million, respectively.

WARRANTIES

The conventional innerspring bedding products that the Company currently manufactures generally include a non-prorated warranty of ten years. The conventional specialty bedding products that the Company currently manufactures generally include a non-prorated warranty of twenty to twenty-five years. The Company's juvenile bedding products have warranty periods ranging from five years to a lifetime. The Company records the estimated cost of warranty claims when its products are sold. The Company's new products undergo extensive quality control testing and are generally constructed using similar techniques and materials of our historical products. Therefore, the Company estimates the cost of warranty claims based on historical sales and warranty returns and the current average costs to settle a warranty claim. The Company includes the estimated impact of recoverable salvage value in the calculation of the current average costs to settle a warranty claim.

The following table presents a reconciliation of the Company's warranty accrual for 2008, 2007 and 2006 (in thousands):

	December 27, 2008	**December 29, 2007**	**December 30, 2006**
Balance at beginning of year	$ 4,291	$ 3,668	$ 3,009
Additional warranties issued	2,853	2,466	1,627
Accruals related to pre-existing warranties (including change in estimate)	22	296	98
Warranty settlements	(2,403)	(2,139)	(1,066)
Balance at end of year	$ 4,763	$ 4,291	$ 3,668

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Pension expense and obligations are actuarially determined and are affected by the Company's assumptions with respect to the discount rate for obligations, the future rate of increase in compensation levels, and the long term rate of return on plan assets. The assumed discount rate is based upon a portfolio of high-grade corporate bonds, which are used to develop a yield curve. This yield curve is applied to the expected duration of the pension obligation. The rate of increase in compensation levels is based on the Company's assessment of the current and future economic environment and overall salary trends. The expected long-term rate of return considers the allocation of plan assets, the historical performance of total plan assets, and economic and other indicators of future performance.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS 158"). SFAS 158 requires the recognition of the overfunded or underfunded status of a defined benefit post retirement plan as an asset or liability on the Company's consolidated balance sheet and the recognition of changes in the funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of the funded status of a plan as of the date of the Company's year end consolidated balance sheet. This pronouncement does not require prior periods to be restated to reflect the impact of SFAS 158. The Company adopted SFAS 158 on December 29, 2007. The adoption of the pronouncement did not impact the Company's results of operations or cash flows.

The following table summarizes the incremental effect of SFAS 158 adoption on the individual line items in the consolidated balance sheet at December 29, 2007 (in thousands):

	Before adoption of SFAS 158	**SFAS 158 Adjust-ments**	**After adoption of SFAS 158**
Other assets	$ 37,833	$ (294)	$ 37,539
Total assets	1,477,947	(294)	1,477,653
Other liabilities	28,453	389	28,842
Deferred income taxes	190,649	(328)	190,321
Total liabilities	1,289,440	61	1,289,501
Accumulated other comprehense income	19,179	(355)	18,824
Total stockholder's equity	188,507	(355)	188,152
Total liabilities and stockholder's equity	1,477,947	(294)	1,477,653

ENVIRONMENTAL COSTS

Environmental expenditures that relate to current operations are expensed or capitalized when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that the costs will be incurred and can be reasonably estimated.

FINANCIAL INSTRUMENTS AND SIGNIFICANT CONCENTRATIONS OF RISK

The carrying amount of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable and certain other liabilities, approximate fair value due to their relatively short maturities.

Under Statement of Financial Accounting Standard ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"), fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly;

Level 3 — Unobservable inputs for which little or no market activity exists.

The fair value of the Company's tranche D term loan, Subordinated Notes and Discount Notes is based on Level 1 inputs, quoted market prices as of December 27, 2008, which management believes incorporates the Company's nonperformance risk and credit risk. The following table compares the carrying values and estimated fair values of the Company's tranche D term loan, Subordinated Notes and Discount Notes at December 27, 2008 (in millions).

	Carrying Value	Estimated Fair Value
Tranche D term loan	$ 465.0	$245.1 - $267.4
Subordinated notes	$ 200.0	$ 54.6
Discount notes	$ 245.1	$ 44.1

Cash and cash equivalents are maintained with several major financial institutions in the U.S., Canada and Puerto Rico. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand. Additionally, the Company monitors the financial condition of such institutions and considers the risk of loss remote.

The Company's accounts receivable arise from sales to numerous customers in a variety of markets principally throughout the U.S., Canada and Puerto Rico. The Company performs periodic credit evaluations of its customers' financial condition and generally does not, in most cases, require collateral. The Company's five largest customers aggregated approximately 26%, 23% and 25% of sales for each of 2008, 2007 and 2006, respectively, and no single customer accounted for over 10% of the sales in any of those years.

The Company uses short-term foreign currency swaps within the normal course of business as economic hedges principally to manage foreign currency exchange rate risk. The Company recognizes foreign currency swaps as either an asset or liability measured at its fair value. The changes in fair value of the foreign currency swaps are recognized through current period income. The counterparties to the Company's foreign currency swap agreements are major financial institutions. The Company has not experienced non-performance by any of its counterparties. As of December 27, 2008, the Company had no foreign currency swaps outstanding.

SELF-INSURANCE

The Company retains a portion of the risks related to its general liability, product liability, automobile, worker's compensation and health insurance programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, generally is estimated with the assistance of external actuaries and by factoring in pending claims and historical trends and data. The estimated accruals for these liabilities could be affected if future occurrences or loss developments significantly differ from utilized assumptions. The estimated liability associated with settling unpaid medical and worker's compensation claims is included in accrued liabilities. As of December 27, 2008 and December 29, 2007, the Company had a liability for exposures to unpaid self-insured claims of $5.7 million and $5.3 million, respectively.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 provides a common definition of fair value to be used throughout GAAP, which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 clarifies the principal that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, the FASB issued Financial Statement Position ("FSP") No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS 157, and FSP No. 157-2, *Partial Deferral of the Effective Date of Statement 157* ("FSP 157-2"), which deferred the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually, to fiscal years beginning after November 15, 2008. The Company implemented SFAS 157 for financial assets and liabilities at the beginning of its fiscal year 2008 and elected to defer the adoption of SFAS 157 for non-financial assets and liabilities until the beginning of its fiscal year 2009 as allowed under FSP 157-2. The implementation of SFAS 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial position and results of operations. The Company is still assessing the impact that adopting SFAS 157 for non-financial assets and liabilities will have to its consolidated financial position and results of operations. The major categories of non-financial assets and liabilities that are measured at fair value, for which the Company has not yet applied the provisions of SFAS 157, are as follows: reporting units measured at fair value in the first step of the Company's goodwill impairment testing and indefinite-lived intangible assets measured at fair value for impairment testing. In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active* ("FSP 157-3"), which clarifies the application of SFAS 157 as it relates to the valuation of financial assets in a market that is not active for those financial assets. This guidance was effective in October 2008 and includes those periods for which financial statements have not been issued. The Company currently does not have financial assets that are valued using inactive markets; therefore, FSP 157-3 will not have an impact on the Company's consolidated financial statements and results of operations.

In December 2007, the FASB issued SFAS 141 (Revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R replaces FASB Statement No. 141, *Accounting for Business Combinations*. SFAS 141R requires that the acquisition method of accounting be used in all business combinations and for an acquirer to be identified for each business combination. SFAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. It requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R will be effective for the Company's business combinations for which the acquisition date is on or after the beginning of fiscal year 2009. The impact on the Company of adopting SFAS 141R will depend on the nature, terms and size of the business combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 amends ARB No. 51, *Consolidated Financial Statements.* SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for the Company as of the beginning of fiscal year 2009. The Company currently does not have a non-controlling interest in a subsidiary; therefore, the adoption of SFAS 160 will not have an impact on the Company's consolidated financial statements and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 enhances the disclosure framework of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended ("SFAS 133"). SFAS 161 expands the disclosures to provide an enhanced understanding of (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (3) how derivative instruments affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company as of the beginning of fiscal year 2009. The Company currently has no derivative instruments; therefore, the adoption of SFAS 161 will not have an impact on the Company's disclosures.

In December 2008, the FASB issued FASB Staff Position FSP 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* ("FSP 132(R)-1"), which provides additional guidance on an employers' disclosures about plan assets of a defined benefit pension or other post retirement plan. This interpretation is effective for financial statements issued for fiscal years ending after December 15, 2009. The Company is in the process of evaluating the impact of this guidance on its disclosures.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Lives of Intangible Assets* ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. This staff position will be effective for the Company at the beginning of fiscal year 2009. The Company is in the process of evaluating the impact of this guidance on its consolidated financial statements and results of operations.

NOTE C — MERGER AND DISTRIBUTION TO STOCKHOLDERS

On February 9, 2007, Simmons Company completed a merger with Simmons Merger Company, a wholly-owned subsidiary of Simmons Holdco, with Simmons Company being the surviving entity and a wholly-owned subsidiary of Simmons Holdco (the "Merger"). As a result of the Merger, the Company's treasury stock and the issued and outstanding class A and class B common stock were retired and the Company issued 100 shares of new common stock with a $0.01 par value to Simmons Holdco. After the Merger, the ownership structure of Simmons Holdco was identical to the ownership structure of Simmons Company prior to the Merger. The Merger was treated for accounting purposes as a recapitalization whereby the historical common stock and additional paid-in capital have been recast as if the Merger occurred retroactively.

In the Merger, class A stockholders of the Company also received merger consideration equal to their remaining invested capital plus a preferred return on their invested capital. Additionally, Simmons Holdco assumed the rights and obligations of the Company's Equity Incentive Plan ("Incentive Plan") and all restricted stock issuances and stock options granted under the Incentive Plan. Since the Incentive Plan provides a compensation incentive for the employees of the Company to perform services, the stock-based compensation expense related to the awards issued under the Incentive Plan is recorded as an expense of the Company and a contribution of capital to the Company by Simmons Holdco.

In connection with the Merger, Simmons Holdco borrowed $300.0 million under the Toggle Loan to fund $278.3 million of merger consideration distributed to the Company's then existing class A stockholders. For further information on the Toggle Loan (see Note P — Commitments and Contingencies).

NOTE D — ACQUISITIONS AND DISPOSITIONS

2007 Purchase of Certain Assets of CP Holdco, Inc. ("Comfor Products")

On June 29, 2007, the Company acquired certain intellectual property and other assets of Comfor Products (the "ComforPedic Acquisition"), a specialty producer of foam mattresses and pillows, for $15.4 million (including transaction expenses) plus additional cash and equity consideration based on future operating performance. Following the acquisition, the Company began marketing and selling foam mattresses and pillows under the ComforPedic by SimmonsTM brand name.

The Company recorded the acquisition using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair market values. All future payments attributable to the purchase price will be recorded as additional goodwill.

2006 Purchase of Simmons Canada Inc. ("Simmons Canada")

On November 15, 2006, the Company acquired Simmons Canada, a former licensee of the Company and a leading manufacturer of mattresses in Canada, for $113.1 million in cash (the "Canada Acquisition"). The Canada Acquisition was funded from cash on hand and $20 million of borrowings on the Company's revolving loan. Simmons Canada is now a wholly-owned subsidiary of the Company and the results of operations of Simmons Canada have been included in the Company's consolidated financial statements since the November 15, 2006 acquisition date. The Canada Acquisition provides the Company with direct access to the conventional mattress and foundations market in Canada where Simmons Canada was already one of the leading mattress manufacturers by selling Simmons branded products.

The Company recorded the Canada Acquisition using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values. Fair value of the assets and liabilities assumed was determined based on, but not limited to, discounted expected future cash flows for trademarks and non-contractual customer relationships and current replacement costs for fixed assets.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

	November 15, 2006
Current assets	$ 27,279
Property, plant and equipment	17,773
Goodwill	33,381
Other intangibles	62,802
Other assets	800
Total assets acquired	142,035
Current liabilities	(16,945)
Non-current liabilities	(11,991)
Total liabilities assumed	(28,936)
Purchase price net of cash acquired	$ 113,099

The intangible assets acquired include non-contractual customer relationships of $17.7 million and trademarks of $45.1 million. The non-contractual customer relationships have a weighted average life of twenty years and will be amortized using the straight line method, which best reflects the utilization of the economic benefits of the agreements. The trademarks have an indefinite life. Goodwill includes a portion of value for assembled workforce which is not separately classified from goodwill. The purchased intangibles and goodwill are not deductible for income tax purposes.

Since the Canada Acquisition was a purchase of stock, the respective tax bases of the assets and liabilities were not changed. As a result, a net deferred tax liability was recorded as of the acquisition date to reflect the difference between the fair value of the assets and liabilities under purchase accounting and the historical tax bases of the assets and liabilities. The reversal of such differences in the future will be recorded through the tax provision.

2006 Sale of SCUSA

On August 29, 2006, the Company sold its subsidiary, SCUSA, to an affiliate of The Sleep Train, Inc. (“Sleep Train”) for net cash proceeds of $52.4 million (“SCUSA Disposition”). The Company recorded a net gain of $43.3 million. This disposition resulted in the Company selling all of its retail bedding segment assets.

Concurrent with the sale of SCUSA, the Company entered into a multi-year supply agreement with Sleep Train which will result in the Company having a significant ongoing interest in the cash flows of SCUSA. Since the Company has an ongoing interest in the cash flows of SCUSA, the Company did not report the gain on disposition or SCUSA’s results of operations as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss).

Pro Forma Financial Data

The ComforPedic Acquisition is not considered significant to the Company’s consolidated balance sheet and consolidated statements of operations and comprehensive income (loss). Therefore, pro forma information has not been presented.

The unaudited pro forma consolidated net sales and net income for 2006 were $1,019.3 million and $18.9 million, respectively, and assume that both the Canada Acquisition and the SCUSA Disposition were completed as of the beginning of the Company’s 2006 fiscal year.

The pro forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the period presented, nor does it intend to be a projection of future results.

NOTE E — RESTRUCTURING CHARGES

In June and October 2008, the Company announced workforce reductions in response to the downturn in the economy since the second half of 2007. These workforce reductions were completed in 2008. Associates terminated under these announced workforce reductions were offered certain benefits including severance, outplacement services and health insurance. The Company recognized a pre-tax restructuring charge for severance and benefits of $3.8 million in 2008 related to these planned workforce reductions, which will be payable through March 2010. The Company will not incur expenses after March 2010 associated with these workforce reductions.

On August 15, 2008, the Bramalea, Ontario facility’s office and production workers, all members of the Canada Auto Workers Union Local 513 (“CAW 513”), ceased work and commenced a strike against the facility. As the strike continued, the Company evaluated its various alternatives, and decided to initiate the actions required to permanently shut down the facility due to the financial impact of the strike and its effect on customers and revenues. The closure of the Ontario Plant was announced on September 8, 2009. In connection with the facility closure, the National Automobile, Aerospace, Transportation and General Workers Union of Canada and its Local 513 filed an unfair labor practice charge and three former production employees filed a wrongful termination claim against the Company on behalf of themselves and a class of similarly situated former employees. In June 2009, the Company entered into tentative settlement agreements as to both disputes, although certain conditions, including obtaining leave of court to dismiss the class action must be met before the settlements will be final. An estimated settlement amount has been recorded as part of the restructuring severance and benefits.

In September 2008, the Company announced and completed the closure of its Mableton, Georgia manufacturing facility. The decision to close the Mableton facility resulted from the current macroeconomic environment and lower manufacturing requirements.

The Company recognized a pre-tax restructuring charge in 2008 related to the closure of the facilities of $4.7 million, which consisted of $2.4 million in severance and benefits and $2.3 million in lease facility costs. In addition to the costs recognized in 2008, the Company anticipates incurring certain other cash charges related to the closure of the facilities that will be expensed as incurred. These additional charges include cost principally related to maintaining the unoccupied leased facilities and the relocation of manufacturing equipment. While the estimate of these costs, in total, is not yet final, the Company currently expects that the costs will total approximately $1.4 million to be incurred through the first quarter of 2010.

In September 2008, Charles R. Eitel resigned as Chairman and Chief Executive Officer of the Company and entered into a written separation agreement with the Company. Mr. Eitel assumed the role of Vice Chairman of the Board of Directors. The Company recorded a restructuring charge in 2008 of $1.7 million related to severance and benefits payable until September 2010 under the separation agreement.

The following table represents the pre-tax restructuring charges related to the above initiatives, including facility closures and organizational changes, recognized during the fiscal year ended December 27, 2008, for each operating segment (in thousands):

	Year Ended December 27, 2008
Domestic	$ 5,988
Canada	4,260
Total	$ 10,248

The Company incurred no restructuring charges in 2007 and 2006.

The following table reconciles the accrued restructuring charges discussed above for the year ended December 27, 2008 (in thousands):

	Balance at December 29, 2007	Expense	Cash Reduction	Foreign Currency Translation	Balance at December 27, 2008
Severance and benefit costs	$ —	$ 7,964	$ (2,831)	$ (202)	$ 4,931
Facility lease costs	—	2,284	(446)	(241)	1,597
Accrued restructuring charges	$ —	$ 10,248	$ (3,277)	$ (443)	$ 6,528

NOTE F — INVENTORIES

Inventories consisted of the following as of December 27, 2008 and December 29, 2007 (in thousands):

	2008	2007
Raw materials	$ 19,066	$ 22,669
Work-in-progress	1,009	1,122
Finished goods	11,763	11,416
	$ 31,838	$ 35,207

NOTE G — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of December 27, 2008 and December 29, 2007 (in thousands):

	2008	2007
Land, building and improvements	$ 30,400	$ 31,770
Leasehold improvements	11,719	8,541
Machinery and equipment	57,790	50,036
Office furniture and equipment	36,619	28,640
Construction in progress	1,784	8,570
	138,312	127,557
Less accumulated depreciation	(51,820)	(40,108)
	$ 86,492	$ 87,449

Depreciation expense for 2008, 2007 and 2006 was $16.9 million, $13.3 million and $10.1 million, respectively. Interest capitalized in 2008 and 2007 was less than $0.1 million in 2008 and $0.8 million in 2007. No interest was capitalized for 2006. The unamortized computer software costs included in office furniture and equipment at December 27, 2008 and December 29, 2007 was $17.8 million and $11.8 million, respectively. The amortization of computer software costs included within depreciation expense for 2008, 2007 and 2006 was $3.4 million, $1.8 million and $1.5 million, respectively.

NOTE H — GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consisted of the following as of December 27, 2008 and December 29, 2007 (in thousands):

		2008			2007		
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:							
Patents	24	$ 34,484	$ (6,743)	$ 27,741	$ 34,484	$ (5,312)	$ 29,172
Customer relationships	21	95,033	(20,337)	74,696	98,998	(15,807)	83,191
		$ 129,517	$ (27,080)	$ 102,437	$ 133,482	$ (21,119)	$ 112,363
Indefinite-lived intangible assets:							
Trademarks		$ 238,034			$ 492,184		

The aggregate amortization expense associated with the definite-lived intangible assets for the year ended December 27, 2008 was $6.3 million. The estimated amortization expense for definite-lived intangible assets for each of next five years is $6.2 million.

In the fourth quarter of 2008, the Company significantly lowered its projected future operating results for both its Domestic and Canada reporting units based on deterioration of consumer spending and increased material costs. The Company's five year projections of operating results assumed that the current economic downturn would continue through 2009, followed by recovery in the second half of 2010 through 2011, and long-term industry growth rates for 2012 and beyond. Operating margin assumptions during the five year projection periods were consistent with the Company's historical averages. The Company used a 17% discount rate to calculate the terminal value of its reporting units, which was higher than the 14% discount rate used in 2007. The Company's discount rate increased principally as a result of higher risk premiums associated with the Company's debt due to the combination of the Company being in violation of a debt covenant and disruptions in the credit market as of the testing date. A one percentage point increase in the discount rate would have decreased the fair value of the Domestic and Canada reporting units by $15.0 million and $2.0 million, respectively. A one percentage point decrease in the discount rate would have increased the fair value of the Domestic and Canada reporting units by $15.0 million and $2.5 million, respectively. The Company used a long-term growth factor of 4% to calculate the terminal value of its reporting units, which is consistent with the rate used in 2007. Based on the lower projected future operating results, the Company determined that the forecasted earnings and cash flows of the reporting units no longer supported their carrying value of goodwill. As a result, non-cash pretax goodwill impairment charges were recognized for its Domestic and Canada reporting units of $294.0 million and $9.9 million, respectively. Also, as a result of the Company's lowered projected future operating results, the carrying value of its trademarks exceeded their fair value. As a result, non-cash pretax trademark impairment charges were recognized for its Domestic and Canada reporting segments of $225.8 million and $17.9 million, respectively. The Company did not recognize any goodwill or trademark impairment charges for 2007 and 2006.

The table below shows the changes in the carrying amount of goodwill by the reportable segment for the year ended December 27, 2008 (in thousands):

	Domestic	Canada	Consolidated
Balance as of December 29, 2007	$ 500,221	$ 39,905	$ 540,126
Goodwill impairment	(294,000)	(9,885)	(303,885)
Foreign currency translation adjustment	—	(7,901)	(7,901)
Other	(15)	—	(15)
Balance as of December 27, 2008	$ 206,206	$ 22,119	$ 228,325

NOTE I — ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 27, 2008 and December 29, 2007 (in thousands):

	2008	2007
Accrued wages and benefits	$ 20,945	$ 21,845
Accrued advertising and incentives	22,471	40,576
Accrued interest	14,107	13,592
Other accrued expenses	20,474	20,353
	$ 77,997	$ 96,366

NOTE J —DEBT

Debt consisted of the following as of December 27, 2008 and December 29, 2007 (in thousands):

	2008	2007
Senior credit facility:		
Revolving loan	$ 64,532	$ —
Tranche D term loan	465,000	465,000
Total senior credit facility	529,532	465,000
7.875% senior subordinated notes due 2014	200,000	200,000
10.0% senior discount notes due 2014, net of discount of $23,894 and $46,835, respectively	245,106	222,165
Other, including capital lease obligations	13,550	14,323
	988,188	901,488
Less current maturities of debt	(975,152)	(772)
	$ 13,036	$ 900,716

Senior Credit Facility

The senior credit facility provides for a $75.0 million revolving loan facility and a $465.0 million tranche D term loan facility. The revolving loan under the senior credit facility will expire on the earlier of (a) December 19, 2009 or (b) as revolving credit commitments under the facility terminate. As of December 27, 2008, under the revolving loan facility, the Company had $64.5 million of borrowings and $10.4 million that was reserved for the Company's reimbursement obligations with respect to outstanding letters of credit. The Company incurs an unused line fee of 0.50% per annum on the unused portion of its revolving loan facility.

The tranche D term loans under the senior credit facility will expire on December 19, 2011. The tranche D term loan has a mandatory principal payment of $113.5 million on March 31, 2011 and quarterly mandatory principal payments of $117.2 million from June 30, 2011 through maturity on December 19, 2011. Depending on Simmons Bedding's leverage ratio, it may be required to prepay a portion of the tranche D term loan with up to 50% of its excess cash flow (as defined in the senior credit facility) from each fiscal year. The Company was not required to prepay a portion of the tranche D term loan in fiscal year 2008.

The senior credit facility bears interest at the Company's choice of the Eurodollar Rate or Base Rate (both as defined), plus the applicable interest rate margins. The weighted average interest rate per annum in effect as of December 27, 2008 for the tranche D term loan was 9.6%. The senior credit facility is guaranteed by THL-SC and all of Simmons Bedding's material domestic subsidiaries, and Simmons Bedding has pledged substantially all of its assets to the senior credit facility.

The senior credit facility requires Simmons Bedding to maintain certain financial ratios, including cash interest coverage (adjusted EBITDA to cash interest expense) and total leverage (net debt to adjusted EBITDA) ratios. Adjusted EBITDA (as defined in the senior credit facility) differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA, as the Company interpreted the definition of Adjusted EBITDA from the senior credit facility, also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees; other non-cash items reducing consolidated net income (including, without limitation, non-cash purchase accounting adjustments and debt extinguishment costs); any extraordinary, unusual or non-recurring gains or losses or charges or credits; and any reasonable expenses or charges related to any issuance of securities, investments permitted, permitted acquisitions, recapitalizations, asset sales permitted or indebtedness permitted to be incurred, less other non-cash items increasing consolidated net income (loss), all of the foregoing as determined on a consolidated basis for Simmons Bedding in conformity with GAAP.

The financial covenants are as follows:

1) A minimum cash interest coverage ratio, with compliance levels ranging from cash interest coverage of no less than 2.75:1.00 for December 27, 2008 and 3.00:1.00 from March 31, 2009 through each fiscal quarter ending thereafter.

2) A maximum leverage ratio, with compliance levels ranging from total leverage of no greater than 4.50:1.00 for December 27, 2008 and 4.00:1.00 from March 31, 2009 through each fiscal quarter ending thereafter.

For the quarter ended September 27, 2008, Simmons Bedding was not in compliance with the maximum leverage financial covenant and certain other covenants contained in its senior credit facility. In response thereto, Simmons Bedding was unable to negotiate a waiver of such defaults with its senior lenders and entered into the First Forbearance Agreement and Second Amendment to the Second Amended and Restated Credit and Guaranty Agreement ("First Forbearance Agreement") on November 12, 2008 and the Second Forbearance Agreement and Third Amendment to the Second Amended and Restated Credit and Guaranty Agreement and First Amendment to the Pledge and Security Agreement (the "Second Forbearance Agreement") on December 10, 2008 with its senior lenders. Based on the terms of the First Forbearance Agreement, the senior lenders agreed to, among other things, forbear from exercising their default-related rights and remedies under the senior credit facility against Simmons Bedding through December 10, 2008, provided that Simmons Bedding satisfied certain conditions. The Second Forbearance Agreement extended the forbearance period through March 31, 2009, subject to earlier termination in some circumstances. Simmons Bedding entered into (i) that certain First Amendment to Second Forbearance Agreement; Fourth Amendment to the Second Amended and Restated Credit and Guaranty Agreement and Second Amendment to the Pledge and Security Agreement (the "First Amendment to the Second Forbearance Agreement") on March 25, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through May 31, 2009 and, upon satisfaction of certain conditions, July 31, 2009 and (ii) that certain Second Amendment to Second Forbearance Agreement; Fifth Amendment to the Second Amended and Restated Credit and Guaranty Agreement and Third Amendment to the Pledge and Security Agreement (the "Second Amendment to the Second Forbearance Agreement" and, together with the First Amendment to the Second Forbearance Agreeement, the "Amendment to the Second Forbearance Agreement") on May 27, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through June 30, 2009 and, upon satisfaction of certain conditions, July 31, 2009.

During the forbearance period, the senior lenders will provide no additional loans or financial accommodation to Simmons Bedding except for the issuance, renewal, extension or replacement of letters of credit and revolving loans provided in certain limited circumstances related to the letters of credit as set forth in the forbearance agreements. In addition, Simmons Bedding will not be permitted to, directly or indirectly, incur indebtedness or liens, make investments or restricted junior payments, or consummate any asset sales, except in the ordinary course of business, during the forbearance period.

During the forbearance period under the First Forbearance Agreement, the applicable margin on the revolving loans and tranche D term loans increased 2.0% per annum above the rate otherwise applicable. The Second Forbearance Agreement amended the senior credit facility to, among other things:

- Increase the applicable margin for both the revolving loans and the tranche D term loans to either Base Rate plus 5.285% per annum or Eurodollar Rate plus 6.285% per annum;
- Establish a floor for the Base Rate and Eurodollar Rate of 3.25% and 4.25%, respectively, per annum at the earlier of the termination of the Second Forbearance Agreement or March 31, 2009;
- Eliminate the 2% per annum penalty rate applicable to overdue payments of principal and interest; and
- Make interest payable on the revolving loans and tranche D term loans as of the last business calendar day of each month.

The Second Forbearance Agreement also required Simmons Bedding to enter into deposit account control agreements with respect to all its bank accounts, with certain exceptions. The Second Forbearance Agreement included certain covenants including:

- Minimum liquidity requirements whereby Simmons Bedding will maintain a daily cash balance of not less than $2.5 million for any two consecutive business days and an average daily cash balance of not less than $7.5 million for any five consecutive business days;
- Provide a long-term business plan to the senior lenders by January 7, 2009;
- Commence a process to solicit new debt and/or equity investment by January 9, 2009;
- Provide a potential restructuring proposal to the senior lenders by January 26, 2009; and
- Increased financial reporting requirements.

As of December 27, 2008, the Company was in compliance with the covenant requirements of the Second Forbearance Agreement.

The Amendment to the Second Forbearance Agreement amended the senior credit facility to, among other things, increase the applicable margin for both revolving loans and tranche D term loans to either Base Rate plus 6.25% per annum or Eurodollar Rate plus 7.25% per annum.

During the forbearance period, as extended by the Amendment to the Second Forbearance Agreement, Simmons Bedding met its requirement, in addition to the other covenants set forth in the Second Forbearance Agreement, to (a) provide the legal and financial advisors to the senior lenders with weekly updates on the ongoing restructuring process and (b) facilitate a meeting between certain senior lenders and the selected bidders before April 17, 2009.

In connection with the First Forbearance Agreement, Simmons Bedding agreed to pay (a) the senior lenders who approved the agreement a forbearance fee equal to 0.125% of the aggregate outstanding amount of such lender's outstanding debt under the senior credit facility and (b) the fees and expenses of the lender's counsel in connection with the First Forbearance Agreement. In connection with the Second Forbearance Agreement, Simmons Bedding agreed to pay (a) the senior lenders who approved the agreement a forbearance fee equal to 0.5% of the aggregate outstanding amount of such lender's outstanding debt under the senior credit facility and (b) the fees and expenses of the lender's counsel and financial advisor in connection with the Second Forbearance Agreement. The Company capitalized the lender fees of $3.3 million, of which $1.3 million will be paid in 2009, and expensed the third party fees associated with the forbearance agreements.

Subordinated Notes

Simmons Bedding's Subordinated Notes bear interest at the rate of 7.875% per annum, which is payable semi-annually in cash in arrears on January 15 and July 15. The Subordinated Notes mature on January 15, 2014 and are subordinated in right of payment to all existing and future senior indebtedness of Simmons Bedding.

The Subordinated Notes are redeemable at the option of the Company beginning January 15, 2009 at prices decreasing from 103.9% of the principal amount thereof to par on January 15, 2012 and thereafter. The Company is not required to make mandatory redemption or sinking fund payments with respect to the Subordinated Notes.

Simmons Bedding did not make a scheduled payment of $7.9 million of interest due on January 15, 2009 on the Subordinated Notes resulting in an event of default under the indenture governing the Subordinated Notes. Such event of default enabled the holders of the Subordinated Notes to declare the full amount of the Subordinated Notes immediately due and payable. On February 4, 2009, Simmons Bedding and a majority of the outstanding Subordinated Notes holders approved a Forbearance Agreement to the Indenture ("Subordinated Forbearance Agreement"), pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture through March 31, 2009. In connection with the Subordinated Forbearance Agreement, Simmons Bedding agreed to pay the fees and expenses of the legal and financial advisors of the committee to the noteholders. Simmons Bedding entered into amendments to the Subordinated Forbearance Agreement on March 25, 2009 and May 27, 2009, whereby the majority of the outstanding Subordinated Notes holders extended their forbearance period through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain conditions, a further extension to July 31, 2009. Pursuant to the terms of the Subordinated Forbearance Agreement, the noteholders party to the Subordinated Forbearance Agreement have the obligation to take any actions that are necessary to prevent an acceleration of the payments due under the Subordinated Notes during the forbearance period. Because the noteholders party to the Subordinated Forbearance Agreement represent more than a majority of the Subordinated Notes, they have the power under the indenture to rescind any acceleration of the Subordinated Notes by either the trustee or the minority holders of the Subordinated Notes. In consideration for their entry into the amendment to the Subordinated Forbearance Agreement, the noteholders party to the Subordinated Forbearance Agreement received an amendment fee equal to 0.5% of the aggregate outstanding amount of such holder's Subordinated Notes.

The indenture for the Subordinated Notes requires Simmons Bedding to comply with certain restrictive covenants, including restrictions on dividends, and limitations on the occurrence of indebtedness, certain payments and distributions, and sales of Simmons Bedding's assets and stock.

Discount Notes

The Company's senior discount notes, with an aggregate principal amount at maturity of $269.0 million, bear interest at the rate of 10.0% per annum payable semi-annually in cash in arrears on June 15 and December 15 of each year commencing on June 15, 2010. Prior to December 15, 2009, interest accrues on the Discount Notes in the form of an increase in the accreted value of the Discount Notes. The Company's ability to make payments on the Discount Notes is dependent on the earnings and distribution of funds from Simmons Bedding to Holdings.

The Discount Notes are redeemable at the Company's option beginning December 15, 2009 at prices decreasing from 105.0% of the principal amount thereof to par on December 15, 2012 and thereafter. The Company is not required to make mandatory redemption or sinking fund payments with respect to the Discount Notes.

If any of the Discount Notes are outstanding on June 15, 2010, the Company is obligated to redeem for cash a portion of each Discount Note then outstanding in an amount equal to (i) the excess of the aggregate amount of accrued and unpaid interest and original issue discount on the Discount Notes over (ii) the issue price of the Discount Notes multiplied by the yield to maturity of the Discount Notes (the "Mandatory Principal Redemption Amount) plus a premium equal to 5.0% (one-half of the coupon) of the Mandatory Principal Redemption Amount. No partial redemption or repurchase of the Discount Notes pursuant to any other provision of the indenture will alter the obligation of the Company to make this redemption with respect to any Discount Notes then outstanding. Assuming no redemptions prior to June 15, 2010, the Company would be obligated to make a mandatory principal payment of $90.2 million and an interest and premium payment of $18.0 million on June 15, 2010.

The indenture for the Discount Notes requires Holdings to comply with certain restrictive covenants, including a restriction on dividends; and limitations on the incurrence of indebtedness, certain payments and distributions, and sales of Holdings' assets and stock. Pursuant to the reporting covenants contained in the indentures governing Discount Notes, the Company agreed to furnish its holders of the Discount Notes all quarterly and annual reports that would be required to be filed with the SEC if the Company was required to file such reports. Simmons Company failed to file its Financial Reports with the SEC resulting in the Company's non-compliance with the reporting covenants. The Company has 60 days after receiving notice from the lenders to cure the non-compliance by providing such information to the lenders. If the Company was unable to cure the non-compliance, there would be an event of default under the indenture governing the Discount Notes.

On April 14, 2009, the Company received a notice sent on behalf of holders of the Discount Notes, purporting to own more than 25% of the $269.0 million principal amount of the outstanding Discount Notes, pursuant to which such holders have notified the Company that its failure to furnish to the holders of the Discount Notes (i) a Quarterly Report on Form 10-Q for the third quarter ended September 27, 2008 and (ii) an Annual Report on Form 10-K for the fiscal year ended December 27, 2008, each as required under the indenture governing the Discount Notes, constitutes defaults thereunder. With the filing of this Annual Report on Form 10-K for the fiscal year ending December 27, 2008 along with the filing of the Quarterly Report on Form 10-Q for the third quarter ended September 27, 2008, the Company has cured these defaults. The Company has not received notice of non-compliance with the reporting covenant for the Quarterly Report on Form 10-Q for the first quarter ended March 28, 2009. If the Company receives such notice and were unable to cure the non-compliance within 60 days of receiving such notice, there would be an event of default under the indenture governing the Discount Notes.

Toggle Loan

The Company does not guarantee or have any of our assets pledged as collateral under Simmons Holdco's $300 million Toggle Loan. The Toggle Loan is structurally subordinated in right of payment to any of the Company's existing and future liabilities. Although the Company is not obligated to make cash distributions to service principal and interest on the Toggle Loan, Simmons Holdco is dependent on the Company's cash flow to meet the interest and principal payments under the Toggle Loan. The Toggle Loan is not included in the Company's financial statements. During the 2008, the Company provided $29.1 million of cash to Simmons Holdco, reflected as a dividend in the financial statements of the Company, so that Simmons Holdco could pay interest on the Toggle Loan, repurchase shares of its common stock, and pay operating expenses of Simmons Holdco. Under the terms of the credit agreement governing the Toggle Loan, Simmons Holdco may elect to pay future interest in cash or add such interest to the principal amount of the Toggle Loan. However, the Second Forbearance Agreement, as amended, prohibits the Company from making distributions to its parent companies during the forbearance period, except in the ordinary course of business. Accordingly, Simmons Holdco has elected to make its February and August 2009 interest payments on the Toggle Loan by adding such interest to the principal amount of the Toggle Loan. The Toggle Loan matures in February 2012. An acceleration of indebtedness under the senior credit facility, Subordinated Notes or Discount Notes would trigger an event of default under the Toggle Loan.

Aggregate Long-Term Debt Maturities

As a result of Simmons Bedding not being in compliance with the covenants of the senior credit facility and the forbearance period ends within one year of December 27, 2008, the Company has recorded all amounts outstanding under the senior credit facility as a current portion of debt as of December 27, 2008 in the accompanying consolidated balance sheet. Since the Subordinated Notes and Discount Notes contain default provisions whereby the note holders can accelerate amounts due under both notes if the senior lenders accelerate amounts due under the senior credit facility, the Company recorded all amounts outstanding under the Subordinated Notes and Discount Notes as a current portion of debt as of December 27, 2008 in the accompanying 2008 consolidated balance sheet.

Future maturities of debt, exclusive of the Discount Notes unamortized original issue discount of $23.9 million, as of December 27, 2008 are as follows (in thousands):

2009	$ 975,152
2010	513
2011	513
2012	709
2013	400
Thereafter	10,901
	$ 988,188

NOTE K — LEASES AND OTHER COMMITMENTS

The Company leases certain manufacturing, office, show room, research and outlet retail facilities and equipment under operating leases. The Company's lease expense was $24.3 million, $23.6 million and $25.3 million for 2008, 2007 and 2006, respectively. The Company's lease expense for 2006 included $5.8 million associated with the Company's retail operations, which were disposed of in August 2006 (see Note D — Acquisitions and Dispositions).

The following is a schedule of the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 27, 2008 (in thousands):

2009	$ 17,946
2010	13,624
2011	10,774
2012	9,140
2013	7,741
Thereafter	13,614
	$ 72,839

The Company has the option to renew certain manufacturing facility leases, with the longest renewal period extending through 2027. Most of the operating leases provide for increased rent payments tied to increases in general price levels.

The Company has various purchase commitments with certain suppliers in which the Company is committed to purchase approximately $30.6 million of raw materials from these vendors in 2009. If the Company does not reach the committed level of purchases, various additional payments could be required to be paid to these suppliers or certain sales volume rebates could be lost.

NOTE L — LICENSING

The Company licenses internationally (excluding Canada) the Simmons® and Beautyrest® trademarks, and many of its other trademarks, processes and patents to third-party manufacturers which produce and distribute Simmons® branded conventional bedding products within their designated territories. These licensing agreements allow the Company to reduce exposure to political and economic risks abroad by minimizing investments in those markets. The Company has 16 foreign licensees and eight sub-licensees. These foreign licensees have rights to sell Simmons-branded products in over 100 countries.

Additionally, the Company has ten domestic and Canadian third-party licensees. Some of these licensees manufacture and distribute juvenile furniture and healthcare-related furniture, and non-bedding upholstered furniture. Additionally, the Company has licensed the Simmons® trademark and other trademarks, generally for limited terms, to manufacturers of occasional use airbeds, futons, comforters, pillows, mattress pads, blankets, and other products.

Licensing revenues are recorded as earned, based upon the sales of licensed products by the Company's licensees. For 2008, 2007 and 2006 the Company's licensing agreements as a whole generated royalties and technology fees of approximately $9.5 million, $10.1 million and $8.7 million, respectively.

NOTE M — STOCK BASED COMPENSATION

Under Simmons Holdco's incentive plans, the Company is authorized to grant up to 821,775 shares of class B common stock of Simmons Holdco as options, restricted stock, warrants or other stock based awards to the management, directors and consultants of the Company. Vesting of awards is subject to the achievement of performance and service criteria. As of December 27, 2008, the Company had issued restricted stock awards, stock option awards and warrants under the incentive plans. Since the Company determined in 2008 that it was unlikely to meet future vesting performance targets for the unvested awards, the Company reversed all previously recognized compensation expense and accruals associated with the unvested awards. Non-cash stock compensation expense/(benefit) recorded in connection with the awards was $(0.4) million for 2008, less than $0.1 million for 2007 and $0.8 million for 2006. The Company paid $0.1 million and $0.7 million in 2008 and 2007, respectively, to settle vested stock based awards.

NOTE N — INCOME TAXES

The components of the provision for income taxes are as follows (in thousands):

	2008	2007	2006
Current tax provision			
Federal	$ —	$ 595	$ 1,115
State	563	595	147
Foreign	214	785	148
	777	1,975	1,410
Deferred tax provision			
Federal	(74,586)	9,899	22,485
State	(4,762)	(1,745)	637
Foreign	(5,952)	(1,481)	(12)
	(85,300)	6,673	23,110
Benefit applied to reduce (increase) goodwill	15	15	(93)
Income tax expense (benefit)	$ (84,508)	$ 8,663	$ 24,427

Income (loss) before income taxes consisted of the following:

	2008	2007	2006
Domestic	$ (535,657)	$ 29,538	$ 71,704
Foreign	(41,062)	3,074	337
	$ (576,719)	$ 32,612	$ 72,041

The reconciliation of the statutory federal income tax rate to the effective income tax rate for 2008, 2007 and 2006 provision for income taxes is as follows (in thousands):

	2008	2007	2006
Income taxes at U.S. federal statutory rate	$ (201,851)	$ 11,414	$ 25,214
State income taxes, net of U.S. federal benefit	(5,796)	330	1,092
Goodwill and trademark impairments	106,859	—	—
Book-tax difference on sale of SCUSA	—	—	(3,186)
Valuation allowances, net of reversals	14,058	(637)	2,325
Tax loss credit benefits not previously recognized	(2,241)	39	(2,332)
Reversal of other tax accruals — FIN 48 changes	1,259	1,186	1,257
Meals and entertainment	555	824	338
Change in tax rate used to measure deferred taxes	416	(3,698)	—
General business tax credits	(332)	(319)	(324)
Other, net	2,565	(476)	43
Income tax expense (benefit)	$ (84,508)	$ 8,663	$ 24,427

Components of the Company's net deferred income tax liability as of December 27, 2008 and December 29, 2007 is as follows (in thousands):

	2008	2007
Current deferred income taxes:		
Accounts receivable	$ 1,540	$ 1,260
Accrued liabilities, not currently deductible	4,589	5,636
Prepaids and other assets not currently taxable	(1,342)	(1,193)
Inventory bases differences	449	250
Valuation allowance	(2,117)	—
Current deferred income tax assets	3,119	5,953
Non-current deferred income taxes:		
Property bases differences	(7,884)	(9,332)
Intangibles bases differences	(109,656)	(202,618)
Retirement accruals	3,674	2,240
Net operating loss carryforwards	27,901	11,971
Income tax credit carryforwards	13,361	13,808
Other noncurrent accrued liabilities, not currently deductible	1,861	2,877
Deferred income	(7,275)	—
Valuation allowance	(20,743)	(9,267)
Noncurrent deferred income tax liabilities	(98,761)	(190,321)
Net deferred income tax liability	$ (95,642)	$ (184,368)

As of December 27, 2008, the Company had U.S. federal net operating loss carryforwards of $54.1 million. If not used, these carryforwards will expire in varying amounts between 2023 and 2028. Additionally, as of December 27, 2008, the Company had state net operating loss carryforwards of $108.5 million and Canadian net operating loss carryforwards of $10.8 million. If not used, state operating loss carryforwards will expire in varying amounts between 2009 and 2028, and the Canadian net operating loss will expire in 2028.

As of December 27, 2008, the Company had $4.9 million of general business tax credits, $4.3 million of foreign tax credits, and $1.8 million of minimum tax credits available to offset future payments of U.S. federal income tax. If not used, the general business and foreign tax credits will expire in varying amounts between 2013 and 2028. The minimum tax credits can be carried forward indefinitely. The Company also had $2.3 million of state income tax credits, expiring in varying amounts between 2009 and 2025 and $0.1 million of non-U.S. tax credits available to offset future payments of foreign income tax, which can be carried forward indefinitely. A change in ownership of the Company could potentially limit the utilization of the Company's net operating losses and tax credit carryforwards.

Realization of the tax benefits of net operating loss carryforwards and tax credit carryforwards is dependent upon the company's ability to generate sufficient future taxable income in the appropriate taxing jurisdictions and within the applicable carryforward periods. After giving consideration to current forecasts of future taxable income and the expiration period of the carryforward tax benefits, the Company has recorded valuation allowances to offset substantially all net deferred income tax assets.

As of December 27, 2008, a valuation allowance of $22.9 million was recorded for the deferred tax assets related to the following carryforward tax benefits: federal net operating losses ($5.9 million), certain state net operating losses ($6.6 million), foreign tax credits ($3.8 million), general business tax credits ($2.4 million), certain state income tax credits ($2.3 million), federal minimum tax credits ($1.8 million), and foreign jurisdiction income tax credits ($0.1 million). The Company established the valuation allowance for its foreign tax credit carryforwards in the fourth quarter of 2006. As a direct result of the acquisition of Simmons Canada and the impact of such acquisition on the Company's calculation of net foreign source income, the Company does not believe at the present time that it will be able to fully utilize its foreign tax credits. With respect to state tax benefit carryforwards, the valuation allowance that was originally established in 2005 has been adjusted to reflect additional state tax benefits recognized in 2006, 2007 and 2008 for which the Company does not believe it is more-likely-than-not that such benefits will be realized after giving consideration to the expiration period of the state tax benefit carryforwards and current forecasts of future state taxable income.

As of December 29, 2007, the Company had a valuation allowance of $9.3 million for the deferred tax assets related to the following carryforward tax benefits: foreign tax credits ($2.8 million), certain state net operating loss carryforwards ($4.2 million), certain state income tax credits ($2.2 million), and foreign jurisdiction income tax credits ($0.1 million).

Cumulative undistributed losses of the Company's international subsidiaries totaled approximately $12.2 million as of December 27, 2008.

In the normal course of business, the Company provides for uncertain tax positions and the related interest and penalties and adjusts its unrecognized tax benefits and accrued interest and penalties accordingly. As of December 27, 2008, the total gross amount of unrecognized tax benefits was $19.9 million. Included therein was $17.7 million of net tax benefits that, if recognized, would impact the Company's effective tax rate. As of December 29, 2007, the total gross amount of unrecognized tax benefits was $20.1 million. Included therein was $6.6 million of net tax benefits that, if recognized, would impact the Company's effective tax rate. A reconciliation of the beginning and ending balance of unrecognized tax benefits follows (in thousands):

	2008	2007
Beginning balance	$ 20,113	$ 21,397
Additions:		
Positions taken during the current year	1,554	1,103
Positions taken during a prior period	149	406
Translation adjustments	—	302
Reductions:		
Positions taken during a prior period	(943)	(2,656)
Reductions resulting from lapse of statutes of limitation	(374)	(439)
Settlement with tax authorities	(292)	—
Translation adjustments	(328)	—
Ending balance	$ 19,879	$ 20,113

The Company does not expect any significant changes to the unrecognized tax benefits within twelve months of the reporting date.

The Company classifies interest and penalties related to uncertain income tax positions as income tax expense. As of December 27, 2008 and December 29, 2007, the Company's uncertain tax positions included interest of $0.9 million and $0.7 million, and penalties of $0.5 million and $0.3 million, respectively.

The Company and its subsidiaries file income tax returns in the U.S., Canada, and Puerto Rico, as well as in multiple state and provincial jurisdictions therein. With few exceptions, the Company is no longer subject to income tax examinations by any taxing authorities for years prior to 1999. The Company is not currently under any U.S., Canada, or Puerto Rico federal income tax audit, nor have there been any notices received of any such anticipated audits. The Company and its subsidiaries are however subjected to occasional state audits. None of the current state income tax audits include any proposed adjustments that would be considered significant, individually or in total, for which reserves have not already been accrued.

NOTE O — RETIREMENT PLANS

PENSION AND POST RETIREMENT PLANS

In connection with the Canada Acquisition, the Company assumed Simmons Canada's registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of the employees of Simmons Canada. Under the registered defined benefit plan segment ("Pension Plan"), benefits are based upon an employee's earnings and years of credited service. The registered defined benefit plan is funded based on the funding requirements of applicable government regulations. In addition, the Company assumed Simmons Canada's retirement compensation arrangements ("RCA") for certain senior officials of Simmons Canada which provide retirement benefits in addition to the registered defined benefit plan.

The Company also provides post retirement health care and life insurance benefits ("FAS 106 Plans") for a small group of current and former employees. The Company accrues the cost of providing post retirement benefits, including medical and life insurance coverage, during the active service period for certain employees. The FAS 106 Plans are unfunded.

The measurement of the Pension Plan, RCA and FAS 106 Plans was as of December 27, 2008 and December 29, 2007 for each respective period. The following table sets forth summarized information for the funded status of the Pension Plan, RCA and FAS 106 Plans (in thousands):

	Pension Plan		RCA Plan		FAS 106 Plans	
	2008	2007	2008	2007	2008	2007
Change in benefit obligation						
Net benefit obligation at beginning of year	$ 24,892	$ 21,208	$ 4,024	$ 3,255	$ 1,970	$ 2,054
Service cost	997	1,496	7	16	35	34
Interest cost	1,126	1,159	166	179	162	121
Actuarial (gain)/ loss	(3,756)	(2,093)	(309)	195	6,726	(170)
Gross benefits paid	(971)	(897)	(236)	(255)	(724)	(69)
Curtailments/contractual termination benefits	1,728	—	—	—	(2,476)	—
Effect of currency exchange rates	(4,991)	4,019	(773)	634	—	—
Net benefit obligation at end of year	$ 19,025	$ 24,892	$ 2,879	$ 4,024	$ 5,693	$ 1,970
Change in plan assets						
Fair value of plan assets at beginning of year	$ 23,305	$ 18,551	$ 5,284	$ 4,578	$ —	$ —
Actual return on plan assets	(3,581)	(127)	(474)	97	—	—
Actual employer contributions	1,840	2,134	28	4	725	69
Gross benefits paid (actual)	(972)	(897)	(236)	(255)	(725)	(69)
Effect of currency exchange rates	(4,464)	3,644	(1,011)	860	—	—
Fair value of plan assets at end of year	$ 16,128	$ 23,305	$ 3,591	$ 5,284	$ —	$ —
Funded status of plan						
Surplus (deficit) at end of year	$ (2,897)	$ (1,587)	$ 712	$ 1,260	$ (5,693)	$(1,970)

The following table sets forth the amounts recognized in the accompanying consolidated balance sheets (in thousands):

	Pension Plan		RCA Plan		FAS 106 Plans	
	2008	2007	2008	2007	2008	2007
Amounts recognized in the consolidated balance sheet						
Noncurrent asset	$ —	$ —	$ 712	$ 1,260	$ —	$ —
Current liability	—	—	—	—	(723)	(2,695)
Noncurrent liability	(2,897)	(1,587)	—	—	(4,970)	725
Net amount recognized at end of period	$ (2,897)	$ (1,587)	$ 712	$ 1,260	$(5,693)	$(1,970)
Amounts recognized in accumulated other comprehensive income (loss) before taxes						
Unrecognized transition obligation	—	—	—	—	872	1,488
Net actuarial gain (loss)	(452)	905	(545)	(294)	2,954	(170)
Accumulated other comprehensive income (loss)	$ (452)	$ 905	$ (545)	$ (294)	$ 3,826	$ 1,318

The accumulated benefit obligation of the Pension Plan was $17.3 million and $22.6 million as of December 27, 2008 and December 29, 2007, respectively.

The actuarial present value of the benefit obligation of the Pension Plan, RCA and FAS 106 Plans as of December 27, 2008 and December 29, 2007 were determined based on the following weighted average assumptions:

	Pension Plan		RCA Plan		FAS 106 Plans	
	2008	2007	2008	2007	2008	2007
Weighted-average assumptions used to determine net pension obligations						
Discount rate	6.5%	5.3%	6.3%	5.3%	6.3%	6.1%
Rate of compensation increase	3.5%	3.5%	3.0%	3.0%	N/A	N/A

The net periodic cost related to the Pension Plan, RCA and FAS 106 Plans included the following components (in thousands):

	Pension Plan			RCA Plan			FAS 106 Plans		
	2008	2007	Period from Nov. 15, 2006 to Dec. 30, 2006	2008	2007	Period from Nov. 15, 2006 to Dec. 30, 2006	2008	2007	2006
Components of net periodic cost									
Service cost	$ 997	$ 1,496	$ 174	$ 7	$ 16	3	$ 35	$ 34	$ 32
Interest cost	1,126	1,159	131	166	179	20	162	121	102
Amortization of transition obligation	—	—	—	—	—	—	233	248	248
Amortization of loss	—	—	—	—	—	—	37	—	—
Expected return on plan assets	(1,372)	(2,093)	(156)	(147)	195	(20)	—	—	—
Curtailment/contractual termination benefits	1,728	—	—	—	—	—	1,472	—	—
Net periodic cost	$ 2,479	$ 562	$ 149	$ 26	$390	$ 3	$1,939	$403	$382

The one time curtailment gain of $0.6 million and a contractual termination benefits charge of $2.3 million both related to the pension plan as a result of the closure of our Bramalea, Ontario plant. The one time curtailment loss of $1.5 million related to the FAS 106 Plans resulted from the closure of our Atlanta, Georgia plant (see Note E — Restructuring Charges).

The other changes in plan assets and benefit obligations recognized in other comprehensive income included the following pre-tax components (in thousands):

	Pension Plan 2008	RCA Plan 2008	FAS 106 Plans 2008
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Current year actuarial loss	$ (1,183)	$ (308)	$ (4,249)
Amortization of transition obligation	—	—	232
Amortization of (gain) loss	—	—	37
Effect of currency exchange rates	(105)	(27)	—
Total loss recognized in other comprehensive income	$ (1,288)	$ (335)	$ (3,980)

The estimated net loss for the Pension Plan and RCA Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year will be zero and $0.1 million, respectively. The estimated net loss and transition obligation for the FAS 106 Plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $0.2 million and $0.2 million, respectively.

The obligations and net periodic cost for the FAS 106 Plans are determined based on assumptions relating to health care cost increases. These assumptions do not have a significant effect on the obligations or net periodic cost. A 1% increase or decrease in the assumed health care cost trend rate would not have a material effect on the obligations or components of net periodic cost.

	Pension Plan			RCA Plan			FAS 106 Plans		
	2008	2007	Period from Nov. 15, 2006 to Dec. 30, 2006	2008	2007	Period from Nov. 15, 2006 to Dec. 30, 2006	2008	2007	2006
Weighted-average assumptions used to determine net pension costs for the period									
Discount rate	5.5%	5.0%	5.0%	5.3%	5.0%	5.0%	6.3%	6.1%	6.0%
Expected return on plan assets	7.0%	7.0%	7.0%	3.5%	3.5%	3.5%	N/A	N/A	N/A
Rate of compensation increase	3.0%	3.5%	3.5%	3.0%	3.0%	3.0%	N/A	N/A	N/A

The assumed discount rate is based upon a portfolio of high-grade corporate bonds, which are used to develop a yield curve. This yield curve is applied to the expected duration of the pension obligation.

The allocation, by asset category, of the assets of the Pension Plan and RCA as of December 27, 2008 and December 29, 2007 was as follows:

	Pension Plan		RCA Plan	
	2008	2007	2008	2007
Equity securities	59.0%	55.7%	59.0%	55.8%
Debt securities	37.2%	32.6%	37.4%	33.2%
Cash	3.8%	11.7%	3.6%	11.0%
Total	100.0%	100.0%	100.0%	100.0%

The Company's investment strategy for the Pension Plan and RCA is to maximize the long-term rate of return on plan assets within an acceptable level of risk. The Pension Plan investment policy establishes a target allocation range for each asset class and the fund is managed using these guidelines. The target allocation of the plans is 60% equity securities and 40% debt securities. The plans use a number of investment approaches including equity and fixed income funds in which the underlying securities are marketable in order to achieve this target allocation. The expected rate of return was determined by modeling the expected long-term rates of return for each asset class held by the plan based on current economic conditions.

The following table sets forth the expected benefit payments related to the Pension Plan and the RCA to be paid out in the periods indicated (in thousands):

Year	**Pension Plan**	**RCA Plan**	**FAS 106 Plans**
2009	$ 960	$ 233	$ 723
2010	870	233	699
2011	910	233	670
2012	976	233	653
2013	1,060	241	528
2014-2018	6,513	1,273	1,968

The Company anticipates making contributions to the Pension Plan and FAS 106 Plans of approximately $1.1 million and $0.7 million, respectively, in 2009 and no contributions are expected for the RCA in 2009. The contributions to the Pension Plan principally represent contributions required by funding regulations.

OTHER PLANS

The Company has a defined contribution 401(k) plan for substantially all of its U.S. employees other than certain union employees that participate in multi-employer pension plans sponsored by a union. In 2008, 2007 and 2006, the Company made contributions to the 401(k) plan and the defined contribution segment of the Pension Plan in the aggregate of $4.7 million, $4.6 million and $4.1 million, respectively.

The Company also makes contributions to multi-employer pension plans in the U.S. and Canada sponsored by various unions for the Company's employees who are members of a union. In 2008, 2007 and 2006, the Company made contributions of $1.6 million, $1.9 million and $1.7 million, respectively, in the aggregate to such plans. In addition, the Company maintains unfunded supplemental executive retirement plans ("SERP") for certain employees and former employees of the Company. The Company had an accrued liability of $3.1 million and $3.2 million as of December 27, 2008 and December 29, 2007, respectively for the SERP.

NOTE P — COMMITMENTS AND CONTINGENCIES

From time to time, the Company has been involved in various legal proceedings. In November 2008, three former employees filed a wrongful dismissal class action against the Company's subsidiary, Simmons Canada Inc., on behalf of themselves and a proposed class comprised of the unionized former employees who were terminated as a result of the Company's closure of its Bramalea, Ontario facility in September 2008. In June 2009, the Company entered into tentative settlement agreements with the plaintiffs, however, the agreement will not be final until certain conditions are met, including plaintiffs' obtaining leave of court to dismiss the case. With the exception of this matter, the Company believes that all litigation is routine in nature and incidental to the conduct of the Company's business, and that none of this litigation, if determined adversely to the Company, would have a material adverse effect on the Company's financial condition or results of its operations.

The Company does not guarantee or have any of our assets pledged as collateral under Simmons Holdco's $300 million Toggle Loan. The Toggle Loan is structurally subordinated in right of payment to any of the Company's existing and future liabilities. Although the Company is not obligated to make cash distributions to service principal and interest on the Toggle Loan, Simmons Holdco is dependent on the Company's cash flow to meet the interest and principal payments under the Toggle Loan. The Toggle Loan is not included in the Company's financial statements. During the 2008, the Company provided $29.1 million of cash to Simmons Holdco, reflected as a dividend in the financial statements of the Company, so that Simmons Holdco could pay interest on the Toggle Loan, repurchase shares of its common stock, and pay operating expenses of Simmons Holdco. Under the terms of the credit agreement governing the Toggle Loan, Simmons Holdco may elect to pay future interest in cash or add such interest to the principal amount of the Toggle Loan. However, the Second Forbearance Agreement, as amended, prohibits the Company from making distributions to its parent companies during the forbearance period, except in the ordinary course of business. Accordingly, Simmons Holdco has elected to make its February and August 2009 interest payments on the Toggle Loan by adding such interest to the principal amount of the Toggle Loan. The Toggle Loan matures in February 2012. An acceleration of indebtedness under the senior credit facility, Subordinated Notes or Discount Notes would trigger an event of default under the Toggle Loan.

NOTE Q — SEGMENT INFORMATION

As a result of the Canada Acquisition and SCUSA Disposition (see Note D — Acquisition and Disposition), the Company has determined that it has two reportable segments organized by geographic area, Domestic (including Puerto Rico) and Canada. Both segments manufacture, sell and distribute premium branded bedding products to retail customers and institutional users of bedding products, such as the hospitality industry.

The Company evaluates segment performance and allocates resources based on net sales and Adjusted EBITDA. Adjusted EBITDA differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees and unusual or non-recurring items as defined by the Company's senior credit facility. Management believes the aforementioned approach is the most informative representation of how management evaluates performance. Adjusted EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs.

The following table summarizes our segment information for the years ended December 27, 2008, December 29, 2007, and December 30, 2006 (in thousands):

Year Ended December 27, 2008
(In thousands)

	Domestic	Canada	Eliminations	Totals
Net sales to external customers	$ 900,875	$ 127,825	$ —	$ 1,028,700
Intersegment net sales	7,282	—	(7,282)	—
Adjusted EBITDA	105,790	9,945	—	115,735
Depreciation and amortization expense	34,285	5,570	—	39,855
Expenditures for long-lived assets	14,949	2,154	—	17,103
Assets	909,704	114,527	(133,434)	890,797
Reconciliation of net loss to Adjusted EBITDA:				
Net loss	$ (457,073)	$ (35,138)	$ —	$ (492,211)
Depreciation and amortization	34,285	5,570	—	39,855
Income tax expense (benefit)	(78,278)	(6,230)	—	(84,508)
Interest expense	65,570	7,909	—	73,479
Goodwill impairment	294,000	9,885	—	303,885
Trademark impairment	225,800	17,872	—	243,672
Transaction expenses including integration costs	1,441	—	—	1,441
Non-recurring professional service fees	500	—	—	500
Restructuring charges	5,988	4,260	—	10,248
Financial reorganization charges	4,859	—	—	4,859
Operational reorganization charges	2,745	3,420	—	6,165
Management fees	(885)	2,725	—	1,840
Non-cash stock compensation expense	(423)	—	—	(423)
ERP system implementation costs	1,776	240	—	2,016
Loss (gain) on foreign currency transactions	1,748	(757)	—	991
State taxes in lieu of income taxes	664	—	—	664
Product regulatory compliance	2,774	—	—	2,774
Other	299	189	—	488
Adjusted EBITDA	$ 105,790	$ 9,945	$ —	$ 115,735

Year Ended December 29, 2007
(In thousands)

	Domestic	Canada	Eliminations	Totals
Net sales to external customers	$ 1,001,491	$ 125,350	$ —	$ 1,126,841
Intersegment net sales	913	—	(913)	—
Adjusted EBITDA	136,934	20,033	—	156,967
Depreciation and amortization expense	25,808	4,817	—	30,625
Expenditures for long-lived assets	21,877	3,178	—	25,055
Assets	1,436,944	178,048	(137,339)	1,477,653
Reconciliation of net income to Adjusted EBITDA:				
Net income	$ 21,580	$ 2,369	$ —	$ 23,949
Depreciation and amortization	25,808	4,817	—	30,625
Income tax expense	9,339	(676)	—	8,663
Interest expense	68,226	7,956	—	76,182
Transaction expenses including integration costs	4,336	266	—	4,602
Non-recurring professional service fees	3,062	—	—	3,062
Operational reorganization charges	2,111	319	—	2,430
Product regulatory compliance	2,260	—	—	2,260
Management fees	(2,849)	4,524	—	1,675
Non-cash stock compensation expense	93	—	—	93
ERP system implementation costs	1,575	—	—	1,575
(Gain) loss on foreign currency transactions	(1,044)	453	—	(591)
State taxes in lieu of income taxes	844	—	—	844
Other	1,593	5	—	1,598
Adjusted EBITDA	$ 136,934	$ 20,033	$ —	$ 156,967

Year Ended December 30, 2006
(In thousands)

	Domestic	Canada	Other*	Eliminations	Totals
Net sales to external customers	$ 887,356	$ 12,724	$ 61,545	$ —	$ 961,625
Intersegment net sales	12,627	—	—	(12,627)	—
Adjusted EBITDA	141,362	1,931	6,077	(86)	149,284
Depreciation and amortization expense	27,221	591	876	—	28,688
Expenditures for long-lived assets	11,627	147	1,779	—	13,553
Assets	1,345,668	142,363	—	(114,377)	1,373,654
Reconciliation of net income to Adjusted EBITDA:					
Net income (loss)	$ 13,768	$ (78)	$ 34,010	$ (86)	$ 47,614
Depreciation and amortization	27,221	591	876	—	28,688
Income tax expense	10,922	15	13,490	—	24,427
Interest expense	80,319	927	19	—	81,265
Gain on sale of Sleep Country USA	—	—	(43,311)	—	(43,311)
Transaction expenses including integration costs	815	432	453	—	1,700
Operational reorganization charges	4,727	—	—	—	4,727
Product regulatory compliance	673				673
Management fees	1,113	240	306	—	1,659
Non-cash stock compensation expense	760	—	—	—	760
Loss (gain) on foreign currency transactions	745	(196)	—	—	549
State taxes in lieu of income taxes	486	—	234	—	720
Other	(187)	—	—	—	(187)
Adjusted EBITDA	$ 141,362	$ 1,931	$ 6,077	$ (86)	$ 149,284

* Other consists of retail operations prior to the sale of Sleep Country USA, LLC in August 2006.

NOTE R — RELATED PARTY TRANSACTIONS

In connection with the THL Acquisition, the Company entered into a management agreement ("THL management agreement") with THL pursuant to which THL renders certain advisory and consulting services to the Company. In consideration of those services, the Company agreed to pay THL management fees equal to the greater of $1.5 million or an amount equal to 1.0% of the consolidated Adjusted EBITDA of Simmons Bedding for such fiscal year, but before deduction of any such fee. The fees are paid semi-annually. The Company also reimburses THL for all out-of-pocket expenses incurred by THL in connection with their services provided under the THL management agreement. The second forbearance agreement prohibits the Company from paying the THL management fee in cash subsequent to December 10, 2008. In connection with our restructuring efforts, we have agreed to reimburse the directors of THL for certain legal fees.

Included in selling, general and administrative expenses in the accompanying Consolidated statements of operations and comprehensive income (loss) was $1.8 million for 2008 and $1.7 million for 2007 and 2006 related to the management fees and expenses for services provided by THL to the Company. As of December 27, 2008 and December 27, 2007, the Company had accrued management fees and expenses of $0.6 million and $0.1 million; respectively, in the accompanying consolidated balance sheets.

NOTE S — SUBSEQUENT EVENTS

On November 12, 2008, Simmons Bedding entered into a forbearance agreement with a majority of its senior lenders to refrain from exercising their default related rights and remedies under the senior credit facility. Since November 12, 2008, Simmons Bedding entered into another forbearance agreement with a majority of its senior lenders on December 10, 2008 and amended that forbearance agreement on March 25, 2009 and May 27, 2009 to, among other things, extend the forbearance period initially contemplated under the original agreement. The last amendment on May 27, 2009 extended the forbearance period through June 30, 2009 and, upon meeting certain conditions July 31, 2009.

On January 15, 2009, Simmons Bedding did not make a scheduled payment of interest due on its Subordinated Notes resulting in a default under the indenture governing the Subordinated Notes. As a result, Simmons Bedding has subsequently entered into a forbearance agreement with more than a majority of the outstanding Subordinated Notes holders, pursuant to which such noteholders have agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture. Simmons Bedding entered into amendments to the forbearance agreement on March 25, 2009 and May 27, 2009 with a majority of its noteholders, whereby those noteholders extended their forbearance periods through May 31, 2009 and June 30, 2009, respectively, and upon meeting certain additional conditions, a further extension to July 31, 2009.

As a condition to the forbearance agreement with the senior lenders, the Company initiated a financing restructuring process in December 2008. A special committee of independent directors was formed by the Company's board of directors on January 23, 2009 to evaluate and oversee proposals for restructuring its debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives of the Company. There can be no assurance that the Company will be successful in implementing a restructuring. If the Company is unable to successfully complete a restructuring, comply with the terms of the forbearance agreements, or extend the forbearance periods as needed to successfully complete a restructuring, our payment obligations under the senior credit facility and the Subordinated Notes may be accelerated. If there is an acceleration of payments due under the senior credit facility or the Subordinated Notes, then Holdings would be in default under its Discount Notes and Simmons Holdco would be in default under its Toggle Loan. Simmons Bedding, Holdings, and Simmons Holdco would not have the ability to repay any amounts accelerated under their various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, THL-SC, Holdings, Simmons Holdco and/or any of their affiliates. Due to the possibility of such circumstances occurring, the Company is seeking a negotiated restructuring, including a restructuring of its debt obligations and/or sale of the Company, its affiliates or its assets, which could occur pursuant to a pre-packaged, pre-arranged or voluntary bankruptcy filing. Any bankruptcy filing could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. The considerations above raise substantial doubt about the Company's ability to continue as a going concern.

In connection with the closure of the Company's Bramalea, Ontario facility, the National Automobile, Aerospace, Transportation and General Workers Union of Canada and its Local 513 filed an unfair labor practice charge and three former production employees filed a wrongful termination claim against the Company on behalf of themselves and a class of similarly situated former employees. In June 2009, the Company has entered into tentative settlement agreements as to both disputes, although certain conditions, including obtaining leave of court to dismiss the class action must be met before the settlements will be final. An estimated settlement amount has been recorded in 2008 as part of the restructuring severance and benefits.

NOTE T — GUARANTOR / NON-GUARANTOR STATEMENTS

Simmons Bedding's Subordinated Notes are fully and unconditionally guaranteed, on a joint and several basis, and on an unsecured, senior subordinated basis by Holdings and THL-SC (the "Parent Guarantors") and all of Simmons Bedding's active domestic subsidiaries (the "Subsidiary Guarantors"). All of the Subsidiary Guarantors are 100% owned by Simmons Bedding. None of Simmons Bedding's direct or indirect subsidiaries located in U.S. territories or outside of the United States guarantee the Subordinated Notes (the "Non-Guarantor Subsidiaries"). The Supplemental Consolidating Condensed Financial Statements provide additional guarantor/non-guarantor information.

Supplemental Consolidating Condensed Statements of Operations
For the Year Ended December 27, 2008
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ (94,782)	$ 993,727	$ 137,037	$ (7,282)	$ 1,028,700
Cost of products sold	—	3,400	547,389	105,297	(7,282)	648,804
Gross profit	—	(98,182)	446,338	31,740	—	379,896
Operating expenses:						
Selling, general and administrative expenses	(11)	218,512	86,867	33,808	—	339,176
Goodwill and trademark impairments	—	—	519,800	27,757	—	547,557
Amortization of intangibles	—	2,955	2,400	949	—	6,304
Intercompany fees	—	(321,540)	318,169	3,371	—	—
Licensing revenues	—	(1,427)	(7,270)	(802)	—	(9,499)
	(11)	(101,500)	919,966	65,083	—	883,538
Operating income (loss)	11	3,318	(473,628)	(33,343)	—	(503,642)
Interest expense	23,241	41,434	853	7,951	—	73,479
Interest income	—	(98)	(71)	(233)	—	(402)
Loss from subsidiaries	(477,110)	(429,027)	—	—	906,137	—
Loss before income taxes	(500,340)	(467,045)	(474,410)	(41,061)	906,137	(576,719)
Income tax expense (benefit)	(8,129)	10,065	(80,229)	(6,215)	—	(84,508)
Net loss	$ (492,211)	$ (477,110)	$ (394,181)	$ (34,846)	$ 906,137	$ (492,211)

Supplemental Consolidating Condensed Statements of Operations
For the Year Ended December 29, 2007
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ (107,928)	$ 1,098,346	$ 137,336	$ (913)	$ 1,126,841
Cost of products sold	—	3,205	579,627	94,336	(913)	676,255
Gross profit	—	(111,133)	518,719	43,000	—	450,586
Operating expenses:						
Selling, general and administrative expenses	(5)	226,661	92,806	26,790	—	346,252
Amortization of intangibles	—	2,955	2,251	940	—	6,146
Intercompany fees	—	(335,360)	330,054	5,306	—	—
Licensing revenues	—	(1,170)	(8,058)	(857)	—	(10,085)
	(5)	(106,914)	417,053	32,179	—	342,313
Operating income (loss)	5	(4,219)	101,666	10,821	—	108,273
Interest expense	20,814	46,397	913	8,058	—	76,182
Interest income	—	(93)	(117)	(311)	—	(521)
Income from subsidiaries	37,475	106,543	—	—	(144,018)	—
Income before income taxes	16,666	56,020	100,870	3,074	(144,018)	32,612
Income tax expense (benefit)	(7,283)	18,545	(1,903)	(696)	—	8,663
Net income	$ 23,949	$ 37,475	$ 102,773	$ 3,770	$ (144,018)	$ 23,949

Supplemental Consolidating Condensed Statements of Operations
For the Year Ended December 30, 2006
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ (94,581)	$ 1,033,782	$ 22,470	$ (46)	$ 961,625
Cost of products sold	—	3,069	524,801	16,340	(46)	544,164
Gross profit	—	(97,650)	508,981	6,130	—	417,461
Operating expenses:						
Selling, general and administrative expenses	235	200,966	106,372	4,266	—	311,839
Amortization of intangibles	—	3,222	2,324	109	—	5,655
Intercompany fees	—	(320,490)	319,394	1,096	—	—
Gain on sale of SCUSA	—	—	(43,311)	—	—	(43,311)
Licensing revenues	—	(1,190)	(6,733)	(768)	—	(8,691)
	235	(117,492)	378,046	4,703	—	265,492
Operating income (loss)	(235)	19,842	130,935	1,427	—	151,969
Interest expense	19,039	61,203	904	119	—	81,265
Interest income	—	(2,168)	(140)	971	—	(1,337)
Income from subsidiaries	60,142	118,251	—	—	(178,393)	—
Income before income taxes	40,868	79,058	130,171	337	(178,393)	72,041
Income tax expense (benefit)	(6,746)	18,916	12,121	136	—	24,427
Net income	$ 47,614	$ 60,142	$ 118,050	$ 201	$ (178,393)	$ 47,614

Supplemental Consolidating Condensed Balance Sheets
As of December 27, 2008
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 46,255	$ 2,337	$ 6,338	$ —	$ 54,930
Accounts receivable	—	—	75,634	21,904	(1,606)	95,932
Inventories	—	37	27,414	4,387	—	31,838
Other	2,602	17,086	12,505	2,593	—	34,786
Total current assets	2,602	63,378	117,890	35,222	(1,606)	217,486
Property, plant and equipment, net	—	23,335	44,429	18,728	—	86,492
Goodwill and other intangibles, net	—	68,381	439,337	61,078	—	568,796
Other assets	34,736	100,000	512	8,758	(125,983)	18,023
Net investment in and advances to (from) affiliates	(154,430)	434,362	299,351	(1,797)	(577,486)	—
Total assets	$ (117,092)	$ 689,456	$ 901,519	$ 121,989	$ (705,075)	$ 890,797
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of long-term debt	$ 245,106	$ 729,533	$ 300	$ 213	$ —	$ 975,152
Accounts payable and accrued liabilities	129	55,714	58,212	30,172	(16,166)	128,061
Total current liabilities	245,235	785,247	58,512	30,385	(16,166)	1,103,213
Long-term debt	—	6,598	12,200	70,935	(76,697)	13,036
Deferred income taxes	—	39,930	88,782	4,775	(34,726)	98,761
Other non-current liabilities	—	25,113	8,319	4,682	—	38,114
Total liabilities	245,235	856,888	167,813	110,777	(127,589)	1,253,124
Stockholder's equity	(362,327)	(167,432)	733,706	11,212	(577,486)	(362,327)
Total liabilities and stockholder's equity	$ (117,092)	$ 689,456	$ 901,519	$ 121,989	$ (705,075)	$ 890,797

Supplemental Consolidating Condensed Balance Sheets
As of December 29, 2007
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 8,241	$ 4,087	$ 15,192	$ —	$ 27,520
Accounts receivable	—	—	93,399	26,726	(141)	119,984
Inventories	—	37	30,041	5,129	—	35,207
Other	—	9,859	13,008	2,414	—	25,281
Total current assets	—	18,137	140,535	49,461	(141)	207,992
Property, plant and equipment, net	—	24,818	38,423	24,208	—	87,449
Goodwill and other intangibles, net	—	71,335	961,552	111,786	—	1,144,673
Other assets	29,508	126,973	586	3,695	(123,223)	37,539
Net investment in and advances to (from) affiliates	380,949	910,379	287,881	(2,219)	(1,576,990)	—
Total assets	$ 410,457	$1,151,642	$ 1,428,977	$ 186,931	$ (1,700,354)	$ 1,477,653
LIABILITIES AND STOCKHOLDER'S EQUITY						
Current liabilities:						
Current maturities of long-term debt	$ —	$ —	$ 300	$ 472	$ —	$ 772
Accounts payable and accrued liabilities	140	66,681	86,762	25,168	(9,901)	168,850
Total current liabilities	140	66,681	87,062	25,640	(9,901)	169,622
Long-term debt	222,165	665,000	12,500	87,919	(86,868)	900,716
Deferred income taxes	—	32,859	171,284	12,773	(26,595)	190,321
Other non-current liabilities	—	20,754	3,867	4,221	—	28,842
Total liabilities	222,305	785,294	274,713	130,553	(123,364)	1,289,501
Stockholder's equity	188,152	366,348	1,154,264	56,378	(1,576,990)	188,152
Total liabilities and stockholder's equity	$ 410,457	$1,151,642	$ 1,428,977	$ 186,931	$ (1,700,354)	$ 1,477,653

Supplemental Consolidating Condensed Statements of Cash Flows
For the Year Ended December 27, 2008
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ —	$ (35,906)	46,765	$ 2,588	$ —	$ 13,447
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(4,016)	(10,694)	(2,393)	—	(17,103)
Net cash used in investing activities	—	(4,016)	(10,694)	(2,393)	—	(17,103)
Cash flows from financing activities:						
Borrowings of senior credit facility	—	64,532	—	—	—	64,532
Payment of other long-term obligations	—	—	(302)	(422)	—	(724)
Payments of debt issuance costs	—	(1,944)	—	—	—	(1,944)
Dividend to Simmons Holdco, Inc.	(29,099)	—	—	—	—	(29,099)
Receipt from (distribution to) affiliates	29,099	15,348	(37,519)	(6,928)	—	—
Net cash provided by (used in) financing activities	—	77,936	(37,821)	(7,350)	—	32,765
Net effect of exchange rate change	—	—	—	(1,699)	—	(1,699)
Change in cash and cash equivalents	—	38,014	(1,750)	(8,854)	—	27,410
Cash and cash equivalents:						
Beginning of period	—	8,241	4,087	15,192	—	27,520
End of period	$ —	$ 46,255	$ 2,337	$ 6,338	$ —	$ 54,930

Supplemental Consolidating Condensed Statements of Cash Flows
For the Year Ended December 29, 2007
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (311)	$ (44,987)	$ 100,341	$ 11,140	$ —	$ 66,183
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(13,648)	(8,065)	(3,342)	—	(25,055)
Acquisition of certain assets of Comfor Products, Inc.	—	(15,379)	—	—	—	(15,379)
Net cash used in investing activities	—	(29,027)	(8,065)	(3,342)	—	(40,434)
Cash flows from financing activities:						
Payments of senior credit facility	—	(15,000)	—	—	—	(15,000)
Payment of other long-term obligations	—	—	(302)	(648)	—	(950)
Repurchase of common stock, net	(1)	—	—	—	—	(1)
Dividend to Simmons Holdco, Inc.	(4,963)	—	—	—	—	(4,963)
Excess tax benefits from stock-based compensation	27	—	—	—	—	27
Receipt from (distribution to) affiliates	5,248	87,413	(93,492)	831	—	—
Net cash provided by (used in) financing activities	311	72,413	(93,794)	183	—	(20,887)
Net effect of exchange rate change	—	—	—	1,874	—	1,874
Change in cash and cash equivalents	—	(1,601)	(1,518)	9,855	—	6,736
Cash and cash equivalents:						
Beginning of period	—	9,842	5,605	5,337	—	20,784
End of period	$ —	$ 8,241	$ 4,087	$ 15,192	$ —	$ 27,520

Supplemental Consolidating Condensed Statements of Cash Flows
For the Year Ended December 30, 2006
(In thousands)

	Issuer and Guarantors					
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 173	$ (51,974)	$ 151,180	$ 2,889	$ —	$ 102,268
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(7,990)	(5,389)	(174)	—	(13,553)
Proceeds from the sale of Sleep Country USA, net	—	52,417	—	—	—	52,417
Purchase of Simmons Canada	—	(122,900)	—	9,802	—	(113,098)
Net cash provided by (used in) investing activities	—	(78,473)	(5,389)	9,628	—	(74,234)
Cash flows from financing activities:						
Borrowings under new senior credit facility, net	—	480,000	—	—	—	480,000
Payments of senior credit facility	—	(369,933)	—	—	—	(369,933)
Repayment of senior unsecured term loan	—	(140,000)	—	—	—	(140,000)
Payment of other long-term obligations	—	—	(201)	(276)	—	(477)
Repurchase of common stock, net	(181)	—	—	—	—	(181)
Payment of financing fees	(41)	(998)	—	—	—	(1,039)
Excess tax benefits from stock-based compensation	49	—	—	—	—	49
Receipt from (distribution to) affiliates	—	151,395	(141,412)	(9,983)	—	—
Net cash provided by (used in) financing activities	(173)	120,464	(141,613)	(10,259)	—	(31,581)
Net effect of exchange rate change	—	—	—	(291)	—	(291)
Change in cash and cash equivalents	—	(9,983)	4,178	1,967	—	(3,838)
Cash and cash equivalents:			—			
Beginning of period	—	19,825	1,427	3,370	—	24,622
End of period	$ —	$ 9,842	$ 5,605	$ 5,337	$ —	$ 20,784

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A(T). CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in SEC rules and forms. An evaluation was carried out under the supervision and with the participation of the Company's management, including the President and Chief Operating Officer ("President") and the Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the President and CFO have concluded that the Company's disclosure controls and procedures are effective as of December 27, 2008.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's President and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management has assessed the effectiveness of its internal control over financial reporting as of December 27, 2008 based on the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 27, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, identified in connection with the evaluation that occurred during the fourth quarter of 2008 that has materially affected our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

MANAGEMENT AND DIRECTORS

Our directors and principal officers and their positions and ages as of May 1, 2009 are as follows:

Name	Age	Position
Stephen G. Fendrich	48	President and Chief Operating Officer
Dominick A. Azevedo	54	Executive Vice President — Sales
William S. Creekmuir	53	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Kristen K. McGuffey	43	Executive Vice President, General Counsel and Secretary
Timothy F. Oakhill	46	Executive Vice President — Marketing and Licensing
Kimberly A. Samon	41	Executive Vice President — Human Resources and Assistant Secretary
Mark F. Chambless	52	Senior Vice President — Corporate Controller and Assistant Secretary
Charles R. Eitel	59	Vice Chairman — Board of Directors
Todd M. Abbrecht	40	Director
William P. Carmichael	65	Director
David A. Jones	59	Director
B. Joseph Messner	56	Director
Scott A. Schoen	50	Director
George R. Taylor	38	Director

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

Stephen G. Fendrich joined us in February 2003 in connection with our acquisition of SC Holdings, Inc. (“SC Holdings”) and has served as President and Chief Operating Officer since January 2008. In October 2008, Mr. Fendrich assumed leadership of the Company from Mr. Eitel, our former Chairman and Chief Executive Officer (“CEO”), while maintaining his current position of President and Chief Operating Officer. Prior to assuming his current position, Mr. Fendrich served as Executive Vice President — Sales from August 2005 through December 2007 and prior to that served as President and CEO of our subsidiaries, SC Holdings and SCUSA, which Mr. Fendrich joined in September 2002. Prior to joining SC Holdings and SCUSA, Mr. Fendrich was Executive Vice President of Franchise Stores for The Mattress Firm from February 2002 to September 2002. From November 2000 to February 2002, Mr. Fendrich performed consulting work for The Mattress Firm franchises. From 1986 to November 2000, Mr. Fendrich held various positions with The Mattress Firm including Vice President and Chief Financial Officer and Vice President of Finance and Real Estate. Mr. Fendrich was one of the founders of The Mattress Firm in 1986.

Dominick A. Azevedo joined us in May 1997 and has served as Executive Vice President — Sales since January 2008. Prior to assuming his current position, Mr. Azevedo served as Senior Vice President of Sales from July 2007 to January 2008 and served as Senior Vice President of Sales — East from May 2007 to July 2007. Between June 1998 and May 2007, Mr. Azevedo served in various Vice President of Sales positions for our company. Prior to joining the Company, Mr. Azevedo held various positions in retail management from 1979 to 1997 for Rhodes Furniture, Huffman Koos and Dean Carpet.

William S. Creekmuir joined us in April 2000 and serves as Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary. Mr. Creekmuir is our Principal Financial Officer. Mr. Creekmuir served as one of our directors from April 2000 to August 2004. Prior to joining us, Mr. Creekmuir served as Executive Vice President, Chief Financial Officer, Secretary and Treasurer of LADD Furniture, Inc. (“LADD”), a publicly traded furniture manufacturer. Prior to joining LADD in 1992, he worked 15 years with the international public accounting firm KPMG in their audit practice, the last five years of which he was a partner, including partner in charge of their national furniture manufacturing practice. Mr. Creekmuir is also Chairman of the Statistics Committee of ISPA, a member of the Board of Advisors to the Martha and Spencer Love School of Business at Elon University, a member of the Advisory Board of Art Van Furniture, Inc. and a Certified Public Accountant.

Kristen K. McGuffey joined us in November 2001 and has served as Executive Vice President, General Counsel and Secretary since March 2007. Prior to assuming her current position, Ms. McGuffey served as Senior Vice President — General Counsel and Secretary since August 2002 and prior to that served as Vice President — General Counsel and Assistant Secretary. Prior to joining us, from March 2000 to October 2001, Ms. McGuffey was employed by Viewlocity, Inc., with the most recent position of Executive Vice President and General Counsel. From March 1997 to February 2000, Ms. McGuffey was a partner of and, prior to that, an associate at Morris, Manning & Martin LLP.

Timothy F. Oakhill joined us in January 1997 and has served as Executive Vice President - Marketing and Licensing since March 2007. Prior to assuming his current position, Mr. Oakhill served as Senior Vice President — Marketing and Licensing since July 2005. Prior July 2005, Mr. Oakhill served as Vice President — International and Domestic Licensing since January 2004. Prior to January 2004, Mr. Oakhill managed various Simmons brands, including Beautyrest® from August 2003 to January 2004, and BackCare® and Deep Sleep® from January 1997 to August 2003. Prior to joining us, Mr. Oakhill served as Marketing Manager for Eastman — Kodak Company and as an account supervisor for Bates Worldwide.

Kimberly A. Samon joined us in April 2006 and has served as Executive Vice President — Human Resources and Assistant Secretary since March 2007. Prior to assuming her current position, Ms. Samon served as Senior Vice President — Human Resources and Assistant Secretary. Prior to joining us, from April 2004 to April 2006, Ms. Samon was a co-founder and partner of the law firm W. Edwin Litton, LLC and a co-owner and chief executive officer of Olivia Litton International, a human resource consulting company. From April 2003 to February 2004, Ms. Samon was a Director — Human Resources, East for Fedex Corporation's office and print center business unit, formerly Kinko's Inc. From April 2002 to March 2003, Ms. Samon was a Human Resource Practice Leader for Lacerte Technologies, Inc. From January 1998 to December 2001, Ms. Samon worked for HQ Global Workplaces, Inc., in various positions including Senior Vice President and Chief People Office/Labor and Employment Counsel.

Mark F. Chambless joined us in May 1995 and has served as Senior Vice President, Corporate Controller and Assistant Secretary since June 2007. Prior to this position, Mr. Chambless served as Vice President, Corporate Controller and Assistant Secretary from December 2005 to June 2007 and as Vice President and Corporate Controller from February 2000 to December 2005. Mr. Chambless was the Corporate Controller from November 1995 through February 2000, and prior to that served as a Divisional Controller. Mr. Chambless is the Principal Accounting Officer for our company. Prior to joining us, Mr. Chambless worked nine years at Sealy Corporation where he held various positions including Plant Controller, Operations Manager and Divisional Controller.

Charles R. Eitel joined us in January 2000 and has served as Vice Chairman of the Board of Directors since October 2008. Prior to assuming his current position, Mr. Eitel served as our Chairman of the Board of Directors and Chief Executive Officer from January 2000 through September 2008. Prior to joining us, Mr. Eitel served as President and Chief Operating Officer of Interface, Inc., a leading global manufacturer and marketer of floor coverings, interior fabrics and architectural raised floors. Prior to serving as Chief Operating Officer, he held the positions of Executive Vice President of Interface, President and Chief Executive Officer of the Floor Coverings Group, and President of Interface Flooring Systems, Inc. Mr. Eitel is also a director of Duke Realty Corporation. Mr. Eitel is a past Chairman of the Board of Directors of the ISPA.

Todd M. Abbrecht has been a director of our company since December 2003, following the consummation of the THL Acquisition. Mr. Abbrecht is a Managing Director of Thomas H. Lee Partners, which he joined in 1992. Prior to joining the firm, Mr. Abbrecht was in the mergers and acquisitions department of Credit Suisse First Boston. Mr. Abbrecht is also a director of Aramark Corporation, Dunkin' Brands, Inc. and Warner Chilcott Holdings Company, Limited.

William P. Carmichael became a director of our company in May 2004. Mr. Carmichael co-founded The Succession Fund in 1998. Prior to forming The Succession Fund, Mr. Carmichael had 26 years of experience in various financial positions with global consumer product companies, including Senior Vice President with Sara Lee Corporation, Senior Vice President and Chief Financial Officer of Beatrice Foods Company, and Vice President of Esmark, Inc. Mr. Carmichael is also a director of Cobra Electronics Corporation, The Finish Line, Inc., and Spectrum Brands, Inc. ("Spectrum Brands"). Mr. Carmichael is also Chairman of the Board of Trustees of the Columbia Funds Series Trust, Columbia Funds Master Investment Trust, Columbia Funds Variable Insurance Trust I and Columbia Funds Series Trust II. Mr. Carmichael is a Certified Public Accountant. Mr. Carmichael served as a director of Spectrum Brands when it declared bankruptcy on February 3, 2009.

David A. Jones has been a director of our company since December 2003, following the consummation of the THL Acquisition. Mr. Jones has been Senior Advisor to Oakhill Capital Partners since February 2008. Mr. Jones served as the non — executive Chairman of the Board of Directors of Spectrum Brands from May 2007 to September 2007 and as the Chairman of the Board of Directors and Chief Executive Officer of Spectrum Brands from September 1996 to May 2007. From 1996 to April 1998, he also served as President of Spectrum Brands. From 1995 to 1996, Mr. Jones was President, Chief Executive Officer and Chairman of the Board of Directors of Thermoscan, Inc. Mr. Jones is also a director of Pentair, Inc.

B. Joseph Messner became a director of our company in August 2004. Mr. Messner served as the Chairman of the Board of Directors and Chief Executive Officer of Bushnell Outdoor Products from 1999 through September 2008. Mr. Messner was President and CEO of First Alert, Inc. from 1996 through 1999. Mr. Messner is a member of Wind Point Partners Executive Advisor Group.

Scott A. Schoen has been a director of our company since December 2003, following the consummation of the THL Acquisition. Mr. Schoen is co-President of Thomas H. Lee Partners, which he joined in 1986. Prior to joining the firm, Mr. Schoen was in the Private Finance Department of Goldman, Sachs & Co. Mr. Schoen is also a director of The Nielsen Company. Mr. Schoen is a member of the Board of Trustees of Spaulding Rehabilitation Hospital Network and is also a member of the President's Council of the United Way of Massachusetts Bay. He is also a member of the Advisory Board of the Yale School of Management and the Yale Development Board. Mr. Schoen served as a director of Syratech Corporation when it declared bankruptcy on February 16, 2005 and was a director of Refco Group Ltd. when it declared bankruptcy on October 17, 2005.

George R. Taylor has been a director of our company since December 2003, following the consummation of the THL Acquisition. Mr. Taylor is a Managing Director at Thomas H. Lee Partners, which he joined in 1996. Prior to joining the firm, Mr. Taylor was at ABS Capital Partners. Mr. Taylor is also a director of Progressive Moulded Products, Ltd. Mr. Taylor served as a director of Syratech Corporation when it declared bankruptcy on February 16, 2005.

COMPOSITION OF OUR BOARD OF DIRECTORS

Our board of directors currently consists of seven members. Each of our directors will hold office until his successor has been elected and qualified. Our executive officers are elected by and serve at the discretion of our Board of Directors. There are no family relationships between any of our directors or executive officers. Our independent directors, as defined by the New York Stock Exchange, are Messrs. Carmichael, Jones, and Messner.

COMMITTEES OF OUR BOARD OF DIRECTORS

Our board of directors has established a special committee, an executive committee, an audit committee, a compensation committee and a nominating and governance committee.

Special Committee: The members of the special committee are Messrs. Carmichael and Messner. The special committee was formed by the board of directors on January 23, 2009 for Simmons Bedding and January 30, 2009 for Simmons Holdco, Holdings and THL-SC to evaluate and oversee proposals for the restructuring of our debt obligations, including evaluating other strategic alternatives for Simmons Holdco and its subsidiaries.

Executive Committee: The members of the executive committee are Messrs. Carmichael and Messner. The executive committee was formed by the board of directors in connection with the transition of the management of the operations of the Company from Mr. Eitel, our former Chairman and CEO, to Mr. Fendrich, our President and Chief Operating Officer, on October 1, 2008. The initial members of the executive committee were Messrs. Jones, Messner and Schoen. On January 23, 2009, Messrs. Jones and Schoen were replaced as members of the committee with Mr. Carmichael. The committee was formed to perform specific tasks as requested by the board; to provide advice and guidance to senior management concerning the operations of the company; and to perform regular reporting to the board on the committees' activities.

Audit Committee: The members of the audit committee are Messrs. Carmichael, Jones and Taylor. The audit committee is governed by a board of directors approved charter stating its responsibilities. The audit committee oversees management regarding the conduct and integrity of our financial reporting, systems of internal accounting and financial and disclosure controls. The audit committee reviews the qualifications, engagement, compensation, independence and performance of our independent auditors, their conduct of the annual audit and their engagement for any other services. The audit committee also oversees management regarding our legal and regulatory compliance and the preparation of an annual audit committee report as required by the SEC. In addition, the board of directors has determined that William P. Carmichael, an independent director, is an "audit committee financial expert" as defined by the SEC rules.

The audit committee has discussed with the independent auditors the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. The audit committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board No. 1, as adopted by the PCAOB in Rule 3600T, and has discussed with the independent accountants the independent accountants' independence. Based on such review and discussions, the audit committee recommended to the board of directors that the audited financial statements be included in this Annual Report on Form 10-K.

Compensation Committee: The members of the compensation committee are Messrs. Abbrecht and Schoen. The compensation committee is responsible for our general compensation policies, and in particular is responsible for setting and administering the policies that govern executive compensation, including determining and approving the compensation of our senior executive officers; reviewing and approving management incentive compensation policies and programs; and reviewing and approving equity compensation programs and exercising discretion over the administration of such programs.

Nominating and Governance Committee: The members of the nominating and governance committee are Messrs. Abbrecht, Messner and Schoen. The purpose of the nominating and governance committee is to identify, screen and review individuals qualified to serve as directors. The nominating and governance committee also develops and recommends to the board of directors approval of, if appropriate, and overseeing implementation of our corporate governance guidelines and principles including the Simmons Code of Ethics for Chief Executive and Senior Financial Officers ("Code of Ethics") and the Simmons Code of Conduct and Ethics. The nominating and governance committee also reviews on a regular basis our overall corporate governance policies and recommends improvements when necessary.

From time to time, the board of directors may contemplate establishing other committees.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

CODE OF ETHICS

We have a Code of Ethics within the meaning of 17 CFR Section 229.406 that applies to our CEO, CFO and Corporate Controller. Our Code of Ethics is available on our website (www.simmons.com). If we make an amendment to this Code of Ethics, or grant a waiver from a provision of this Code of Ethics then we will make any required disclosure of such amendment or waiver on our website or in a current report on Form 8-K filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for 2008 should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

Introduction

We are privately owned and controlled by THL, a private equity fund. THL beneficially owned approximately 71.1% of our issued and outstanding fully-diluted capital stock as of December 27, 2008, including the period in which the 2008 compensation elements for our executive officers were determined, and held three of seven seats on our board of directors.

Our compensation strategy, as it relates to named executive officers, has been designed to support and complement the successful long-term growth of the Company. Our objective in compensating our executive officers is to increase the enterprise value for our shareholders.

In September 2008, Mr. Eitel, who had served as our Chairman and Chief Executive Officer, resigned from the Company and his duties were assumed by Mr. Fendrich, our President and Chief Operating Officer, and the Executive Committee. Mr. Eitel remains a Vice Chairman of our board. In March 2009, Robert P. Burch, our former Executive Vice President — Operations, resigned from the Company and his duties were assumed by Mr. Fendrich and Mr. Burch's previous direct reports. Our current executive officers other than Mr. Fendrich are Mr. Creekmuir, our Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary; Mr. Azevedo, our Executive Vice President — Sales; Ms. Samon, our Executive Vice President — Human Resources and Assistant Secretary; Ms. McGuffey, our Executive Vice President, General Counsel and Secretary; and Mr. Oakhill, our Executive Vice President — Marketing and Licensing (collectively referred to as the "executive leadership team" or "ELT"). Our highly compensated named executive officers for 2008, as defined by the SEC, are Messrs. Fendrich, Creekmuir, Burch, Azevedo, Oakhill and Eitel.

Corporate Governance

Compensation Committee Authority

Executive officer compensation is administered by the compensation committee of our board of directors, which is composed of two members following the resignation of Mr. Eitel in September 2008. Mr. Eitel served on the compensation committee until September 25, 2008. Mr. Schoen has served as the compensation committee chairman and Mr. Abbrecht has served as a member since the THL Acquisition. Each member approved the compensation arrangements described in this compensation discussion and analysis. Our board of directors appoints the compensation committee members and delegates to the compensation committee the direct responsibility for, among other matters:

- approving, in advance, the compensation and employment arrangements for our senior executive officers;
- reviewing and approving management incentive compensation policies and programs; and
- reviewing and approving equity compensation programs and exercising discretion over the administration of such programs.

The compensation committee met three times in 2008.

Role of Compensation Experts

Pursuant to its charter, the compensation committee is authorized to obtain at our expense compensation surveys, reports on the design and implementation of compensation programs for directors, officers and employees, and other data and documentation as the compensation committee considers appropriate. In addition, the compensation committee has the authority to retain and terminate any outside counsel or other experts or consultants engaged to assist it in the evaluation of compensation of our directors and executive officers. The compensation committee relied on past consulting advice, new survey data, as well as the factors below in deciding executive compensation for 2008:

- the qualifications, skills and experience level of the respective executive officer;
- the position, role and responsibility of the respective executive officer in the company; and
- the general business and particular compensation experience and knowledge of the compensation committee's members.

Role of Our Executive Officers in the Compensation Process

Prior to his resignation, Mr. Eitel was actively involved in providing recommendations to the compensation committee in its evaluation and design of 2008 compensation programs for our executive officers, including the recommendation of individual compensation levels for executive officers other than himself. Mr. Eitel relied on market data on similar-sized manufacturing companies provided by survey data and his own personal experience serving in the capacity as our chief executive officer or executive officer of other companies as well as publicly available information for comparable compensation guidance. Mr. Eitel provided this specific market information to the compensation committee. Mr. Eitel attended all of the compensation committee's meetings while a committee member. Ms. Samon, Executive Vice President of Human Resources, worked closely with Mr. Eitel to offer market data and to prepare recommendations to the compensation committee.

Executive Officer Compensation Strategy and Philosophy

Our executive officer compensation strategy has been designed to attract and retain highly qualified executive officers and to align their interests with those of investors by linking significant components of executive officer compensation with the achievement of specific business and strategic objectives and our overall financial performance. We seek to employ executive officers who are financially and ethically driven and accordingly, we offer a compensation package that places a significant amount of total compensation at risk by providing a substantial form of it as equity incentives. Because we are a mid-size company with significant growth targets, we also ensure that base salaries for executives are competitive to that of larger companies.

It has been our view that the total compensation for executive officers should consist of the following components:

- base salaries;
- annual cash incentive awards;
- long-term equity incentive compensation; and
- certain perquisites and other benefits

Historically, we have considered long-term equity incentive compensation to be the most important element of our compensation program for executive officers. Since the THL Acquisition, THL has expected our executive management team to significantly increase the enterprise value of our company. We believe that meaningful equity participation by each executive officer is the primary motivating factor that will result in significant increases in enterprise value and sales growth. This belief is reflected in the aggregate awards of restricted stock and stock options that have been made to our executive officers.

It has been our philosophy that optimal alignment between stockholders and named executive officers is best achieved by providing a greater amount of total compensation in the form of equity rather than cash based salary. Accordingly, we have designed total compensation programs for our executive officers to provide base compensation levels, annual cash incentive award opportunities and long-term incentive compensation awards that are economically equivalent to typical programs available for comparable executive officers in similarly sized companies. The compensation committee determined compensation levels that it concluded were appropriate based on market data, the general business and particular compensation experience and knowledge of its members gained from working with private equity owned companies and with public companies.

Our 2008 incentive compensation program elements were primarily structured to reward our executive officers for achieving certain financial and business objectives, including the following:

- achieving company-wide Adjusted EBITDA targets; and
- achieving company-wide sales targets.

We believe that the attainment of these specific financial objectives assists in the fulfillment of certain of our strategic objectives, namely:

- to increase our enterprise value;
- to grow our company in an efficient manner; and
- to conserve and optimally utilize cash resources for the future growth of our business.

Components of Compensation

Base Salaries

The base salaries of our named executive officers are reviewed on an annual basis as well as at the time of a promotion or other material change in responsibilities. Adjustments in base salary are based on an evaluation of market data, our company-wide performance and the individual executive's contribution to our performance. All executive officers' compensation is reviewed in December for compensation adjustments to take place on January 1 of the following calendar year. For the 2009 year, our named executive officers elected not to take base salary increases.

Annual Cash Incentive Awards

2008 Management Bonus Plan. Our named executive officers participated in an annual cash incentive award program, the 2008 Management Bonus Plan. This program is available to administrative staff and professionals, managers, senior managers and executive officers. The purpose of each executive officer's 2008 Management Bonus Plan was to create financial incentives aligned with the overriding objective of increasing enterprise value.

In March 2008, the compensation committee approved financial targets established for us. These targets included the achievement of specified threshold levels of EBITDA, adjusted for certain non-recurring or non-cash items as allowed under our senior credit facility, ("Adjusted EBITDA") and revenue, adjusted to exclude certain payments to customers recorded as reductions of revenue under GAAP, ("Adjusted Revenue") for our 2008 fiscal year. These financial targets and the associated performance levels that were established represented the factors that the compensation committee deemed most important and which, if achieved, would likely result in an increase in enterprise value. The specific performance levels were determined with reference to our 2008 budget, which we used to manage our day-to-day business and were determined by our board of directors as representing an aggressive level of growth and financial performance for us in 2008.

Our 2008 financial targets were based on an Adjusted EBITDA target of $204.4 million and an Adjusted Revenue target of $1,392.9 million.

To be eligible to receive a bonus under the plan, we must achieve 91% of the Adjusted EBITDA target and 91% of the Adjusted Revenue. The bonus target is weighted 85% toward achieving the Adjusted EBITDA target and 15% toward achieving the Adjusted Revenue target. The portion of the bonus target related to Adjusted EBITDA is prorated as follows:

% of EBITDA Achieved	% of Bonus
91%	10%
92%	20%
93%	30%
94%	40%
95%	50%
96%	60%
97%	70%
98%	80%
99%	90%
100%	100%

The portion of the bonus target related to Adjusted Revenue was prorated from 0% to 100% for Adjusted Revenue between $1,253.6 million and $1,392.9 million.

Each executive officer was eligible to receive a "bonus" factor which was applied to performance achieved beyond reaching the 100% target. For every percent increase over the financial target, Mr. Eitel's bonus target increases 5% and Messrs. Fendrich's, Creekmuir's, Burch's, Azevedo's and Oakhill's increase 4%.

The following table summarizes, for each highly compensated named executive officer, the target cash incentive awards under the 2008 Management Bonus Plan. Due to our performance, no cash incentive awards were due under the 2008 Management Bonus Plan; however, the compensation committee elected to pay discretionary bonuses, which included certain named executive officers.

Name	Bonus Target	Bonus Paid
Charles R. Eitel	$ 714,000	$ —
Stephen G. Fendrich	350,000	100,000
William S. Creekmuir	261,000	100,000
Robert P. Burch	204,000	37,500
Dominick A. Azevedo	150,000	37,500
Timothy F. Oakhill	159,000	37,500

Long-Term Incentive Compensation

Overview

We administer a long-term incentive compensation awards through the Third Amended and Restated Equity Incentive Plan ("Equity Plan"). The purpose of the Equity Plan is to provide an incentive to management to continue their employment over a long term and to align their interests with those of the Company and its stockholders by providing a stake in our continued growth and success. The plan permits awards of stock options, stock appreciation rights, restricted stock awards, stock units and dividend equivalent rights.

We have awarded restricted stock and stock option awards as the primary form of equity compensation. We have generally considered and made equity awards under three circumstances:

- upon hiring new executive officers, vice-presidents and directors;
- as a result of promotion; and
- to existing executive officers, vice-presidents and directors after evaluating internal equity across the management team.

Restricted stock and stock option awards that we have granted vest upon attainment of performance-based measures. Performance-based awards are forfeitable if specified financial performance targets are not achieved within a specified period of time.

Restricted Stock and Stock Option Practices

We have awarded all stock options to purchase our common stock to executive officers at the fair value of the common stock on the grant date. We have not back-dated any option awards. The fair value of all options granted was determined by our board of directors based on a recommendation from the compensation committee, which utilized a contemporaneous independent valuation of our common stock provided to us by a third-party valuation firm that the compensation committee engaged for such purpose.

As a privately owned company, there has been no market for our common stock. Accordingly, in 2008, we had no program, plan or practice pertaining to the time of stock option grants to executive officers coinciding with the release of material non-public information.

Perquisites and Other Personal Benefits

We provide certain perquisites to our executives. These perquisites provide flexibility to the executives and increase travel efficiencies, allowing more productive use of executive time, in turn allowing greater focus on company-related activities. More detail on these perquisites may be found in the narrative following the Summary Compensation Table.

Compensation Committee Evaluation of Executive Officer Compensation for 2009

In the fourth quarter of 2008, the compensation committee evaluated executive officers' pay and approved the cash bonuses for 2009 as follows:

- established 2009 periodic cash bonus targets that are calculated as a percentage of the participant's base salary, with performance metrics which provide for a range of payments in the given period beginning with no bonus below threshold performance metrics, and up to additional bonus payouts for exceeding the performance metrics; and

- established performance metrics for achieving a cash bonus which are directly linked to our 2009 operating budget.

Based on current market data and conditions, our named executive officers elected to forgo salary increases in 2009.

Tax Implications of Executive Compensation

We do not believe that Section 162(m) of the Internal Revenue Code, which limits deductions for executive compensation paid in excess of $1.0 million, would be applicable, and accordingly, our compensation committee did not consider its impact in determining compensation levels for our highly compensated executive officers in 2008.

Accounting Implications of Executive Compensation

The Summary Compensation and Director Compensation Tables below used the principles set forth in SFAS 123R to recognize expense for new awards granted after January 1, 2006 and for unvested awards as of January 1, 2006. The non-cash stock compensation expense for stock-based awards that we grant is recognized ratably over the requisite vesting period. We continue to believe that stock options, restricted stock and other forms of equity compensation are an essential component of our compensation strategy, and we intend to continue to offer these awards in the future.

Summary Compensation Table for Fiscal Years 2008, 2007 and 2006

The following table sets forth the aggregate compensation awarded to, earned by or paid to our highly compensated executive officers for 2008, 2007 and 2006.

Name & Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards(3)	All Other Compensation	Total
Stephen G. Fendrich, President & COO	2008	$ 500,000	$ 100,000	$ (13,095)	$ —	$ 31,045**(4)**	617,950
	2007	330,000	84,200	5,093	—	28,583**(4)**	447,876
	2006	315,000	264,031	28,373	—	419,657**(4)**	1,027,061
William S. Creekmuir, CFO	2008	435,000	100,000	(50,327)	—	32,742**(5)**	517,415
	2007	422,000	107,600	19,512	—	31,324**(5)**	580,436
	2006	405,000	339,469	67,103	—	39,680**(5)**	851,252
Robert P. Burch, EVP — Operations	2008	340,000	37,500	(29,250)	—	29,871**(6)**	378,121
	2007	330,000	84,200	11,375	—	37,314**(6)**	462,889
	2006	310,000	259,840	63,376	—	73,227**(6)**	706,443
Dominick A. Avezedo, EVP — Sales	2008	250,000	37,500	(1,942)	(7,040)	240,663**(7)**	519,181
	2007	190,692	32,200	(3,668)	7,040	31,242**(7)**	257,506
	2006	165,495	67,948	7,216	—	11,642**(7)**	252,301
Timothy F. Oakhill, EVP — Marketing	2008	265,000	37,500	(12,819)	—	91,775**(8)**	382,086
	2007	248,333	60,300	4,492	—	62,035**(8)**	375,160
	2006	222,000	120,790	17,557	—	20,885**(8)**	381,232
Charles R. Eitel, former Chairman and CEO	2008	630,000	—	(80,523)	—	471,831**(9)**	1,021,308
	2007	815,000	294,400	31,315	—	187,482**(9)**	1,328,188
	2006	780,000	856,239	107,364	—	243,839**(9)**	1,987,442

(1) Reflects annual base salary.

(2) Reflects management bonus earned for achieving financial performance targets and/or discretionary bonuses received.

(3) Reflects the stock based compensation expense recognized under SFAS 123(R). For a discussion of assumptions made in the valuation, see "Note M — Stock-Based Compensation" to our audited financial statements included elsewhere in this Annual Report on Form 10-K. In 2008, we determined that the Company was unlikely to meet future vesting performance targets for the unvested awards, therefore the unvested awards had no market value as of December 27, 2008 and we reversed all stock compensation expense recognized in prior years associated with unvested awards in 2008.

(4) Reflects perquisites that we paid for (i) employer contributions to our 401(k) plan of $13,800, $6,750 and $6,600 for 2008, 2007 and 2006, respectively; (ii) an annual car allowance of $9,000 for 2008, 2007 and 2006; (iii) life-insurance and long-term disability insurance premiums of $1,582 for 2008 and 2007 and $1,345 for 2006; (iv) financial consulting expense of $5,000 for 2007 and 2006; (v) annual physical exam of $2,500 for 2008 and $3,375 for 2007; (vi) mattress sets of $1,930, $1,255 and $4,616 for 2008, 2007 and 2006, respectively; (vii) non-business travel expenses of $1,143 for 2006; (viii) personal use of the corporate jet of $760 for 2006; (ix) reimbursement of selling expenses related to the sale of Mr. Fendrich's personal residence of $235,678 for 2006; (x) relocation allowance of $12,803 for 2006; and (xi) the assumption of taxes for certain taxable benefits of $2,233, $1,621 and $142,712 for 2008, 2007 and 2006, respectively.

(5) Reflects perquisites that we paid for (i) employer contributions to our 401(k) plan of $13,800, $13,500 and $13,200 for 2008, 2007 and 2006, respectively; (ii) an annual car allowance of $9,000 for 2008, 2007 and 2006; (iii) life-insurance and long-term disability insurance premiums of $5,255 for 2008, 2007 and 2006; (iv) mattress sets of $2,837, $1,021 and $3,936 for 2008, 2007 and 2006, respectively; (v) financial consulting expense of $5,000 for 2006; (vi) fees paid to serve as a director of a subsidiary of $280 for 2006; and (vii) the assumption of taxes for certain taxable benefits of $1,850, $2,548 and $3,009 for 2008, 2007 and 2006, respectively.

(6) Reflects perquisites that we paid for (i) employer contributions to our 401(k) plan of $6,900, $6,750 and $6,600 for 2008, 2007 and 2006, respectively; (ii) an annual car allowance of $9,000 for 2008, 2007 and 2006; (iii) financial consulting expense of $5,000 for 2008, 2007 and 2006; (iv) life-insurance and long-term disability insurance premiums of $2,497 for 2008 and 2007 and $2,162 for 2006; (v) annual physical exam of $2,500 for 2008 and 2007 and $4,625 for 2006; (vi) non-business travel expense of $5,712 and $4,958 for 2007 and 2006, respectively; (vii) mattress sets of $1,773, $4,654 and $4,194 for 2008, 2007 and 2006, respectively; (viii) relocation allowance of $23,282 for 2006; and (ix) the assumption of taxes for certain taxable benefits of $2,201, $1,201 and $13,406 for 2008, 2007, and 2006, respectively.

(7) Reflects perquisites that we paid for (i) employer contributions to our 401(k) plan of $13,800, $12,944 and $11,642 for 2008, 2007 and 2006, respectively; (ii) life-insurance and long-term disability insurance premiums of $5,881 for 2008; (iii) annual physical exam of $3,375 for 2008; (iv) relocation allowance of $145,664 and $13,458 for 2008 and 2007, respectively; and (v) the assumption of taxes for certain taxable benefits of $71,943 and $4,840 for 2008 and 2007, respectively.

(8) Reflects perquisites that we paid for (i) employer contributions to our 401(k) plan of $13,800, $13,500 and $13,200 for 2008, 2007 and 2006, respectively; (ii) financial consulting expense of $5,000 for 2008 and 2007; (iii) life-insurance and long-term disability insurance premiums of $2,143 for 2008 and $1,203 for 2007 and 2006; (iv) annual physical exam of $2,500 for 2008 and 2007 and $4,000 for 2006; (v) business school tuition and associated travel expense of $67,082 and $37,180 for 2008 and 2007; (vi) fees paid to serve as a director of a subsidiary of $284 and $560 for 2007 and 2006, respectively; (vii) mattress sets of $1,167 for 2007; and (viii) the assumption of taxes for certain taxable benefits of $1,250, $1,201 and $1,922 for 2008, 2007 and 2006, respectively.

(9) Reflects perquisites that we paid for (i) personal use of corporate jet of $81,410, $116,685 and $160,299 for 2008, 2007 and 2006, respectively; (ii) commuting expenses from Mr. Eitel's principle residence to our corporate headquarters of $23,398, $10,138 and $15,583 for 2008, 2007 and 2006, respectively; (iii) employer contributions to our 401(k) plan of $6,900, $13,500 and $13,200 for 2008, 2007 and 2006, respectively; (iv) an annual car allowance of $9,000 for 2008 and $12,000 for 2007 and 2006, respectively; (v) mattress sets of $5,746, $9,104 and $11,691 for 2008, 2007 and 2006, respectively; (vi) life-insurance and long-term disability insurance premiums of $7,537 for 2008 and $13,742 for 2007 and 2006; (vii) club membership dues of $4,120, $8,743 and $7,678 for 2008, 2007 and 2006, respectively; (viii) the assumption of taxes for certain taxable benefits of $13,537, $3,570 and $6,933 for 2008, 2007 and 2006, respectively; (ix) non-business travel expenses of $2,713 for 2006; (x) severance of $210,000 for 2008; (xi) annual physical exam of $2,683 for 2008; and (xii) consulting fees of $107,500 for 2008.

Grants of Plan-Based Awards in Fiscal Year 2008

During fiscal year 2008, no grants were made to our named executive officers pursuant to our equity incentive plans.

Executive Employment Arrangements

Messrs. Eitel and Creekmuir entered into executive employment agreements with us in December 2003, which were amended in 2005 and 2007. Mr. Fendrich entered into an executive employment agreement with us in December 2007 that was effective January 1, 2008. Messrs. Eitel's, Creekmuir's and Fendrich's agreements have two-year terms with evergreen renewal provisions and contain usual and customary restrictive covenants, including two-year non-competition provisions, non-disclosure of proprietary information provisions, provisions relating to non-solicitation/no hire of employees or customers and non-disparagement provisions. In the event of a termination without "cause" or departure for "good reason," the terminated executives are entitled to severance equal to two years salary plus an amount equal to their pro-rated bonus for the year of termination.

Mr. Burch's offer of employment contained usual and customary restrictive covenants, including a two-year non-compete, a duty of non-disclosure, and provision relating to non-solicitation/no hire of employees or customers and non-disparagement. Mr. Burch received no compensation in connection with his departure from our company in 2009. Messrs. Avezedo's and Oakhill's offer of employment contains usual and customary restrictive covenants, including a one-year non-compete, a duty of non-disclosure, and provision relating to non-solicitation/no hire of employees or customers and non-disparagement. In the event of a termination with "cause" or departure for "good reason," Messrs. Avezedo and Oakhill are entitled to severance equal to one year of salary.

Potential Post-Employment Payments and Payments on a Change in Control

The information below describes and quantifies certain compensation that would become payable under existing arrangements if the named executive's employment had terminated on December 27, 2008, given the named executive's compensation as of such date and based on our fair value of the stock price on that date. These benefits are in addition to benefits available generally to salaried employees, such as distributions under our 401(k) plan and accrued vacation pay. Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed may be different. Factors that could affect these amounts include the timing during the year of any such event and our stock price.

Name & Principal Position	Benefit	Other than Cause or Good Reason	Justifiable Cause	Death and Incapacity
Stephen G. Fendrich, President & COO	Severance(1)	$ 1,000,000	—	—
	Health insurance(2)	34,138	—	—
William S. Creekmuir, CFO	Severance(1)	870,000	—	—
	Health insurance(2)	21,460	—	—
Robert P. Burch, EVP — Operations	Severance(1)	680,000	—	—
Dominick A. Azevedo, EVP — Sales	Severance(1)	250,000	—	—
Timothy F. Oakhill, EVP — Marketing	Severance(1)	265,000	—	—

(1) For termination for other than cause or good reason by the Company or for good reason by the executive, Messrs. Creekmuir, Fendrich and Burch would be entitled to twice their annual salary, and Messrs. Azevedo and Oakhill would be entitled to their annual salary.

(2) We shall contribute to Messrs. Creekmuir's and Fendrich's (including dependents) coverage under our medical, dental and vision plans for a period of up to two years following termination for other than cause or good reason. After termination, Mr. Creekmuir (including spouse) can continue his coverage under our medical, dental and vision plans at the executive's COBRA rates until death of the executive and his spouse.

None of our named executive officers have c provisions in their agreements that provide for a cash payout in connection with a change of control of the Company.

Outstanding Equity Awards at 2008 Fiscal Year-End

The following table reflects all outstanding equity awards held by our named executive officers as of December 27, 2008:

	Option Awards			Stock Awards	
Name & Principal Position	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**	**Equity Incentive Plan Awards: Number of Unearned Shares that have not Vested**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares that have not Vested(4)**
Stephen G. Fendrich, President & COO	30,000	$ 18.82	1/16/2018(1)	18,000(3)	—
William S. Creekmuir, CFO	—	—	—	68,824(3)	—
Robert P. Burch, EVP — Operations	—	—	—	40,001(3)	—
Dominick A. Azevedo, EVP Sales	6,120	18.82	1/16/2018(1)	2,451(3)	—
	3,440	31.33	6/1/2017(2)	—	—
Timothy F. Oakhill, EVP — Marketing	—	—	—	9,900(3)	
Charles R. Eitel, former Chairman and CEO	—	—	—	110,117(3)	—

(1) Mr. Fendrich's and Mr. Azevedo's stock option awards vest ratably over a four year period based on the Company meeting annual Adjusted EBITDA targets starting in 2008.

(2) Mr. Azevedo's stock option award vests ratably over a four year period based on the Company meeting annual Adjusted EBITDA targets starting in 2007.

(3) The unvested restricted stock awards can only vest based on a change of control resulting in Simmons Holdco's meeting a certain multiple of money target.

(4) In 2008, we determined that the Company was unlikely to meet future vesting performance targets for the unvested awards, therefore the unvested awards had no market value as of December 27, 2008.

Option Exercises and Stock Vested in 2008

Since the Company failed to meet the awards vesting targets, none of the restricted stock or stock option awards vested. No stock options were exercised in 2008.

DIRECTOR COMPENSATION

In 2008, directors who also served as employees or who were affiliated with significant stockholders received no compensation for serving on our board of directors. Non-employee directors not affiliated with a significant stockholder receive director fees of $25,000 per year plus an additional $5,000 for each special board or audit, compensation or nominating and governance committee meeting that they attend in person and an additional $1,000 for such meetings that they attend telephonically. In addition, non-employee directors not affiliated with a significant stockholder serving on the executive committee received additional director fees of $20,000 per month from October 1, 2008 through January 22, 2009. After January 23, 2009, directors serving on the executive committee received director fees of $7,500 per month and directors serving on the special committee received director fees of $7,500 per month. For each executive and special committee meeting, the directors attend after January 23, 2009 an additional $5,000 for the first day of the meeting and $2,500 for each consecutive additional day for meetings attended in person and an additional $1,000 for the meetings that they attend telephonically.

All members of our board of directors are reimbursed for their usual and customary expenses incurred in connection with attending all board and other committee meetings. Upon joining our board of directors, each of the non-employee directors not affiliated with a significant stockholder were granted restricted stock awards of 2,500 shares of our class B common stock, which is subject to time and performance-based vesting.

The following table sets for the aggregate compensation awarded to, earned by or paid to our directors during 2008.