

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards (1)</b>	<b>Total</b>
William P. Carmichael	\$ 57,000	\$ (1,097)	\$ 55,903
David A. Jones	47,000	(1,097)	45,903
B. Joseph Messner	44,000	(1,097)	42,903

- (1) 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.

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

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. The compensation committee evaluates the performance of our ELT and determines the compensation levels for the same.

The objective of the compensation committee is to establish policies and programs to attract and retain key executives, and to reward performance by these executives which benefit us. The primary elements of executive compensation are base salary, annual cash incentive awards, long-term equity incentive compensation awards and certain other perquisites and other benefits. The salary is based on factors such as the individual executive officer’s position, role and level of responsibility in the Company; the qualifications, skills, performance and experience of the respective executive officer; and a comparison to similar positions in the Company and in comparable companies. The annual cash incentive awards are currently based on our performance measured against attainment of financial objectives. Long-term equity incentive awards generally have vesting schedules tied to the achievement of our certain financial objectives and are intended to align management’s interests with ours and our stockholders in promoting our long-term growth. Further information on each of these compensation elements follows.

### *Salaries*

For the other executive officers, base salaries are adjusted annually by the ELT, following a review by the member of the ELT to whom the executive officer reports. In the course of the review, performance of the individual with respect to specific objectives is evaluated, as are any increases in responsibility, and competitive salaries, internally and externally, for similar positions. The specific objectives for each executive officer are set by the particular ELT member to whom the executive officer reports, and will vary annually for each executive position based on our objectives.

### *Annual Cash Bonuses*

Certain of our employees are eligible, pursuant to their offers of employment, to receive annual cash bonuses based on our performance measured against attainment of financial objectives.

### *Long-Term Equity Incentive Awards*

We adopted the Equity Plan and ComforPedic Incentive Plan to provide incentives to our management and independent directors and our affiliates by granting them restricted stock, warrants and stock option awards of our class B common stock. These awards granted to management are intended to provide an incentive for management to continue their employment over a long term and to align their interests with ours by providing a stake in the same. The compensation committee recommends grants to the board which determines whether such grants are appropriate. In making such recommendations, the compensation committee takes into account the total number of shares available for grant, prior grants outstanding, and estimated requirements for future grants. In addition, the committee considers the performance of the executive position held and length of employment with us in determining an individual's award. The compensation committee also recommends modifications to the terms of award to the board. Individual awards take into account the individual's level within the organization, scope of responsibilities and performance.

### *Other Benefits*

Periodically, the compensation committee assesses the other benefits provided to our executive officers and other managers.

The compensation committee continually reviews our compensation programs to ensure the overall package is competitive, balanced, and that proper incentives and rewards are provided.

The compensation committee has reviewed the compensation discussion and analysis and discussed that analysis with management. Based on its review and discussions with management, the committee recommended to our board of directors that the compensation discussion and analysis be included in the Company's Annual Report on Form 10-K for 2008.

### *Compensation Committee:*

Todd M. Abbrecht  
Scott A. Schoen

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding our beneficial ownership, by each member of the board of directors, each of our named executive officers, and each member of our board of directors and our executive officers as a group. As a result of the Merger, our securityholders exchanged their shares of Simmons Company for shares of Simmons Holdco that are identical to the type and number of Simmons Company shares prior to the Merger. Simmons Holdco outstanding securities consisted of 3,821,099 shares of class A common stock and 684,481 shares of class B common stock as of June 1, 2009. The class B common stock was issued to employees pursuant to a restricted stock agreement under the Equity Plan. See Item 13 “Certain Relationships and Related Party Transactions — Amended and Restated Certificate of Incorporation of Simmons Company.” The class A common stock and class B common stock generally have identical voting rights. To our knowledge, each such stockholder has sole voting and investment power as to the common stock shown unless otherwise noted. Beneficial ownership of the common stock listed in the table has been determined in accordance with the applicable rules and regulations promulgated under the Exchange Act.

<b>Name and Address</b>	<b>Class A Common Stock</b>	<b>Percentage of Class A Common Stock</b>	<b>Class B Common Stock</b>	<b>Percentage of Class B Common Stock</b>	<b>Percent of Total</b>
<b>Principal Securityholders:</b>					
Thomas H. Lee Partners L.P. and Affiliates (1)	3,270,940.05	85.6%	—	—%	72.6%
Fenway Partners Capital Fund II, L.P. and Affiliates (2)	387,837.03	10.1%	—	—	8.6%
<b>Directors and Executive Officers:</b>					
Charles R. Eitel (3) (5)	60,000.00	1.6%	183,529.00	26.8%	5.4%
Dominick A. Azevedo(3) (4) (6)	971.48	*	3,440.00	*	*
William S. Creekmuir (3) (4) (5)	32,382.75	*	114,706.00	16.8%	3.3%
Stephen G. Fendrich (3) (4) (6)	—	—	42,500.00	6.2%	0.9%
Kristen K. McGuffey (3) (4)	4,069.50	*	15,000.00	2.2%	*
Timothy F. Oakhill (3) (4)	3,250.00	*	15,000.00	2.2%	*
Kimberly A. Samon (3) (4) (6)	—	—	11,000.00	1.6%	*
Todd M. Abbrecht (1)	3,270,940.05	85.6%	—	—	72.6%
William P. Carmichael (3)	—	—	2,500.00	*	*
David A. Jones (3) (5)	2,000.00	*	2,500.00	*	*
B. Joseph Messner (3)	—	—	2,500.00	*	*
Scott A. Schoen (1)	3,270,940.05	85.6%	—	—	72.6%
George R. Taylor (1)	3,270,940.05	85.6%	—	—	72.6%
All directors and named executive officers as a group (13 persons) (1) (4)	3,373,613.78	88.3%	392,675.00	57.4%	83.6%

\* less than 1%

- (1) Includes interests owned by each of Thomas H. Lee Equity Fund V, L.P., Thomas H. Lee Parallel Fund V, L.P., Thomas H. Lee Equity (Cayman) Fund V, L.P., Thomas H. Lee Investors Limited Partnership, 1997 Thomas H. Lee Nominee Trust, Great-West Investors LP, Putnam Investment Holdings, LLC, Putnam Investments Employees' Securities Company I, LLC, and Putnam Investments Employees' Securities Company II, LLC. Thomas H. Lee Equity Fund V, L.P. and Thomas H. Lee Parallel Fund V, L.P. are Delaware limited partnerships, whose general partner is THL Equity Advisors V, LLC, a Delaware limited liability company. Thomas H. Lee Equity (Cayman) Fund V, L.P. is an exempted limited partnership formed under the laws of the Cayman Islands, whose general partner is also THL Equity Advisors V, LLC, which is registered in the Cayman Islands as a foreign company. Thomas H. Lee Investors Limited Partnership (f/k/a THL-CCI Limited Partnership) is a Massachusetts limited partnership, whose general partner is THL Investment Management Corp., a Massachusetts corporation. Thomas H. Lee Advisors, LLC, a Delaware limited liability company, is the general partner of Thomas H. Lee Partners, a Delaware limited partnership, which is the sole member of THL Equity Advisors V, LLC. The 1997 Thomas H. Lee Nominee Trust is a trust with US Bank, N.A. serving as Trustee. Thomas H. Lee has voting and investment control over common shares owned of record by the 1997 Thomas H. Lee Nominee Trust.

Scott A. Schoen is co-President of Thomas H. Lee Advisors, LLC and a Vice President of THL Investment Management Corp. Todd M. Abbrecht is a Managing Director of Thomas H. Lee Advisors, LLC and a vice president of THL Investment Management Corp. George R. Taylor is a Managing Director of Thomas H. Lee Advisors, LLC. Each of Messrs. Schoen, Abbrecht and Taylor may be deemed to beneficially own class A common shares held of record by Thomas H. Lee Equity Fund V, L.P., Thomas H. Lee Parallel Fund V, L.P. and Thomas H. Lee Equity (Cayman) Fund V, L.P. Furthermore, each of Messrs. Schoen and Abbrecht may be deemed to beneficially own class A common shares held of record by Thomas H. Lee Investors Limited Partnership. Each of these individuals disclaims beneficial ownership of such common shares except to the extent of their pecuniary interest therein.

The address of Thomas H. Lee Equity Fund V, L.P., Thomas H. Lee Parallel Fund V, L.P., Thomas H. Lee Equity (Cayman) Fund V, L.P., Thomas H. Lee Investors Limited Partnership, the 1997 Thomas H. Lee Nominee Trust, Scott A. Schoen, Todd M. Abbrecht and George R. Taylor is 100 Federal Street, Boston, Massachusetts 02110.

Putnam Investment Holdings, LLC, Putnam Investments Employees' Securities Company I, LLC and Putnam Investments Employees' Securities Company II, LLC are co-investment entities of Thomas H. Lee Partners and each disclaims beneficial ownership of any securities other than the securities held directly by such entity. The address for the Putnam entities is One Post Office Square, Boston, Massachusetts 02109.

The address of Great-West Investors LP is c/o Great-West Life & Annuity Insurance Company, 8515 C. Orchard Road 3T2, Greenwood Village, Colorado 80111.

- (2) Includes interest owned by Simmons Holdings, LLC; FPIP, LLC and FPIP Trust, LLC. Peter Lamm and Richard Dresdale have voting and/or investment control over the shares held by Fenway Partners Capital Fund II, L.P. The address for Fenway Capital Fund II, L.P. is 152 West 57th Street, 59th Floor, New York, New York 10019.
- (3) The address of Charles R. Eitel, Dominick A. Azevedo, William S. Creekmuir, Stephen G. Fendrich, Kristen K. McGuffey, Timothy F. Oakhill, Kimberly A. Samon, David A. Jones, William P. Carmichael, and B. Joseph Messner is c/o Simmons Company, One Concourse Parkway, Suite 800, Atlanta, Georgia 30328.
- (4) Pursuant to a securityholders agreement, the CEO or, in absence of a CEO, the CFO has the voting power of the employees and executive officers as to their Class A and vested Class B common stock shown. For the unvested Class B shares, the employees and executive officers are required to vote their common stock in the same manner as the majority stockholder.
- (5) Includes shares held in trust for or by immediate family members.
- (6) Excludes 30,000 shares, 2,000 shares and 9,560 shares of class B common stock that may be acquired upon the vesting and exercise of non-qualified stock options held by Mr. Fendrich, Ms. Samon, and Mr. Azevedo, respectively. All of Mr. Fendrich's and Ms. Samon's stock options and 6,120 of Mr. Azevedo stock options vest ratably over a four year period based on the Company meeting certain annual Adjusted EBITDA targets starting in 2008. Mr. Azevedo's remaining stock options vest ratably over a four year period based on the Company meeting certain annual Adjusted EBITDA targets starting in 2007. Since the Company did not meet the Adjusted EBITDA target for 2007 and 2008, 7,500 of Mr. Fendrich's stock options, 500 of Ms. Samon's stock options, and 3,250 of Mr. Azevedo's stock options did not vest and can only vest based on the change of control provisions of the stock option agreement.

### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 27, 2008 regarding our equity compensation plans. The plans pursuant to which we may make equity grants is the Equity Plan that was approved by our board of directors and securityholders on November 30, 2006 and The Simmons Manufacturing Co., LLC's Comfor-Pedic Division Incentive Plan ("ComforPedic Incentive Plan"). As a result of the Merger, our Equity Plan was assumed by Simmons Holdco.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	118,670	\$ 23.54	29,993

Column (a) of the table excludes restricted stock awards issued under the Equity Plan, which authorizes the board of directors to grant up to 821,775 shares of class B common stock through options, restricted stock awards, or other awards to our employees, directors and consultants. As of December 27, 2008, we had issued restricted stock awards and stock options under the Equity Plan and warrants under the ComforPedic Incentive Plan. The shares shown in column (c) are remaining shares of class B common stock available for issuance after taking into consideration the shares of class B common stock issued as a restricted stock award or underlying stock options and warrants granted.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

SEC regulations require that we disclose any transaction, or series of similar transactions, since the beginning of 2008, or any contemplated transactions, in which the Company was or is to be a participant, in whom the amount involved exceeds \$120,000 and in which any of the following persons had or will have a direct or indirect material interest:

- our directors or nominees for director;
- our executive officers;
- persons owning more than 5% of our outstanding voting securities; or
- the immediate family members of any of the persons identified in the preceding three bullets.

The SEC refers to these types of transactions as *related person transactions* and to the persons listed in the bullets as *related persons*. The SEC is concerned about related person transactions because such transactions, if not properly monitored, may present risks of conflicts of interest or the appearance of conflicts of interest.

Review and Approval of Related Person Transactions. We review all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. Our legal department, working together with our outside legal advisors, is responsible for the development and implementation of processes and controls to obtain information from our directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether we or a related person has a direct or indirect material interest in the transaction. Each director and executive officer annually completes a questionnaire to identify their related interests and persons, and to notify us of changes in that information. As required under SEC rules, transactions that are determined to be directly or indirectly material to us or a related person are disclosed under this Item of our Annual Report on Form 10-K.

#### MANAGEMENT AGREEMENT

Pursuant to the management agreement entered into in connection with the THL Acquisition, THL Managers V, LLC renders certain advisory and consulting services to Simmons Bedding. In consideration of those services, Simmons Bedding agreed to pay to THL Managers V, LLC, an affiliate of Thomas H. Lee Partners L.P., semi-annually, an aggregate per annum management fee equal to the greater of:

- \$1,500,000; or
- an amount equal to 1.0% of the consolidated earnings before interest, taxes, depreciation and amortization of Simmons Bedding for such fiscal year, but before deduction of any such fee.

Simmons Bedding paid management fees, inclusive of expenses, of \$1.8 million in 2008.

Simmons Bedding also agreed to indemnify THL Managers V, LLC and its affiliates from and against all losses, claims, damages and liabilities arising out of or related to the performance by Thomas H. Lee Partners Managers V, LLC of the services pursuant to the management agreement. In connection with our restructuring efforts, we have agreed to reimburse the directors of THL for certain legal fees.

#### AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF SIMMONS COMPANY

We have amended and restated our Certificate of Incorporation to eliminate different classes of common stock. Our second Amended and Restated Certificate of Incorporation previously provided for two classes of common stock — class A common stock, earning a preferred return of 6% per annum, and class B common stock. Class A common stock was held by THL, Fenway Partners, directors, former directors and those members of management who elected to acquire such shares in connection with the THL Acquisition. Our third Amended and Restated Certificate of Incorporation sets forth a single class of common stock, identical in all respects and entitling the holders thereof to the same rights and privileges, subject to the same qualifications, limitations and restrictions.

#### SECURITYHOLDERS' AGREEMENT AND EQUITY REGISTRATION RIGHTS AGREEMENT

In connection with the Merger, the Securityholders' Agreement and the Registration Rights Agreement were terminated, and substantially similar documents were entered into among Simmons Holdco and its securityholders.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Aggregate fees which were billed to us by our principal accountants, PricewaterhouseCoopers LLP, for audit services related to the two most recent fiscal years was \$984,374 and \$925,261 for 2008 and 2007, respectively. Audit services consist of fees for the audit of the Company's annual consolidated financial statements, the review of financial statements included in the Company's quarterly Form 10-Q reports, and the services that an independent auditor would customarily provide in connection with subsidiary audits, statutory requirements, regulatory filings, registration statements and similar engagements for the fiscal year, such as comfort letters, attest services, consents, and assistance with review of documents filed with the SEC. Audit Fees also include advice on accounting matters that arose in connection with or as a result of the audit or the review of periodic consolidated financial statements and statutory audits the non-U.S. jurisdictions require. We have not been billed for any services other than audit services for the two most recent fiscal years.

#### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor**

The Audit Committee is responsible for appointing, setting compensation, and overseeing the work of the independent auditor. The Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by the independent auditor. The Audit Committee has approved the pre-authorization of audit and non-audit services up to \$50,000.

### **PART IV**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a)(1) The following consolidated financial statements of Simmons Company and its subsidiaries are included in Part II, Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 27, 2008, December 29, 2007 and December 30, 2006

Consolidated Balance Sheets at December 27, 2008 and December 29, 2007

Consolidated Statements of Changes in Stockholder's Equity (Deficit) for the years ended December 27, 2008, December 29, 2007 and December 30, 2006

Consolidated Statements of Cash Flows for the years ended December 27, 2008, December 29, 2007 and December 30, 2006

Notes to the Consolidated Financial Statements

(a)(2) Financial Statement Schedule

Schedule II — Valuation Accounts

(a)(3) The exhibits to this report are listed in section (b) of Item 15 below.

(b) Exhibits:

The following exhibits are filed with or incorporated by reference into this Form 10-K. For the purposes of this exhibit index, references to “Simmons Bedding” include Simmons Bedding, both prior to and following the transactions that occurred on December 19, 2003. The exhibits which are denominated by an asterisk (\*) were previously filed as a part of, and are hereby incorporated by reference from either the (i) Registration Statement on Form S-4 under the Securities Act of 1933 for Simmons Bedding, File No. 333-76723 (referred to as “1999 S-4”), (ii) Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 for Simmons Bedding (referred to as “9/30/00 10-Q”), (iii) Quarterly Report on Form 10-Q for the quarter ended March 30, 2002 for Simmons Bedding (referred to as “3/30/02 10-Q”), (iv) Annual Report on Form 10-K for the year ended December 28, 2002 for Simmons Bedding (referred to as “2002 10-K”), (v) Annual Report on Form 10-K for the year ended December 27, 2003 for Simmons Bedding (referred to as “2003 10-K”), (vi) Current Report on Form 8-K filed September 2, 2004 for Simmons Bedding (referred to as “9/02/04 8-K”), (vii) registration statement on Form S-4 under the Securities Act of 1933 for Simmons Company, File No. 333-124138 (referred to as “2005 S-4”), (viii) Current Report on Form 8-K filed August 4, 2005 for Simmons Bedding (referred to as “8/4/05 8-K”), (ix) Current Report on Form 8-K filed September 21, 2005 for Simmons Bedding (referred to as “9/21/05 8-K”), (x) Current Report on Form 8-K filed December 13, 2005 for Simmons Bedding (referred to as “12/13/05 8-K”), (xi) Current Report on Form 8-K filed December 19, 2005 for Simmons Bedding (referred to as “12/19/05 8-K”), (xii) Current Report on Form 8-K filed April 4, 2006 for Simmons Company (referred to as “4/6/06 8-K”), (xiii) Current Report on Form 8-K filed April 19, 2006 for Simmons Company (referred to as “4/19/06 8-K”), (xiv) Current Report on Form 8-K filed April 24, 2006 for Simmons Company (referred to as “4/24/06 8-K”), (xv) Current Report on Form 8-K filed May 31, 2006 for Simmons Company (referred to as “5/31/06 8-K”), (xvi) Quarterly Report on Form 10-Q for the quarter ended July 1, 2006 for Simmons Company (referred to as “7/1/06 10-Q”), (xvii) Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 for Simmons Company (referred to as “9/30/06 10-Q”), (xviii) Current Report on Form 8-K filed October 5, 2006 for Simmons Company (referred to as “10/5/06 8-K”), (xix) Current Report on Form 8-K filed December 6, 2006 for Simmons Company (referred to as “12/6/06 8-K”), (xx) Current Report on Form 8-K filed February 12, 2007 (referred to as “2/12/07 8-K”), (xxi) Current Report on Form 8-K filed June 8, 2007 (referred to as “6/8/07 8-K”), (xxii) Current Report on Form 8-K filed December 7, 2007 (referred to as “12/7/07 8-K”), (xxiii) Annual Report on Form 10-K for the year ended December 29, 2007 for Simmons Company (referred to as “2007 10-K”), (xxix) Quarterly Report on Form 10-Q for the quarter ended June 28, 2008 for Simmons Company (referred to as “6/28/08 10-Q”), (xxx) Quarterly Report on Form 10-Q for the quarter ended September 27, 2008 for Simmons Company (referred to as “9/27/08 10-Q”), (xxxi) Current Report on Form 8-K filed December 10, 2008 for Simmons Company (referred to as “12/10/08 8-K”), (xxxii) Current Report on Form 8-K filed February 17, 2009 for Simmons Company (referred to as “2/17/09 8-K”) and (xxxiii) Current Report on Form 8-K filed March 30, 2009 for Simmons Company (referred to as “3/30/09 8-K”). Exhibits filed herewith have been denoted by a pound sign (#).



## EXHIBIT INDEX

<b>Number</b>	<b>Description</b>
*2.1	Agreement and Plan of Merger dated as of December 19, 2003, by and between THL Bedding Company and Simmons Holdings, Inc. (2003 10-K)
*2.2	Agreement and Plan of Merger dated as of December 19, 2003, by and between Simmons Company and Simmons Holdings, Inc. (2003 10-K)
*3.1	Amended and Restated Certificate of Incorporation of Simmons Company. (2005 S-4)
*3.1.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of THL Bedding Holding Company. (2005 S-4)
*3.1.2	Second Amended and Restated Articles of Incorporation of Simmons Company. (12/06/06 8-K)
*3.1.3	Third Amended and Restated Certificate of Incorporation of Simmons Company. (2/12/07 8-K)
*3.2	Certificate of Ownership and Merger of Simmons Company with and into Simmons Holdings, Inc. (2003 10-K)
*3.2.1	The Merger Agreement dated February 7, 2007 by and among Simmons Holdco, Inc., Simmons Merger Company and Simmons Company. (2/12/07 8-K)
*3.3	Amended and Restated By-laws of Simmons Company. (2005 S-4)
*4.1	Indenture (including form of note) dated as of December 19, 2003, among Simmons Bedding Company (f/k/a THL Bedding Company), the Guarantors party thereto and Wells Fargo Bank Minnesota, National Association, as trustee. (2003 10-K)
*4.2	Indenture (including form of note) dated as of December 15, 2004 between Simmons Company and Wells Fargo Bank, National Association, as trustee. (2005 S-4)
*4.3	Exchange and Registration Rights Agreement dated December 15, 2004 among Simmons Company and the Initial Purchasers. (2005 S-4)
*10.1	Lease Agreement at Concourse between Concourse I, Ltd., as Landlord, and Simmons Bedding, as Tenant, dated as of April 20, 2000, as amended. (9/30/00 10-Q)
*10.1.1	Second Amendment to Lease Agreement at Concourse between Teachers Concourse, LLC, as Landlord, and Simmons Bedding, as Tenant, dated as of October 6, 2006. (9/30/06 10-Q)
#10.1.2	Third Amendment to Lease Agreement at Concourse between Teachers Concourse, LLC, as Landlord, and Simmons Bedding, as Tenant, dated as of October 1, 2008.
*10.2	Loan Agreement, dated as of November 1, 1982, between the City of Janesville, Wisconsin and Simmons Bedding, as successor by merger to Simmons Manufacturing Company, Inc., relating to \$9,700,000 City of Janesville, Wisconsin Industrial Development Revenue Bond, Series A. (1999 S-4)
*10.3	Loan Agreement between the City of Shawnee and Simmons Bedding relating to the Indenture of Trust between City of Shawnee, Kansas and State Street Bank and Trust Company of Missouri, N.A., as Trustee, dated as of December 1, 1996 relating to \$5,000,000 Private Activity Revenue Bonds, Series 1996. (1999 S-4)
*10.4	Loan Agreement dated as of December 12, 1997 between Simmons Caribbean Bedding, Inc. and Banco Santander Puerto Rico. (1999 S-4)
*10.5	Simmons Retirement Savings Plan adopted February 1, 1987, as amended and restated January 1, 2002. (3/30/02 10-Q)
*10.5.1	First Amendment to the Simmons Retirement Savings Plan effective for years beginning after December 31, 2001. (3/30/02 10-Q)
*10.6	Retirement Plan for Simmons Company Employees adopted October 31, 1987, as amended and restated May 1, 1997. (3/30/02 10-Q)
*10.7	First Amendment to the Retirement Plan for Simmons Company Employees effective for years ending after December 31, 2001. (3/30/02 10-Q)

<b>Number</b>	<b>Description</b>
*10.8	Stock Purchase Agreement dated as of November 17, 2003, by and among Simmons Holdings, Inc., THL Bedding Company and the sellers named therein. (2003 10-K)
*10.9	ESOP Stock Sale Agreement dated as of November 21, 2003, by and among Simmons Holdings, Inc., State Street Bank and Trust Company, solely in its capacity as trustee, of the Simmons Company Employee Stock Ownership Trust, and THL Bedding Company. (2003 10-K)
*10.10	Amendment to Employee Stock Ownership Plan Trust Agreement dated as of December 16, 2003, between Simmons Company and State Street Bank and Trust Company, as trustee under the Trust Agreement. (2003 10-K)
*10.11	Management Agreement dated as of December 19, 2003, by and between Simmons Company and THL Managers V, LLC. (2003 10-K)
*10.12	Senior Manager Restricted Stock Agreement dated as of December 19, 2003, between THL Bedding Company and Charles R. Eitel. (2003 10-K)
*10.12.1	Senior Manager Amended and Restated Restricted Stock Agreement dated as of April 17, 2006, among Simmons Company and Charles R. Eitel. (4/24/06 8-K)
*10.12.2	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, among Simmons Company and Charles R. Eitel. (2007 10-K)
*10.12.3	Second Amendment dated June 30, 2008 to the Amended and Restated Restricted Stock Agreement dated April 17, 2006 among LLLP Eitel Investments and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.13	Senior Manager Restricted Stock Agreement dated as of December 19, 2003, between THL Bedding Company and William S. Creekmuir. (2003 10-K)
*10.13.1	Senior Manager Amended and Restated Restricted Stock Agreement dated as of April 17, 2006, among Simmons Company and William S. Creekmuir. (4/24/2006 8-K)
*10.13.2	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, among Simmons Company and William S. Creekmuir. (2007 10-K)
*10.13.3	Second Amendment dated June 30, 2008 to the Amended and Restated Restricted Stock Agreement dated April 17, 2006 among William S. Creekmuir and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.14	Employment Agreement dated as of December 19, 2003, among THL Bedding Holding Company, Simmons Company and Charles R. Eitel. (2003 10-K)
*10.14.1	Supplement to Employee Agreement dated December 7, 2005 between Charles R. Eitel and Simmons Company and Simmons Bedding Company. (12/13/05 8-K)
*10.14.2	Second Supplement to Employee Agreement dated December 5, 2007 between Charles R. Eitel and Simmons Holdco, Simmons Company and Simmons Bedding Company. (2007 10-K)
*10.15	Employment Agreement dated as of December 19, 2003, among THL Bedding Holding Company, Simmons Company and William S. Creekmuir. (2003 10-K)
*10.15.1	Supplement to Employee Agreement dated December 9, 2005 between William S. Creekmuir and Simmons Company and Simmons Bedding Company. (12/13/05 8-K)
*10.15.2	Second Supplement to Employee Agreement dated December 5, 2007 between William S. Creekmuir and Simmons Holdco, Simmons Company and Simmons Bedding Company. (2007 10-K)
*10.16	Amended and Restated Credit and Guaranty Agreement, dated as of August 27, 2004, among Simmons Bedding Company, as Company, THL-SC Bedding Company and certain subsidiaries of the Company, as Guarantors, the financial institutions listed therein, as Lenders, UBS Securities LLC, as Joint Lead Arranger and as Co-Syndication Agent, Deutsche Bank AG, New York Branch, as Administrative Agent and Collateral Agent, General Electric Capital Corporation, as Co-Documentation Agent, CIT Lending Services Corporation, as Co-Documentation Agent, and Goldman Sachs Credit Partners L.P., as Sole Bookrunner, a Joint Lead Arranger and as Co-Syndication Agent. (9/02/04 8-K)

<b>Number</b>	<b>Description</b>
*10.16.1	First Amendment dated December 16, 2005 to the Amended and Restated Credit and Guaranty Agreement dated as of August 27, 2004. (12/19/05 8-K)
*10.16.2	Second Amended and Restated Credit and Guaranty Agreement, dated as of May 25, 2006, among Simmons Bedding Company, as Company, THL-SC Bedding Company and certain subsidiaries of the Company, as Guarantors, the financial institutions listed therein, as Lenders, Goldman Sachs Credit Partners L.P., as Sole Bookrunner, Lead Arranger and Syndication Agent, Deutsche Bank AG, New York Branch, as Administrative Agent and Collateral Agent, General Electric Capital Corporation, as Co-Documentation Agent and CIT Lending Services Corporation, as Co-Documentation Agent. (5/31/06 8-K)
*10.16.3	First Amendment dated February 9, 2007 to the Second Amended and Restated Credit and Guaranty Agreement dated May 25, 2006. (2/12/07 8-K)
*10.16.4	Second Forbearance Agreement; Third Amendment to the Second Amended and Restated Credit and Guaranty Agreement and First Amendment to the Pledge and Security Agreement. (12/10/08 8-K)
*10.16.5	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. (3/30/09 8-K)
*10.17	Senior Unsecured Term Loan and Guaranty Agreement, dated December 19, 2003, among THL Bedding Company, as Company, THL-SC Bedding Company and certain subsidiaries of the Company, as Guarantors, the financial institutions listed therein, as Lenders, Goldman Sachs Credit Partners L.P., as Sole Bookrunner, a Joint Lead Arranger and as Co-Syndication Agent, UBS Securities LLC, as Joint Lead Arranger and as Co-Syndication Agent, and Deutsche Bank AG, New York Branch, as Administrative Agent. (2003 10-K)
*10.18	Assumption Agreement, dated December 19, 2003, made by Simmons Holdings, Inc., Simmons Company and certain subsidiaries of Simmons, as Guarantors, in favor of Deutsche Bank, AG, New York Branch, as Administrative Agent for banks and other financial institutions or entities, the Lenders, parties to the Credit Agreement and Term Loan Agreement. (2003 10-K)
*10.19	Pledge and Security Agreement dated December 19, 2003, between each of the grantors party thereto and Deutsche Bank AG, New York Branch, as the Collateral Agent. (2003 10-K)
*10.20	2002 Stock Option Plan. (2002 10-K)
*10.21	Simmons Company Employee Stock Ownership Plan adopted January 31, 1998, as amended and restated December 29, 2001. (3/30/02 10-Q)
*10.21.1	First Amendment to the Simmons Company Employee Stock Ownership Plan effective for years ending after December 31, 2001. (3/30/02 10-Q)
*10.22	Offer of Employment dated as of July 14, 2005, among Simmons Bedding and Robert P. Burch. (8/4/05 8-K)
*10.22.1	Non-Compete Agreement dated as of July 14, 2005, among Simmons Bedding and Robert P. Burch. (8/4/05 8-K)
*10.23	Employment Agreement dated as of December 7, 2007 between Simmons Holdco, Inc., Simmons Bedding Company and Stephen G. Fendrich. (12/7/07 8-K)
*10.24	Restricted Stock Agreement dated as of September 9, 2005, between Simmons Company and Robert P. Burch. (9/21/05 8-K)
*10.24.1	Amended and Restated Restricted Stock Agreement dated as of April 17, 2006, among Simmons Company and Robert P. Burch. (4/24/06 8-K)
*10.24.2	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, among Simmons Company and Robert P. Burch. (2007 10-K)
*10.24.3	Second Amendment dated June 30, 2008 to the Amended and Restated Restricted Stock Agreement dated April 17, 2006 among Robert P. Burch and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.25	Restricted Stock Agreement dated as of March 31, 2006, between Simmons Company and Stephen G. Fendrich. (4/6/06 8-K)

<b>Number</b>	<b>Description</b>
*10.25.1	Amended and Restated Restricted Stock Agreement dated as of April 18, 2006, between Simmons Company and Stephen G. Fendrich. (4/24/06 8-K)
*10.25.2	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, among Simmons Company and Stephen G. Fendrich. (2007 10-K)
*10.25.3	Second Amendment dated June 30, 2008 to the Amended and Restated Restricted Stock Agreement dated March 31, 2006 among Stephen G. Fendrich and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.26	General Release and Separation Agreement dated as of March 31, 2006, among Simmons Bedding, Simmons Company and Rhonda C. Rousch. (4/19/06 8-K)
*10.27	Employment Agreement dated as of November 10, 2006, among Simmons Company, Simmons Bedding Company and Gary S. Matthews. (9/30/06 10-Q)
*10.28	Unit Purchase Agreement by and among ST San Diego, LLC, Sleep Country USA, Inc., SC Holdings, Inc. and Simmons Bedding Company. (7/1/06 10-Q)
*10.29	General Release and Separation Agreement dated as of June 7, 2007, among Simmons Bedding, Simmons Company and Gary S. Matthews. (6/8/07 8-K)
*10.30	Amended and Restated Restricted Stock Agreement dated as of April 14, 2006 for December 2003 issuance, between Simmons Company and Timothy Oakhill. (2007 10-K)
*10.30.1	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, between Simmons Company and Timothy Oakhill. (2007 10-K)
*10.31	Amended and Restated Restricted Stock Agreement dated as of April 14, 2006 for September 2005 issuance, between Simmons Company and Timothy Oakhill. (2007 10-K)
*10.31.1	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, between Simmons Company and Timothy Oakhill. (2007 10-K)
*10.31.2	Second Amendment dated June 30, 2008 to the Amended and Restated Restricted Stock Agreement dated April 17, 2006 among Timothy F. Oakhill and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.32	Restricted Stock Agreement dated as of September 29, 2006, between Simmons Company and Timothy Oakhill. (10/5/06 8-K)
*10.32.1	First Amendment to Amended and Restated Restricted Stock Agreement dated as of January 10, 2007, between Simmons Company and Timothy Oakhill. (2007 10-K)
*10.32.2	Second Amendment dated June 30, 2008 to the Restricted Stock Agreement dated September 29, 2006 among Timothy F. Oakhill and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.33	Employee Letter Agreement dated January 9, 2006 among Simmons Company, Simmons Bedding Company and Timothy F. Oakhill. (2007 10-K)
*10.34	Stock Option Agreement dated January 16, 2008 among Simmons Holdco, Inc. and Stephen G. Fendrich. (2007 10-K)
*10.34.1	First Amendment dated June 30, 2008 to the Stock Option Agreement dated January 16, 2008 among Stephen G. Fendrich and Simmons Holdco, Inc. (6/28/08 10-Q)
*10.35	Forbearance Agreement to Indenture. (2/17/09 8-K)
*10.35.1	Amendment No. 1 to Forbearance Agreement to Indenture. (3/30/09 8-K)
*10.36	General Release and Separation Agreement between Charles R. Eitel, Simmons Holdco, Inc., Simmons Company, THL-SC Bedding Company, and Simmons Bedding Company dated September 30, 2008. (9/27/08 10-Q)
#10.37	Restricted Stock Agreement dated March 31, 2006 between Simmons Company and Dominick A. Azevedo.
#10.37.1	Amended and Restated Restricted Stock Agreement dated as of April 17, 2006, between Simmons Company and Dominick A. Azevedo.

<b>Number</b>	<b>Description</b>
#10.38	Stock Options Agreement dated July 11, 2007 between Simmons Holdco, Inc. and Dominick A. Azevedo.
#10.39	Stock Options Agreement dated January 16, 2008 between Simmons Holdco, Inc. and Dominick A. Azevedo.
#10.40	Employee Letter Agreement dated September 28, 2008 among Simmons Holdco, Inc. and Dominick A. Azevedo.
#12.1	Computation of ratio of earnings to fixed charges
*21.1	Subsidiaries of Simmons Company (2007 10-K)
#31.1	Certification of President and Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
#31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
#32.1	Certification of President and Chief Operating Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
#32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## SIMMONS COMPANY

## SCHEDULE II — VALUATION ACCOUNTS

Col. A	Col. B	Col. C	Col. D	Col. E
	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<b>Description</b>				
Fiscal year ended December 27, 2008				
Doubtful accounts	\$ 2,716	\$ 7,788	\$ 6,910	\$ 3,594
Discounts and returns, net	1,834		19	1,815
	<u>\$ 4,550</u>	<u>\$ 7,788</u>	<u>\$ 6,929</u>	<u>\$ 5,409</u>
 Fiscal year ended December 29, 2007				
Doubtful accounts	\$ 1,967	\$ 4,271	\$ 3,522	\$ 2,716
Discounts and returns, net	2,362		528	1,834
	<u>\$ 4,329</u>	<u>\$ 4,271</u>	<u>\$ 4,050</u>	<u>\$ 4,550</u>
 Fiscal year ended December 30, 2006				
Doubtful accounts	\$ 1,661	\$ 958	\$ 652	\$ 1,967
Discounts and returns, net	2,371		9	2,362
	<u>\$ 4,032</u>	<u>\$ 958</u>	<u>\$ 661</u>	<u>\$ 4,329</u>

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIMMONS COMPANY  
(Registrant)

June 10, 2009

By: /s/ William S. Creekmuir  
William S. Creekmuir, Executive Vice President,  
Chief Financial Officer, Treasurer and  
Assistant Secretary (Principal Financial Officer)

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William S. Creekmuir, jointly and severally, his or her attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that each said attorneys-in-fact or his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ Stephen G. Fendrich</u> Stephen G. Fendrich President and Chief Operating Officer (Principal Executive Officer)	June 10, 2009
<u>/s/ Todd M. Abbrecht</u> Todd M. Abbrecht, Director	June 10, 2009
<u>/s/ William P. Carmichael</u> William P. Carmichael, Director	June 10, 2009
<u>/s/ Charles R. Eitel</u> Charles R. Eitel, Vice-Chairman of the Board of Directors	June 10, 2009
<u>/s/ David A. Jones</u> David A. Jones, Director	June 10, 2009
<u>/s/ B. Joseph Messner</u> B. Joseph Messner, Director	June 10, 2009
<u>/s/ Scott A. Schoen</u> Scott A. Schoen, Director	June 10, 2009
<u>/s/ George R. Taylor</u> George R. Taylor, Director	June 10, 2009
<u>/s/ Mark F. Chambless</u> Mark F. Chambless, Senior Vice President — Corporate Controller and Assistant Secretary (Principal Accounting Officer)	June 10, 2009

**EXHIBIT B-2**

Simmons Company's Form 10-Q for the quarter ended June 27, 2009

Please see attached.





---

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 27, 2009**

**OR**

☐ **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

(State or other jurisdiction of incorporation or organization)

20-0646221

(I.R.S. Employer Identification No.)

One Concourse Parkway, Suite 800, Atlanta, Georgia

(Address of principal executive offices)

30328-6188

(Zip Code)

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

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 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 (§232.405 of this chapter) during the preceding 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 definitions 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 number of shares of the registrant's common stock outstanding as of August 1, 2009: 100

**DOCUMENTS OR PARTS THEREOF INCORPORATED BY REFERENCE: None**

---

## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements

**Simmons Company and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Operations**  
**and Comprehensive Income (Loss)**  
(In thousands)

	<b>Quarter Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Net sales	\$ 218,004	\$ 267,683	\$ 440,571	\$ 544,564
Cost of products sold	<u>123,719</u>	<u>166,473</u>	<u>251,390</u>	<u>333,680</u>
Gross profit	<u>94,285</u>	<u>101,210</u>	<u>189,181</u>	<u>210,884</u>
Operating expenses:				
Selling, general and administrative expenses	68,444	81,095	137,802	169,646
Restructuring charges	6,887	1,464	14,237	1,464
Amortization of intangibles	1,553	1,587	3,094	3,176
Licensing revenues	<u>(1,752)</u>	<u>(2,460)</u>	<u>(3,875)</u>	<u>(5,028)</u>
	<u>75,132</u>	<u>81,686</u>	<u>151,258</u>	<u>169,258</u>
Operating income	19,153	19,524	37,923	41,626
Interest expense	24,994	17,590	47,814	35,536
Interest income	<u>(46)</u>	<u>(103)</u>	<u>(52)</u>	<u>(234)</u>
Income (loss) before income taxes	(5,795)	2,037	(9,839)	6,324
Income tax expense (benefit)	<u>(34)</u>	<u>856</u>	<u>(857)</u>	<u>2,628</u>
Net income (loss)	<u>(5,761)</u>	<u>1,181</u>	<u>(8,982)</u>	<u>3,696</u>
Other comprehensive income (loss):				
Foreign currency translation adjustment	5,190	765	3,682	(4,599)
Change in retirement plans liabilities	<u>120</u>	<u>77</u>	<u>120</u>	<u>77</u>
Comprehensive income (loss)	<u>\$ (451)</u>	<u>\$ 2,023</u>	<u>\$ (5,180)</u>	<u>\$ (826)</u>

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

**Simmons Company and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands)

	<u><b>June 27, 2009</b></u>	<u><b>December 27, 2008 *</b></u>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67,341	\$ 54,930
Accounts receivable, less allowances for doubtful receivables, discounts and returns of \$4,938 and \$5,409	100,799	95,932
Inventories	31,258	31,838
Deferred financing fees	12,468	13,791
Deferred income taxes	2,174	3,119
Prepaid expenses	11,435	8,141
Other current assets	6,780	9,735
Total current assets	<u>232,255</u>	<u>217,486</u>
Property, plant and equipment, net	79,862	86,492
Goodwill	229,461	228,325
Intangible assets, net	339,362	340,471
Other assets	15,030	18,023
Total assets	<u>\$ 895,970</u>	<u>\$ 890,797</u>

\* Derived from the Company's 2008 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

**Simmons Company and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share amounts)

	<u>June 27, 2009</u> (Unaudited)	<u>December 27, 2008 *</u>
<b>LIABILITIES AND STOCKHOLDER'S DEFICIT</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 987,090	\$ 975,152
Accounts payable	37,181	50,064
Accrued liabilities	90,735	77,997
Total current liabilities	<u>1,115,006</u>	<u>1,103,213</u>
Long-term debt	12,929	13,036
Deferred income taxes	97,135	98,761
Other	38,482	38,114
Total liabilities	<u>1,263,552</u>	<u>1,253,124</u>
Commitments and contingencies		
Stockholder's deficit:		
Common stock, \$0.01 par value: authorized - 1,000 shares; issued - 100 shares	1	1
Additional paid-in capital	100,190	100,190
Accumulated deficit	(461,653)	(452,596)
Accumulated other comprehensive loss	(6,120)	(9,922)
Total stockholder's deficit	<u>(367,582)</u>	<u>(362,327)</u>
Total liabilities and stockholder's deficit	<u>\$ 895,970</u>	<u>\$ 890,797</u>

\* Derived from the Company's 2008 audited condensed consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

**Simmons Company and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Cash flows from operating activities:		
Net income (loss)	\$ (8,982)	\$ 3,696
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	15,920	18,664
Provision for bad debts	2,454	1,085
Provision for deferred income taxes	(857)	1,277
Non-cash interest expense	13,817	12,234
Non-cash stock compensation expense	—	(3)
Net changes in operating assets and liabilities:		
Accounts receivable	(6,322)	(10,170)
Inventories	850	(4,337)
Other current assets	(293)	1,430
Accounts payable	(13,140)	(3,068)
Accrued liabilities	12,259	(11,111)
Other, net	(2,024)	(5,957)
Net cash provided by operating activities	<u>13,682</u>	<u>3,740</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	<u>(869)</u>	<u>(12,634)</u>
Net cash used in investing activities	<u>(869)</u>	<u>(12,634)</u>
Cash flows from financing activities:		
Borrowings on revolving loan	—	24,000
Payments of other debt	(107)	(285)
Financing fees	(541)	—
Dividends to Bedding Superholdco	(75)	(16,519)
Net cash provided by (used in) financing activities	<u>(723)</u>	<u>7,196</u>
Net effect of exchange rate changes on cash	<u>321</u>	<u>(526)</u>
Change in cash and cash equivalents	12,411	(2,224)
Cash and cash equivalents, beginning of period	54,930	27,520
Cash and cash equivalents, end of period	<u>\$ 67,341</u>	<u>\$ 25,296</u>

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

**Simmons Company and Subsidiaries**  
**Unaudited Condensed Consolidated Statement of Changes in Stockholder's Deficit**  
(In thousands, except share amounts)

	Accumulated Other Comprehensive Income (Loss)						
	Net Unrealized Gain (Loss) From						Total Stockholder's Deficit
	Common Shares	Common Stock	Additional Paid-In Capital	Retained Deficit	Currency Translation	Benefit Plans	
<b>December 27, 2008</b>	100	\$ 1	\$ 100,190	\$(452,596)	\$ (6,819)	\$ (3,103)	\$ (362,327)
Net loss	—	—	—	(8,982)	—	—	(8,982)
Change in retirement plans liabilities	—	—	—	—	—	120	120
Foreign currency translation	—	—	—	—	3,682	—	3,682
Comprehensive income (loss)	—	—	—	(8,982)	3,682	120	(5,180)
Dividend to Bedding Superholdco	—	—	—	(75)	—	—	(75)
<b>June 27, 2009 (unaudited)</b>	<u>100</u>	<u>\$ 1</u>	<u>\$ 100,190</u>	<u>\$(461,653)</u>	<u>\$ (3,137)</u>	<u>\$ (2,983)</u>	<u>\$ (367,582)</u>

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

## **A. Basis of Presentation, Liquidity and Ability to Continue as a Going Concern**

### *Company*

Simmons Company (“Holdings”) is a holding company with no operating assets. Through its wholly-owned subsidiary THL-SC Bedding Company, which is also a holding company, Simmons Company owns the common stock of Simmons Bedding Company. On August 20, 2009, THL-SC Bedding Company filed a certificate of amendment of certificate of incorporation to change its name to Bedding Holdco Incorporated (“Bedding Holdco”). On August 20, 2009, Simmons Holdco, Inc., Holdings’ parent company, also filed a certificate of amendment of certificate of incorporation to change its name to Bedding Superholdco Incorporated (“Bedding Superholdco”). All of Simmons Company’s business operations are conducted by Simmons Bedding Company and its direct and indirect subsidiaries (collectively “Simmons Bedding”). Simmons Company, together with its subsidiaries (collectively the “Company” or “Simmons Company”), is one of the largest bedding manufacturers in North America.

### *Liquidity*

As of June 27, 2009, the Company had \$67.3 million of cash and cash equivalents and less than \$0.1 million of 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 \$200.0 million 7.875% senior subordinated notes (“Subordinated Notes”), Simmons Bedding’s other debt of \$13.4 million, and Holding’s \$257.0 million 10.0% senior discount notes (“Discount Notes”).

Since September 27, 2008, Simmons Bedding has not been in compliance with certain covenants of its \$540.0 million senior credit facility. After being unable to obtain a waiver or an amendment from its senior lenders to its senior credit facility, Simmons Bedding entered into an initial and subsequent forbearance agreement with a majority of its senior lenders pursuant to which the senior lenders agreed to refrain from enforcing their respective 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, May 27, 2009, June 30, 2009, and August 14, 2009 with its senior lenders, whereby the senior lenders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively.

On January 15, 2009 and July 15, 2009, Simmons Bedding did not make its scheduled interest payments due on its Subordinated Notes resulting in defaults under the indenture governing the Subordinated Notes. On February 14, 2009, the default associated with the failure to pay the interest due on January 15, 2009 matured into an event of default, which gave the holders of the Subordinated Notes the right 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 such noteholders 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, May 27, 2009, June 30, 2009, and August 14, 2009 with a majority of the Subordinated Notes holders, whereby such noteholders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. Pursuant to the terms of the forbearance agreement, the noteholders party to the 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 forbearance agreement represents 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.



As a condition to the forbearance agreement with Simmons Bedding's senior lenders, the Company initiated a 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 the Company's debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives, including a possible sale of Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of their affiliates or assets. There can be no assurance that the Company will be successful in implementing a restructuring or any other strategic alternatives. 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 or default under the senior credit facility or Subordinated Notes, then Holdings would be in default under its Discount Notes and Bedding Superholdco would be in default under its \$300.0 million senior unsecured loan ("Toggle Loan"). The Company would not have the ability to repay any amounts accelerated under its various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments or default could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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 Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of their affiliates or 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. 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 (see Note E — Debt, which contains further information regarding the Company's debt and related forbearance agreements). We continue to amortize the debt issuance costs over the remaining life of the debt using the effective interest method.

In connection with all of the above, the Company incurred restructuring expenses in the quarter and six months ended June 27, 2009 aggregating \$6.6 million and \$13.9 million, respectively.

#### *Basis of Presentation*

These condensed consolidated financial statements of the Company are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and Rule 10-01 of Regulation S-X for interim financial information. The unaudited condensed consolidated financial statements 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.

The accompanying unaudited condensed consolidated financial statements contain all adjustments which, in the opinion of management, are necessary to present fairly the financial position of the Company as of June 27, 2009, and its results of operations and cash flows for the periods presented herein. All adjustments in the periods presented herein are normal and recurring in nature unless otherwise disclosed. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 27, 2008. Operating results for the periods ended June 27, 2009 are not necessarily indicative of future results that may be expected for the fiscal year ending December 26, 2009 or for any future period.

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP includes some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates.

#### **B. Inventories**

A summary of inventories follows (in thousands):

	<b>June 27, 2009</b>	<b>December 27, 2008</b>
Raw materials	\$ 18,174	\$ 19,066
Work-in-progress	962	1,009
Finished goods	12,122	11,763
	<u>\$ 31,258</u>	<u>\$ 31,838</u>

## C. Goodwill

The changes in the carrying amount of goodwill for the six months ended June 27, 2009 are as follows (in thousands):

	<b>Domestic</b>	<b>Canada</b>	<b>Consolidated</b>
Balance as of December 27, 2008	\$ 206,206	\$ 22,119	\$ 228,325
Foreign currency translation adjustment	—	1,140	1,140
Other	(4)	—	(4)
Balance as of June 27, 2009	<u>\$ 206,202</u>	<u>\$ 23,259</u>	<u>\$ 229,461</u>

## D. Warranties

The bedding products that the Company currently manufactures generally include non-prorated warranties as follows:

- conventional innerspring — 10 years;
- conventional specialty bedding products — 20 to 25 years; and
- juvenile bedding products — 5 years to 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 the periods ended June 27, 2009 and June 28, 2008 (in thousands):

	<b>Quarter Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Balance at beginning of period	\$ 4,904	\$ 4,576	\$ 4,763	\$ 4,291
Additional warranties issued	723	895	1,449	1,665
Warranty settlements	(661)	(806)	(1,562)	(1,352)
Accruals related to pre-existing warranties (including change in estimate)	125	79	441	140
Balance at end of period	<u>\$ 5,091</u>	<u>\$ 4,744</u>	<u>\$ 5,091</u>	<u>\$ 4,744</u>

## E. Debt

Debt consisted of the following as of June 27, 2009 and December 27, 2008 (in thousands):

	<b>June 27, 2009</b>	<b>December 27, 2008</b>
Senior credit facility:		
Revolving loan	\$ 64,532	\$ 64,532
Tranche D term loan	465,000	465,000
Total senior credit facility	529,532	529,532
7.875% senior subordinated notes due 2014	200,000	200,000
10.0% senior discount notes, due 2014, net of discount of \$11,956 and \$23,894, respectively	257,044	245,106
Other, principally industrial revenue bonds	13,443	13,550
	1,000,019	988,188
Less current portion	(987,090)	(975,152)
	<u>\$ 12,929</u>	<u>\$ 13,036</u>

### *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 June 27, 2009, 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 0.375% 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 during the first six months of 2009.

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 June 27, 2009 for the tranche D term loan was 10.5%. The senior credit facility is guaranteed by Bedding Holdco and all of Simmons Bedding's 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 (loss) to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA, as the Company interprets the definition of Adjusted EBITDA from the senior credit facility, also adjusts net income (loss) 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 (loss); 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 of no less than 3.00:1.00 from June 27, 2009 through each fiscal quarter ending thereafter.
- 2) A maximum leverage ratio of no greater than 4.00:1.00 from June 27, 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; (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”) 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; (iii) that certain Third Amendment to Second Forbearance Agreement; Sixth Amendment to the Second Amended and Restated Credit and Guaranty Agreement (the “Third Amendment to the Second Forbearance Agreement”) on June 30, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through August 14, 2009; and (iv) that certain Fourth Amendment to Second Forbearance Agreement; Seventh Amendment to the Second Amended and Restated Credit and Guaranty Agreement (the “Fourth Amendment to the Second Forbearance Agreement” and, together with the First Amendment to the Second Forbearance Agreement, the Second Amendment to the Second Forbearance Agreement, and the Third Amendment to the Second Forbearance Agreement, the “Amendment to the Second Forbearance Agreement”) on August 14, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through August 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 4.25% and 3.25%, 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;
- Providing a long-term business plan to the senior lenders by January 7, 2009;
- Commencing a process to solicit new debt and/or equity investment by January 9, 2009;
- Providing a potential restructuring proposal to the senior lenders by January 26, 2009; and
- Increased financial reporting requirements.

As of June 27, 2009, the Company was in compliance with the covenant requirements of the Second Forbearance Agreement, as amended.

The First 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 Base Rate plus 6.25% per annum or Eurodollar Rate plus 7.25% per annum.

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 (\$0.6 million) 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 (\$2.6 million) 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 in 2008 and expensed the third party fees associated with the forbearance agreements as incurred.

In connection with the Third Amendment to the Second Forbearance Agreement, Simmons Bedding agreed to pay the senior lenders who approved the agreement a forbearance fee equal to 0.15% of the aggregate outstanding amount of approving lender's outstanding debt (\$0.7 million), which the Company capitalized for the quarter ending September 26, 2009.

During the forbearance period as extended, Simmons Bedding has met various covenants and other provisions related to continued progress in its restructuring efforts and reporting on the status of the restructuring process.

### *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.

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.

Simmons Bedding did not make scheduled interest payments of \$7.9 million due on January 15, 2009 and July 15, 2009 on the Subordinated Notes resulting in defaults under the indenture governing the Subordinated Notes. On February 14, 2009, the default associated with the failure to pay the interest due on January 15, 2009 matured into an event of default, which gave the holders of the Subordinated Notes the right 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 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 also 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, May 27, 2009, June 30, 2009, and August 14, 2009, whereby the majority of the outstanding Subordinated Notes holders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. 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 parties to the Subordinated Forbearance Agreement represent 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 March 25, 2009 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 (\$0.5 million). The Company capitalized the lender fees of \$0.5 million in the quarter ended March 28, 2009 and expensed the third party fees associated with the forbearance agreements as incurred.

### *Discount Notes*

The Company's 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. Holdings was in compliance with such covenants as of June 27, 2009.

### *Debt & Related Unamortized Debt Issue Costs Classification*

As a result of the covenant default and the lenders having the right to demand payment within the next twelve months on the senior credit facility, Subordinated Notes and, to the extent the rights under the senior credit facility were accelerated, the Discount Notes, the Company has reclassified these debt obligations from non-current liabilities to current liabilities and the related unamortized debt issue costs from non-current assets to current assets on the accompanying condensed consolidated balance sheets.

## F. Segment Information

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 (loss) to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA also adjusts net income (loss) 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 (loss) 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 tables summarize our segment information for the periods ended June 27, 2009 and June 28, 2008:

### Quarter Ended June 27, 2009

(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 193,249	\$ 24,755	\$ —	\$ 218,004
Intersegment net sales	2,032	—	(2,032)	—
Adjusted EBITDA	31,544	2,635	(56)	34,123
Depreciation and amortization expense	6,886	1,069	—	7,955
Expenditures for long-lived assets	450	227	—	677
Segment assets	910,793	112,030	(126,853)	895,970
Reconciliation of net loss to Adjusted EBITDA:				
Net loss	\$ (4,914)	\$ (791)	\$ (56)	\$ (5,761)
Depreciation and amortization	6,886	1,069	—	7,955
Income taxes	169	(203)	—	(34)
Interest expense	23,235	1,759	—	24,994
Restructuring charges	6,672	215	—	6,887
Management fees	55	320	—	375
Gain on foreign currency	(773)	(185)	—	(958)
State taxes in lieu of income taxes	70	—	—	70
Product regulatory compliance	428	—	—	428
Other	(284)	451	—	167
Adjusted EBITDA	<u>\$ 31,544</u>	<u>\$ 2,635</u>	<u>\$ (56)</u>	<u>\$ 34,123</u>



**Quarter Ended June 28, 2008**

(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 229,112	\$ 38,571	\$ —	\$ 267,683
Intersegment net sales	143	—	(143)	—
Adjusted EBITDA	28,963	4,372	—	33,335
Depreciation and amortization expense	9,049	1,399	—	10,448
Expenditures for long-lived assets	6,435	907	—	7,342
Segment assets	1,443,340	180,504	(138,338)	1,485,506
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 75	\$ 1,106	\$ —	\$ 1,181
Depreciation and amortization	9,049	1,399	—	10,448
Income taxes	1,299	(443)	—	856
Interest expense	15,499	2,091	—	17,590
Transaction expenses including integration costs	84	—	—	84
Restructuring charges	1,464	—	—	1,464
Relocation of facilities	329	116	—	445
Non-recurring professional service fees	12	—	—	12
Management fees	(143)	520	—	377
ERP system implementation costs	603	—	—	603
Gain on foreign currency	(50)	(278)	—	(328)
State taxes in lieu of income taxes	191	—	—	191
Other	551	(139)	—	412
Adjusted EBITDA	<u>\$ 28,963</u>	<u>\$ 4,372</u>	<u>\$ —</u>	<u>\$ 33,335</u>

**Six Months Ended June 27, 2009**  
(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 393,843	\$ 46,728	\$ —	\$ 440,571
Intersegment net sales	5,059	—	(5,059)	—
Adjusted EBITDA	66,528	2,930	(56)	69,402
Depreciation and amortization expense	13,851	2,069	—	15,920
Expenditures for long-lived assets	642	227	—	869
Reconciliation of net loss to Adjusted EBITDA:				
Net loss	\$ (6,511)	\$ (2,415)	\$ (56)	\$ (8,982)
Depreciation and amortization	13,851	2,069	—	15,920
Income taxes	993	(1,850)	—	(857)
Interest expense	44,398	3,416	—	47,814
Restructuring charges	14,022	215	—	14,237
Management fees	203	622	—	825
(Gain) loss on foreign currency	(615)	133	—	(482)
State taxes in lieu of income taxes	133	—	—	133
Product regulatory compliance	645	—	—	645
Other	(591)	740	—	149
Adjusted EBITDA	<u>\$ 66,528</u>	<u>\$ 2,930</u>	<u>\$ (56)</u>	<u>\$ 69,402</u>

**Six Months Ended June 28, 2008**  
(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 474,114	\$ 70,450	\$ —	\$ 544,564
Intersegment net sales	206	—	(206)	—
Adjusted EBITDA	59,254	7,062	—	66,316
Depreciation and amortization expense	15,930	2,734	—	18,664
Expenditures for long-lived assets	10,848	1,786	—	12,634
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 3,493	\$ 203	\$ —	\$ 3,696
Depreciation and amortization	15,930	2,734	—	18,664
Income taxes	3,551	(923)	—	2,628
Interest expense	31,330	4,206	—	35,536
Transaction expenses including integration costs	191	—	—	191
Non-recurring professional service fees	726	—	—	726
Restructuring charges	1,464	—	—	1,464
Relocation of facilities	814	189	—	1,003
Management fees	(178)	1,043	—	865
ERP system implementation costs	1,085	—	—	1,085
(Gain) loss on foreign currency	354	(883)	—	(529)
State taxes in lieu of income taxes	297	—	—	297
Other	197	493	—	690
Adjusted EBITDA	<u>\$ 59,254</u>	<u>\$ 7,062</u>	<u>\$ —</u>	<u>\$ 66,316</u>

## G. 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 (\$1.5 million in the quarter and six months ended June 28, 2008) related to these planned workforce reductions, which will be payable through March 2010. The Company will not incur cash payments 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 and its 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 Bramalea, Ontario facility was announced in September 2008. In connection with the facility closure, CAW 513 filed an unfair labor practice charge against Holdings, Simmons Bedding and Simmons Canada Inc. ("Simmons Canada"), and three former production employees filed a wrongful termination claim against Simmons Canada on behalf of themselves and a class of similarly situated former employees. The unfair labor practice charge was settled and the Ontario Labour Relations Board dismissed the matter in June 2009. The wrongful termination claim was dismissed in July 2009. An estimated settlement amount was recorded as part of the restructuring severance and benefits in 2008 and payment is expected during the third quarter of 2009.

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

The Company recognized a pre-tax restructuring charge in 2008 related to the closure of the Bramalea, Ontario and Mableton, Georgia 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 exit 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. The Company incurred \$0.3 million of such exit charges in both the quarter and six months ended June 27, 2009.

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 quarter and six months ended June 28, 2008:

	<b>Quarter Ended June 28, 2008</b>	<b>Six Months Ended June 28, 2008</b>
Domestic	\$ 1,464	\$ 1,464
Total	<u>\$ 1,464</u>	<u>\$ 1,464</u>

The following table reconciles the accrued restructuring charges discussed above for the six months ended June 27, 2009 (in thousands):

	<b>Balance at December 27, 2008</b>	<b>Adjustments</b>	<b>Cash Reduction</b>	<b>Foreign Currency Translation</b>	<b>Balance at June 27, 2009</b>
Severance and benefit costs	\$ 4,931	\$ 27	\$ (1,729)	\$ 93	\$ 3,322
Facility lease costs	1,597	—	(890)	46	753
Accrued restructuring charges	<u>\$ 6,528</u>	<u>\$ 27</u>	<u>\$ (2,619)</u>	<u>\$ 139</u>	<u>\$ 4,075</u>

In addition to the restructuring charges discussed above, the Company incurred legal and professional fees in connection with the Company's restructuring of \$6.6 million and \$13.9 million during the quarter and six months ended June 27, 2009, respectively (see Note A — Basis of Presentation, Liquidity and Ability to Continue as a Going Concern).

## H. Commitments and Contingencies

From time to time, the Company has been involved in various legal proceedings. In November 2008, CAW 513 filed an unfair labor practice charge against Holdings, Simmons Bedding and Simmons Canada and three former production employees filed a wrongful termination claim against Simmons Canada on behalf of themselves and a class of similarly situated former employees (see Note G — Restructuring Charges).

On June 10, 2009, Tempur-Pedic International Inc., Tempur-Pedic Management, Inc. and Tempur-Pedic North America, LLC (collectively “Tempur-Pedic”) filed a lawsuit against certain bedding manufacturers, including Simmons Bedding and its subsidiary, The Simmons Manufacturing Co., LLC (“Simmons Manufacturing”), alleging such companies are violating one of their patents. The lawsuit, which was filed in the U.S. District Court for the Western District of Virginia, outlines patent infringement claims against each of the defendant companies. The Company intends to defend this action and cannot, at this time, reasonably predict the ultimate outcome of the lawsuit. While the Company does not expect that any sums it may have to pay in connection with this or any other legal proceeding would have a materially adverse effect on its consolidated financial position or net cash flows, a future charge for damage awards could have a significant impact on the Company’s net income in the period in which it is recorded.

With the exception of the matters discussed above, the Company believes that all current litigation is routine in nature, incidental to the conduct of its business and not material.

The Company does not guarantee nor have any of our assets pledged as collateral under Bedding Superholdco’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, Bedding Superholdco is dependent on the Company’s cash flows to meet the interest and principal payments under the Toggle Loan. The Toggle Loan is not included in the Company’s financial statements. Under the terms of the credit agreement governing the Toggle Loan, Bedding Superholdco 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, Bedding Superholdco elected to make its February 2009, August 2009 and February 2010 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.

## I. Fair Value of Financial Instruments

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 2 inputs, based on quotes from dealers, where obtainable, or the value of the most recent trade in the market. 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 June 27, 2009 (in millions).

	Carrying Value	Estimated Fair Value
Tranche D term loan	\$ 465.0	\$430.1 - \$441.8
Subordinated notes	\$ 200.0	\$ 90.0
Discount notes	\$ 257.0	\$ 25.6

## J. Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”), 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. The Company adopted SFAS 157 for financial assets and liabilities at the beginning of its fiscal year 2008 and adopted SFAS 157 for nonfinancial assets and liabilities at the beginning of its fiscal year 2009. The adoption of SFAS 157 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 SFAS 157 will have on its goodwill and intangible asset impairment testing, which is performed annually during the Company’s fiscal fourth quarter unless a triggering event indicates that such test should be performed earlier in the year.

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 non-controlling interest in the acquire at the acquisition date, measured at their fair values as of that date. SFAS 141R is effective for the Company and 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 2008, the FASB issued FSP FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (“FSP 132(R)-1”). This FSP amends FASB Statement No. 132(R), *Employers’ Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. FAS 132(R)-1 provides guidance on an employer’s disclosure about plan assets of a defined benefit pension or other postretirement plans. This standard is effective for fiscal years ending after December 15, 2009. The Company is assessing the impact of this guidance on the Company’s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and ABP 28-1, *Interim Disclosure about Fair Value of Financial Instruments* (“FSP 107-1 and ABP 28-1”). This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. This FSP was adopted by the Company for the quarter ended June 27, 2009 and the Company’s disclosures have been properly adjusted to reflect the adoption of this statement.

In May 2009, the FASB issued SFAS 165, *Subsequent Events* (“SFAS 165”). SFAS 165 establishes principles and requirements for subsequent events. The statement details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. This statement is effective for interim or annual reporting periods ending after June 15, 2009. This statement was adopted by the Company for the quarter ended June 27, 2009 and the Company’s disclosures have been properly adjusted to reflect the adoption of this statement.

In June 2009, the FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (“SFAS 168”). SFAS 168 amends SFAS 162, *Fair Value Accounting — An Overview of FASB Statements 157 and 159*. SFAS 168 confirms the FASB Accounting Standards Codification (Codification) will become the single official source of authoritative US GAAP (other than guidance issued by the Securities and Exchange Commission), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related literature. Therefore, only one level of authoritative US GAAP will exist. The Codification does not change US GAAP; it introduces a new structure that is organized in an easily accessible online research system. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009.

In June 2009, the FAS issued FSP FAS 157-4, *Determining Fair Value when the Volume and Level of Activity have significantly decreased and Identifying Transaction that are not Orderly* (“FSP 157-4”). FSP 157-4 provides additional guidance to highlight and expands on the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset. The FSP is effective for periods ending after June 15, 2009. This FSP was adopted by the Company for the quarter ended June 27, 2009 and had no impact on the Company’s consolidated financial statements.

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**K. Subsequent Events**

In November 2008, CAW 513 filed an unfair labor practice charge against Holdings, Simmons Bedding and Simmons Canada and three former production employees filed a wrongful termination claim against Simmons Canada on behalf of themselves and a class of similarly situated former employees. In July 2009, the wrongful termination claim was dismissed (See Note G – Restructuring Charges).

On August 14, 2009, Simmons Bedding amended its forbearance agreements with the majority of its senior lenders and noteholders to extend the forbearance period through August 31, 2009.

On August 18, 2009, Simmons Bedding amended its Amended and Restated Certificate of Incorporation to provide for three classes of directors, as nearly equal in number as possible. The current members of the Board of Directors of Simmons Bedding will be divided into three classes. The term of office of the first class of directors will expire in 2009, the term of office of the second class of directors will expire in 2010 and the term of the third class of directors will expire in 2011.

On August 20, 2009, THL-SC Bedding Company filed a certificate of amendment of certificate of incorporation to change its name to Bedding Holdco Incorporated. On August 20, 2009, Simmons Holdco, Inc., Holdings' parent company, also filed a certificate of amendment of certificate of incorporation to change its name to Bedding Superholdco Incorporated.

The Company evaluated all subsequent event activity through August 21, 2009 (the issue date of this Quarterly Report on Form 10-Q) and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**L. Guarantor / Non-Guarantor Statements**

Simmons Bedding's 7.875% senior subordinated notes due 2014 are fully and unconditionally guaranteed, on a joint and several basis, and on an unsecured, senior subordinated basis by Holdings and Bedding Holdco (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 U.S. guarantee the 7.875% senior subordinated notes due 2014 (the "Non-Guarantor Subsidiaries"). The Supplemental Consolidating Condensed Financial Statements provide additional guarantor/non-guarantor information.



**Supplemental Consolidating Condensed Statements of Operations**  
**For the Quarter Ended June 28, 2008**  
(In thousands)

		<u>Issuer and Guarantors</u>				
	<u>Parent</u>	<u>Simmons</u>	<u>Guarantor</u>	<u>Non-</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Guarantors</u>	<u>Bedding</u>	<u>Subsidiaries</u>	<u>Guarantor</u>		
		<u>Company</u>		<u>Subsidiaries</u>		
Net sales	\$ —	\$ (24,569)	\$ 251,681	\$ 40,714	\$ (143)	\$ 267,683
Cost of products sold	—	809	135,593	30,214	(143)	166,473
Gross profit	—	(25,378)	116,088	10,500	—	101,210
Operating expenses:						
Selling, general and administrative expenses	—	52,921	22,489	7,149	—	82,559
Amortization of intangibles	—	738	600	249	—	1,587
Intercompany fees	—	(77,884)	77,348	536	—	—
Licensing revenues	—	(381)	(1,891)	(188)	—	(2,460)
	—	(24,606)	98,546	7,746	—	81,686
Operating income	—	(772)	17,542	2,754	—	19,524
Interest expense	5,693	9,592	193	2,112	—	17,590
Interest income	—	(9)	(9)	(85)	—	(103)
Income from subsidiaries	5,454	14,145	—	—	(19,599)	—
Income before income taxes	(239)	3,790	17,358	727	(19,599)	2,037
Income tax expense (benefit)	(1,420)	(1,664)	4,382	(442)	—	856
Net income	<u>\$ 1,181</u>	<u>\$ 5,454</u>	<u>\$ 12,976</u>	<u>\$ 1,169</u>	<u>\$ (19,599)</u>	<u>\$ 1,181</u>

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Statements of Operations**  
**For the Six Months Ended June 27, 2009**  
(In thousands)

		<u>Issuer and Guarantors</u>				
	<u>Parent</u>	<u>Simmons</u>	<u>Guarantor</u>	<u>Non-</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Guarantors</u>	<u>Bedding</u>	<u>Subsidiaries</u>	<u>Guarantor</u>		
		<u>Company</u>		<u>Subsidiaries</u>		
Net sales	\$ —	\$ (39,908)	\$ 435,039	\$ 50,499	\$ (5,059)	\$ 440,571
Cost of products sold	—	828	218,154	37,411	(5,003)	251,390
Gross profit	—	(40,736)	216,885	13,088	(56)	189,181
Operating expenses:						
Selling, general and administrative expenses	—	103,994	35,888	12,157	—	152,039
Amortization of intangibles	—	1,477	1,200	417	—	3,094
Intercompany fees	—	(148,750)	147,163	1,587	—	—
Licensing revenues	—	(550)	(3,013)	(312)	—	(3,875)
	—	(43,829)	181,238	13,849	—	151,258
Operating income (loss)	—	3,093	35,647	(761)	(56)	37,923
Interest expense	12,144	31,859	378	3,433	—	47,814
Interest income	—	(21)	(2)	(29)	—	(52)
Income from subsidiaries	3,162	31,086	—	—	(34,248)	—
Income before income taxes	(8,982)	2,341	35,271	(4,165)	(34,304)	(9,839)
Income tax expense (benefit)	—	(821)	1,789	(1,825)	—	(857)
Net income (loss)	<u>\$ (8,982)</u>	<u>\$ 3,162</u>	<u>\$ 33,482</u>	<u>\$ (2,340)</u>	<u>\$ (34,304)</u>	<u>\$ (8,982)</u>

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Statements of Operations**  
**For the Six Months Ended June 28, 2008**  
(In thousands)

		<u>Issuer and Guarantors</u>				
	<u>Parent</u>	<u>Simmons</u>	<u>Guarantor</u>	<u>Non-</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Guarantors</u>	<u>Bedding</u>	<u>Subsidiaries</u>	<u>Guarantor</u>		
		<u>Company</u>		<u>Subsidiaries</u>		
Net sales	\$ —	\$ (46,721)	\$ 516,962	\$ 74,529	\$ (206)	\$ 544,564
Cost of products sold	—	1,611	277,510	54,765	(206)	333,680
Gross profit	—	(48,332)	239,452	19,764	—	210,884
Operating expenses:						
Selling, general and administrative expenses	—	111,745	44,902	14,463	—	171,110
Amortization of intangibles	—	1,477	1,200	499	—	3,176
Intercompany fees	—	(161,882)	160,048	1,834	—	—
Licensing revenues	—	(782)	(3,824)	(422)	—	(5,028)
	—	(49,442)	202,326	16,374	—	169,258
Operating income	—	1,110	37,126	3,390	—	41,626
Interest expense	11,336	19,522	435	4,243	—	35,536
Interest income	—	(16)	(41)	(177)	—	(234)
Income from subsidiaries	11,749	27,817	—	—	(39,566)	—
Income before income taxes	413	9,421	36,732	(676)	(39,566)	6,324
Income tax expense (benefit)	(3,283)	(2,328)	9,163	(924)	—	2,628
Net income	\$ 3,696	\$ 11,749	\$ 27,569	\$ 248	\$ (39,566)	\$ 3,696

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Balance Sheets**  
**As of June 27, 2009**  
(In thousands)

	<u>Issuer and Guarantors</u>		<u>Non-</u>		<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent</u>	<u>Simmons</u>	<u>Subsidiary</u>	<u>Guarantor</u>		
	<u>Guarantors</u>	<u>Company</u>	<u>Guarantors</u>	<u>Subsidiaries</u>		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 53,032	\$ 6,715	\$ 7,594	\$ —	\$ 67,341
Accounts receivable	—	—	79,680	21,930	(811)	100,799
Inventories	—	37	25,166	6,111	(56)	31,258
Other	2,440	25,280	2,999	2,138	—	32,857
Total current assets	<u>2,440</u>	<u>78,349</u>	<u>114,560</u>	<u>37,773</u>	<u>(867)</u>	<u>232,255</u>
Property, plant and equipment, net	—	21,027	41,082	17,753	—	79,862
Goodwill and other intangibles, net	—	66,903	438,133	63,787	—	568,823
Other assets	34,739	98,049	475	1,909	(120,142)	15,030
Net investment in and advances to (from) affiliates	(147,588)	420,497	12,245	(2,487)	(282,667)	—
Total assets	<u>\$ (110,409)</u>	<u>\$ 684,825</u>	<u>\$ 606,495</u>	<u>\$ 118,735</u>	<u>\$ (403,676)</u>	<u>\$ 895,970</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>						
Current liabilities:						
Current maturities of long-term debt	\$ 257,044	\$ 729,532	\$ 300	\$ 214	\$ —	\$ 987,090
Accounts payable and accrued liabilities	129	62,248	51,053	27,000	(12,514)	127,916
Total current liabilities	<u>257,173</u>	<u>791,780</u>	<u>51,353</u>	<u>27,214</u>	<u>(12,514)</u>	<u>1,115,006</u>
Long-term debt	—	—	12,200	74,441	(73,712)	12,929
Deferred income taxes	—	38,220	90,349	3,292	(34,726)	97,135
Other non-current liabilities	—	25,540	8,106	4,836	—	38,482
Total liabilities	<u>257,173</u>	<u>855,540</u>	<u>162,008</u>	<u>109,783</u>	<u>(120,952)</u>	<u>1,263,552</u>
Stockholder's equity (deficit)	<u>(367,582)</u>	<u>(170,715)</u>	<u>444,487</u>	<u>8,952</u>	<u>(282,724)</u>	<u>(367,582)</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ (110,409)</u>	<u>\$ 684,825</u>	<u>\$ 606,495</u>	<u>\$ 118,735</u>	<u>\$ (403,676)</u>	<u>\$ 895,970</u>

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Balance Sheets**  
**As of December 27, 2008**  
(In thousands)

	Issuer and Guarantors					
	Parent	Simmons	Subsidiary	Non-		
	Guarantors	Bedding	Guarantors	Guarantor	Eliminations	Consolidated
		Company		Subsidiaries		
<b>ASSETS</b>						
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	<u>2,602</u>	<u>63,378</u>	<u>117,890</u>	<u>35,222</u>	<u>(1,606)</u>	<u>217,486</u>
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	<u>\$ (117,092)</u>	<u>\$ 689,456</u>	<u>\$ 901,519</u>	<u>\$ 121,989</u>	<u>\$ (705,075)</u>	<u>\$ 890,797</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>						
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	<u>245,235</u>	<u>785,247</u>	<u>58,512</u>	<u>30,385</u>	<u>(16,166)</u>	<u>1,103,213</u>
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	<u>245,235</u>	<u>856,888</u>	<u>167,813</u>	<u>110,777</u>	<u>(127,589)</u>	<u>1,253,124</u>
Stockholder's equity (deficit)	<u>(362,327)</u>	<u>(167,432)</u>	<u>733,706</u>	<u>11,212</u>	<u>(577,486)</u>	<u>(362,327)</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ (117,092)</u>	<u>\$ 689,456</u>	<u>\$ 901,519</u>	<u>\$ 121,989</u>	<u>\$ (705,075)</u>	<u>\$ 890,797</u>

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Statements of Cash Flows**  
**For the Six Months Ended June 27, 2009**  
(In thousands)

	Issuer and Guarantor					
	Parent	Simmons	Guarantor	Non-		
	Guarantors	Bedding Company	Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (45)	\$ (30,759)	\$ 43,906	\$ 580	\$ —	\$ 13,682
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(329)	(313)	(227)	—	(869)
Net cash used in investing activities	—	(329)	(313)	(227)	—	(869)
Cash flows from financing activities:						
Receipts from (distribution to) affiliates	120	38,406	(39,215)	689	—	—
Financing fees	—	(541)	—	—	—	(541)
Dividend to Bedding Superholdco	(75)	—	—	—	—	(75)
Repayment of long-term obligations	—	—	—	(107)	—	(107)
Net cash provided by (used in) financing activities	45	37,865	(39,215)	582	—	(723)
Net effect of exchange rate changes	—	—	—	321	—	321
Change in cash and cash equivalents	—	6,777	4,378	1,256	—	12,411
Cash and cash equivalents:						
Beginning of period	—	46,255	2,337	6,338	—	54,930
End of period	\$ —	\$ 53,032	\$ 6,715	\$ 7,594	\$ —	\$ 67,341

**Simmons Company and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Supplemental Consolidating Condensed Statements of Cash Flows**  
**For the Six Months Ended June 28, 2008**  
(In thousands)

	<u>Issuer and Guarantors</u>					
	<u>Parent</u>	<u>Simmons</u>	<u>Guarantor</u>	<u>Non-</u>		
	<u>Guarantors</u>	<u>Bedding</u>	<u>Subsidiaries</u>	<u>Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
		<u>Company</u>		<u>Subsidiaries</u>		
Net cash provided by (used in) operating activities	\$ (3)	\$ (33,425)	\$ 31,877	\$ 5,291	\$ —	\$ 3,740
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(3,820)	(7,012)	(1,802)	—	(12,634)
Net cash used in investing activities	—	(3,820)	(7,012)	(1,802)	—	(12,634)
Cash flows from financing activities:						
Dividends to Bedding Superholdco	(16,519)	—	—	—	—	(16,519)
Borrowings on revolving loan	—	24,000	—	—	—	24,000
Repayment of long-term obligations	—	—	—	(285)	—	(285)
Receipt from (distribution to) affiliates	16,522	8,926	(25,378)	(70)	—	—
Net cash provided by (used in) financing activities	3	32,926	(25,378)	(355)	—	7,196
Net effect of exchange rate changes	—	—	—	(526)	—	(526)
Change in cash and cash equivalents	—	(4,319)	(513)	2,608	—	(2,224)
Cash and cash equivalents:						
Beginning of period	—	8,241	4,087	15,192	—	27,520
End of period	\$ —	\$ 3,922	\$ 3,574	\$ 17,800	\$ —	\$ 25,296

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements as of December 27, 2008, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 27, 2008, and the unaudited interim financial statements included elsewhere in this report.

### Business 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. We have two reportable segments organized by geographic area, Domestic (U.S. including Puerto Rico) and Canada. In 2008, we derived approximately 88% of our net sales from our Domestic segment.

Since September 27, 2008, Simmons Bedding has not been in compliance with certain covenants of its \$540.0 million senior credit facility. After being unable to obtain a waiver or an amendment from its senior lenders to its senior credit facility, Simmons Bedding entered into an initial and subsequent forbearance agreement with a majority of its senior lenders pursuant to which the senior lenders agreed to refrain from enforcing their respective 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 with its senior lenders on March 25, 2009, May 27, 2009, June 30, 2009, and August 14, 2009, whereby the senior lenders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively.

On January 15, 2009 and July 15, 2009, Simmons Bedding did not make its scheduled interest payments due on its Subordinated Notes resulting in defaults under the indenture governing the Subordinated Notes. On February 14, 2009, the default associated with the failure to pay the interest due on January 15, 2009 matured into an event of default, which gave the holders of the Subordinated Notes the right 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 such noteholders 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 with a majority of the Subordinated Notes holders on March 25, 2009, May 27, 2009, June 30, 2009, and August 14, 2009, whereby such noteholders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. Pursuant to the terms of the forbearance agreement, the noteholders party to the 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 forbearance agreement represents 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.

As a condition to the forbearance agreement with Simmons Bedding's senior lenders, the Company initiated a 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 the Company's debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives, including a possible sale of Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or assets. There can be no assurance that the Company will be successful in implementing a restructuring or any other strategic alternatives. 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 or default under the senior credit facility or Subordinated Notes, then Holdings would be in default under its Discount Notes and Bedding Superholdco would be in default under its \$300.0 million senior unsecured loan Toggle Loan. The Company would not have the ability to repay any amounts accelerated under its various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments or default could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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 Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of their affiliates or 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. For further information regarding our debt covenant violations and related forbearance agreements, please see Part II, Item 1A "Risk Factors — Risks Related to Our Liquidity" and Part I, Item 2 "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Liquidity and Capital Resources."



## Results of Operations

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

	Quarter Ended		Six Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	56.8%	62.2%	57.1%	61.3%
Gross margin	43.2%	37.8%	42.9%	38.7%
Operating expenses:				
Selling, general and administrative expenses	31.4%	30.3%	31.3%	31.2%
Restructuring charges	3.2%	0.5%	3.2%	0.3%
Amortization of intangibles	0.7%	0.6%	0.7%	0.6%
Licensing revenues	-0.8%	-0.9%	-0.9%	-0.9%
	34.5%	30.5%	34.3%	31.1%
Operating income	8.8%	7.3%	8.6%	7.6%
Interest expense	11.5%	6.6%	10.9%	6.5%
Interest income	0.0%	0.0%	0.0%	0.0%
Income (loss) before income taxes	-2.7%	0.8%	-2.2%	1.2%
Income tax expense (benefit)	0.0%	0.3%	-0.2%	0.5%
Net income (loss)	-2.6%	0.4%	-2.0%	0.7%

### Quarter Ended June 27, 2009 as Compared to the Quarter Ended June 28, 2008

*Net Sales.* Our consolidated net sales decreased \$49.7 million, or 18.6%, to \$218.0 million for the quarter ended June 27, 2009 compared to \$267.7 million for the quarter ended June 28, 2008 principally due to a decline in our Domestic segment net sales. Our Domestic segment net sales decreased \$34.0 million, or 14.8%, to \$195.3 million (includes \$2.0 million of inter-segment net sales) for the quarter ended June 27, 2009 compared to \$229.3 million (includes \$0.1 million in inter-segment net sales) during the same period of 2008. Our Domestic segment net sales decreased for the quarter ended June 27, 2009 primarily as a result of a decrease in our conventional bedding unit volume of 15.5%, or approximately \$33.4 million, and our average unit selling price ("AUSP") of 0.9%, or approximately \$1.7 million, compared to the same period of 2008. We attribute our conventional bedding unit volume decline principally to the weak U.S. macroeconomic environment resulting in consumers delaying or foregoing their purchases of mattresses. Our conventional bedding AUSP decreased principally due to a shift in our product sales mix.

Our Canada segment net sales decreased \$13.8 million to \$24.8 million for the quarter ended June 27, 2009 compared to \$38.6 million for the quarter ended June 28, 2008. In local currency, our Canada segment net sales decreased for the quarter ended June 27, 2009 by 26.4% compared to the same period of 2008 due to a decline in conventional bedding unit volume of 28.9%, which was partially offset by an increase in conventional bedding AUSP of 3.5%. Our Canada segment unit volume decreased principally due to a weak retail environment in Canada and production issues following the closure of our Bramalea, Ontario facility in September 2008 resulting in less customer promotional activity during the second quarter of 2009 compared to the same period of 2008. Our Canada segment AUSP increased principally due to price increases implemented in the third quarter of 2008, the introduction of a new 2009 product line, and a shift in sales mix to higher priced products.

*Gross Profit.* Our consolidated gross profit decreased \$6.9 million to \$94.3 million (43.2% of consolidated net sales) for the quarter ended June 27, 2009 compared to \$101.2 million (37.8% of consolidated net sales) for the quarter ended June 28, 2008. Our Domestic segment gross profit decreased \$4.3 million to \$87.1 million (44.6% of Domestic segment net sales) for the quarter ended June 27, 2009 compared to \$91.4 million (39.9% of Domestic segment net sales) for the quarter ended June 28, 2008. Our Domestic segment gross margin increased 4.7 percentage points for the second quarter of 2009 compared to the same period of 2008 principally due to a decrease in our conventional bedding material costs per unit of 10.9% and our conventional bedding manufacturing cost per unit of 4.7%. Our material cost per unit decreased primarily due to deflation in the costs of raw materials, particularly in the price of foam, steel and lumber. Our manufacturing cost per unit decreased principally due to our operating one less manufacturing facility due to the closure of our Mableton, Georgia facility in September 2008 and on-going labor and overhead cost containment initiatives, partially offset by fixed manufacturing costs being absorbed by fewer units.

Our Canada segment gross profit decreased \$2.5 million to \$7.3 million (29.4% of Canada segment net sales) for the quarter ended June 27, 2009 compared to \$9.8 million (25.5% of Canada segment net sales) for the quarter ended June 28, 2008. Our Canada segment gross margin increased 3.9 percentage points due primarily to (i) reduced plant overhead as a result of the closure of our Bramalea, Ontario facility in September 2008; (ii) deflation in material costs; and (iii) a change in our sales mix.

*Selling, General and Administrative Expenses ("SG&A").* Our consolidated SG&A decreased \$12.7 million for the quarter ended June 27, 2009 to \$68.4 million (31.4% of consolidated net sales) compared to \$81.1 million (30.3% of consolidated net sales) for the quarter ended June 28, 2008. Our Domestic segment SG&A decreased \$11.5 million to \$62.9 million (32.3% of Domestic segment net sales) for the quarter ended June 27, 2009 from \$74.4 million (32.4% of Domestic segment net sales) for the quarter ended June 28, 2008. Our Domestic segment SG&A decreased principally due to (i) lower volume variable selling and distribution expenses of \$7.4 million due principally to lower sales volumes; (ii) lower salaries and fringe benefits of \$4.7 million principally due to our July and November 2008 reductions in workforce; and (iii) lower fixed selling and brand development expenses of \$1.8 million principally due to the timing of floor sample shipments and cost savings initiatives. Partially offsetting these decreases for the quarter ended June 27, 2009 compared to the same period of 2008, we incurred incremental bonus expense of \$3.1 million as a result of our financial performance exceeding our budget and additional bad debt expense of \$1.0 million.

Our Canada segment SG&A decreased \$1.1 million to \$5.6 million (22.5% of Canada segment net sales) for the quarter ended June 27, 2009 from \$6.7 million (17.4% of Canada segment net sales) for the quarter ended June 28, 2008. Our Canada segment SG&A decreased principally due to lower volume variable selling expenses and cost savings initiatives.

*Restructuring Charges.* For the quarter ended June 27, 2009, restructuring costs increased \$5.4 million to \$6.9 million compared to \$1.5 million for the quarter ended June 28, 2008. For the quarter ended June 27, 2009, restructuring costs consisted of legal and professional fees associated with our financial restructuring efforts of \$6.6 million and exit costs associated with the closure of our Bramalea, Ontario and Mableton, Georgia manufacturing facilities in September 2008 of \$0.3 million. For the quarter ended June 28, 2008, restructuring costs consisted of \$1.5 million related to severance and benefits costs associated with the workforce reduction announced in June 2008.

*Amortization of Intangibles.* For the quarter ended June 27, 2009, amortization of intangibles decreased less than \$0.1 million to \$1.6 million compared the quarter ended June 28, 2008.

*Interest Expense.* For the quarter ended June 27, 2009, interest expense increased \$7.4 million to \$25.0 million from \$17.6 million for the quarter ended June 28, 2008. The increased interest expense for the quarter ended June 27, 2009 was primarily due to higher (i) base rates on our senior credit facility as a result of increased interest rate margins related to our senior lender forbearance agreement and (ii) average outstanding borrowings during the period. Our non-cash interest expense, which includes accretion of our Discount Notes and the amortization of deferred financing fees, increased \$0.6 million to \$6.8 million for the quarter ended June 27, 2009 compared to \$6.1 million for the quarter ended June 28, 2008.

*Income Taxes:* The effective income tax rate for the quarter ended June 27, 2009 of 0.6% was lower than the 42.0% tax rate for the same quarter of the prior year, principally due to the effect of valuation allowances applied against net operating losses in the second quarter of 2009 that resulted in the non-recognition of tax benefits in the U.S. tax jurisdiction.

## Six Months Ended June 27, 2009 as Compared to the Six Months Ended June 28, 2008

*Net Sales.* Our consolidated net sales decreased \$104.0 million, or 19.1%, to \$440.6 million for the six months ended June 27, 2009 compared to \$544.6 million for the six months ended June 28, 2008 principally due to a decline in our Domestic segment net sales. Our Domestic segment net sales decreased \$75.4 million, or 15.9%, to \$398.9 million (includes \$5.1 million of inter-segment net sales) for the six months ended June 27, 2009 compared to \$474.3 million (includes \$0.2 million in inter-segment net sales) during the same period of 2008. Our Domestic segment net sales decreased for the six months ended June 27, 2009 primarily as a result of a decrease in our conventional bedding unit volume of 16.9%, or approximately \$76.4 million. We attribute our conventional bedding unit volume decline principally to the weak U.S. macroeconomic environment resulting in consumers delaying or foregoing their purchases of mattresses. Our conventional bedding A USP remained unchanged for the six months ended June 27, 2009 compared to the six months ended June 28, 2008.

Our Canada segment net sales decreased \$23.7 million to \$46.7 million for the six months ended June 27, 2009 compared to \$70.5 million for the six months ended June 28, 2008. In local currency, our Canada segment net sales decreased for the six months ended June 27, 2009 by 20.9% compared to the same period of 2008 due to a decline in conventional bedding unit volume of 22.1%, which was partially offset by an increase in our conventional bedding A USP of 1.2%. Our Canada segment unit volume decreased principally due to a weak retail environment in Canada and production issues following the closure of our Bramalea, Ontario facility in September 2008 resulting in less customer promotional activity during the first six months of 2009 compared to the same period of 2008. Our Canada segment A USP increased principally due to a price increase implemented in the third quarter of 2008, the introduction of the new 2009 product line, and a shift in sales mix to higher priced products.

*Gross Profit.* Our consolidated gross profit decreased \$21.7 million to \$189.2 million (42.9% of consolidated net sales) for the six months ended June 27, 2009 compared to \$210.9 million (38.7% of consolidated net sales) for the six months ended June 28, 2008. Our Domestic segment gross profit decreased \$15.2 million to \$177.2 million (44.4% of Domestic segment net sales) for the six months ended June 27, 2009 compared to \$192.4 million (40.6% of Domestic segment net sales) for the six months ended June 28, 2008. Our Domestic segment gross margin increased 3.8 percentage points for the first six months of 2009 compared to the same period of 2008 principally due to a decrease in our conventional bedding material cost per unit of 8.6% and our conventional bedding manufacturing cost per unit of 0.3%. Our material cost per unit decreased primarily due to deflation in the costs of raw materials, particularly in the price of foam, steel and lumber. Our manufacturing cost per unit decreased principally due to our operating one less manufacturing facility due to the closure of our Mableton, Georgia facility in September 2008 and on-going labor and overhead cost containment initiatives, partially offset by fixed manufacturing costs being absorbed by fewer units.

Our Canada segment gross profit decreased \$6.4 million to \$12.0 million (25.7% of Canada segment net sales) for the six months ended June 27, 2009 compared to \$18.5 million (26.2% of Canada segment net sales) for the six months ended June 28, 2008. Our Canada segment gross margin decreased 0.5 percentage points due primarily to (i) the purchasing of more products from the Domestic segment, which is more costly than to manufacture in Canada, following the closure of our Bramalea, Ontario facility in September 2008 and (ii) inflation in material costs.

*Selling, General and Administrative Expenses ("SG&A").* Our consolidated SG&A decreased \$31.8 million for the six months ended June 27, 2009 to \$137.8 million (31.3% of consolidated net sales) compared to \$169.6 million (31.2% of consolidated net sales) for the six months ended June 28, 2008. Our Domestic segment SG&A decreased \$29.5 million to \$126.5 million (31.8% of Domestic segment net sales) for the six months ended June 27, 2009 from \$156.1 million (32.9% of Domestic segment net sales) for the six months ended June 28, 2008. Our Domestic segment SG&A decreased principally due to (i) lower volume variable selling and distribution expenses of \$16.0 million due principally to lower sales volumes; (ii) lower salaries and fringe benefits of \$8.1 million principally due to our July and November 2008 reductions in workforce; and (iii) lower fixed selling and brand development expenses of \$7.3 million principally due to the timing of floor sample shipments and cost savings initiatives. Partially offsetting these decreases for the six months ended June 27, 2009 compared to the same period of 2008 we incurred incremental bonus expense of \$5.8 million as a result of our financial performance exceeding our budget and additional bad debt expense of \$1.3 million.

Our Canada segment SG&A decreased \$2.3 million to \$11.3 million (24.1% of Canada segment net sales) for the six months ended June 27, 2009 from \$13.6 million (19.3% of Canada segment net sales) for the six months ended June 28, 2008. Our Canada segment SG&A decreased principally due to lower volume variable selling expenses and cost savings initiatives.

*Restructuring Charges.* For the six months ended June 27, 2009, restructuring costs increased \$12.8 million to \$14.2 million compared to \$1.5 million for the six months ended June 28, 2008. For the six months ended June 27, 2009, restructuring costs consisted of legal and professional fees associated with our financial restructuring efforts \$13.9 million and exit costs associated with the closure of our Bramalea, Ontario and Mableton, Georgia manufacturing facilities in September 2008 of \$0.3 million. For the six months ended June 28, 2008, restructuring costs consisted of severance and benefits costs associated with the workforce reduction announced in June 2008.

*Amortization of Intangibles.* For the six months ended June 27, 2009, amortization of intangibles decreased \$0.1 million to \$3.1 million compared to \$3.2 million for the six months ended June 28, 2008.

*Interest Expense.* For the six months ended June 27, 2009, interest expense increased \$12.3 million to \$47.8 million from \$35.5 million for the six months ended June 28, 2008. The increased interest expense for the six months ended June 27, 2009 was primarily due to higher (i) base rates on our senior credit facility as a result of increased interest rate margins related to our senior lender forbearance agreements and (ii) average outstanding borrowings during the period. Our non-cash interest expense, which includes accretion of our Discount Notes and the amortization of deferred financing fees, increased \$1.6 million to \$13.8 million for the six months ended June 27, 2009 compared to \$12.2 million for the six months ended June 28, 2008.

*Income Taxes:* The effective income tax rate for the six months ended June 27, 2009 of 8.7% was lower than the 41.6% tax rate for the same six months of the prior year, principally due to the effect of valuation allowances applied against net operating losses in the first six months of 2009 that resulted in the non-recognition of tax benefits in the U.S. tax jurisdiction.

## Liquidity and Capital Resources

Our principal sources of cash to fund liquidity needs are (i) cash provided by operating activities of Simmons Bedding and (ii) borrowings available under Simmons Bedding's senior credit facility. Restrictive covenants in our debt agreements restrict our ability to pay cash dividends and make other distributions. Our primary use of funds consists of payments for working capital requirements, capital expenditures, customer supply agreements, principal and interest for our debt, and acquisitions. As of June 27, 2009, we had \$67.3 million of cash on hand and less than \$0.1 million of availability to borrow under Simmons Bedding's revolving loan facility. As of August 1, 2009, we had \$64.5 million of cash on hand.

Since September 27, 2008, Simmons Bedding has not been in compliance with certain covenants of its \$540.0 million senior credit facility. After being unable to obtain a waiver or an amendment from its senior lenders to its senior credit facility, Simmons Bedding entered into an initial and subsequent forbearance agreement with a majority of its senior lenders pursuant to which the senior lenders agreed to refrain from enforcing their respective 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 with its senior lenders on March 25, 2009, May 27, 2009, June 30, 2009, and August 14, 2009, whereby the senior lenders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively.

On January 15, 2009 and July 15, 2009, Simmons Bedding did not make its scheduled interest payments due on its Subordinated Notes resulting in defaults under the indenture governing the Subordinated Notes. On February 14, 2009, the default associated with the failure to pay the interest due on January 15, 2009 matured into an event of default, which gave the holders of the Subordinated Notes the right 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 such noteholders 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 with a majority of the Subordinated Notes holders on March 25, 2009, May 27, 2009, June 30, 2009, and August 14, 2009, whereby such noteholders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. Pursuant to the terms of the forbearance agreement, the noteholders party to the 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 forbearance agreement represent 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.

As a condition to the forbearance agreement with Simmons Bedding's senior lenders, the Company initiated a 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 the Company's debt obligations, including seeking additional debt or equity capital and evaluating various strategic alternatives, including a possible sale of Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or assets. 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 or default under the senior credit facility or Subordinated Notes, then Holdings would be in default under its Discount Notes and Bedding Superholdco would be in default under its \$300.0 million senior unsecured loan Toggle Loan. The Company would not have the ability to repay any amounts accelerated under its various debt obligations without obtaining additional equity and/or debt financing. An acceleration of payments or default could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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 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.

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

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

	<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Statement of Cash Flow Data:		
Cash flows provided by (used in):		
Operating activities	\$ 13.7	\$ 3.7
Investing activities	(0.9)	(12.6)
Financing activities	(0.7)	7.2
Effect of exchange rate changes on cash	0.3	(0.5)
Increase (decrease) in cash and cash equivalents	12.4	(2.2)
Cash and cash equivalents:		
Beginning of period	54.9	27.5
End of period	<u>\$ 67.3</u>	<u>\$ 25.3</u>

## Six Months Ended June 27, 2009 as Compared to Six Months Ended June 28, 2008

*Cash flows provided by Operating Activities.* Our cash flows provided by operating activities increased \$10.0 million for the six months ended June 27, 2009 compared to the six months ended June 28, 2008. The increase in cash provided for the first six months of 2009 compared to the same period of the prior year was primarily due to less cash utilized for working capital offset by lower operating results due principally to our restructuring costs. Our working capital (excluding deferred debt issuance costs classified as a current asset) increased \$3.8 million during the first six months of 2009 compared to a \$23.9 million increase during the same period of 2008. Our working capital increased less for the first six months of 2009 compared to the same period of 2008 principally due to lower sales volumes and timing of vendor payments.

*Cash flows used in Investing Activities.* For the six months ended June 27, 2009, our cash flows used in investing activities decreased \$11.7 million compared to the same period of 2008 due to a decrease in capital spending. Our purchases of property, plant and equipment decreased in 2009 principally due to a reduction in projects in line with the current economic environment. In addition, our 2008 purchases were higher than normal due to the upgrade of our Domestic segment ERP system and the purchase of new manufacturing equipment to help meet anticipated future demand for our products.

*Cash flows provided by (used in) Financing Activities.* For the six months ended June 27, 2009, our financing activities resulted in a \$0.7 million use of cash due to \$0.5 million in forbearance fees paid to the holders of our Subordinated Notes, \$0.1 million in debt payments and a dividend payment of less than \$0.1 million to Bedding Superholdco. For the six months ended June 28, 2008, our financing activities resulted in a \$7.2 million source of cash principally due to \$24.0 million of borrowings under our revolving credit facility, partially offset by a \$16.5 million dividend payment to Bedding Superholdco.

### Debt

As of June 27, 2009, our debt outstanding was \$1,000.0 million compared to \$988.2 million as of December 27, 2008. 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 June 27, 2009, 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 0.375% 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. We were not required to prepay a portion of the tranche D term loan during the first six months of 2009.

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 June 27, 2009 for the tranche D term loan was 10.5%. The senior credit facility is guaranteed by Bedding Holdco and all of Simmons Bedding's 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 (loss) to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA, as we interprets the definition of Adjusted EBITDA from the senior credit facility, also adjusts net income (loss) 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 (loss); 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 of no less than 3.00:1.00 from June 27, 2009 through each fiscal quarter ending thereafter.
- 2) A maximum leverage ratio of no greater than 4.00:1.00 from June 27, 2009 through each fiscal quarter ending thereafter.

Since 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; (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”) 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; (iii) that certain Third Amendment to Second Forbearance Agreement; Sixth Amendment to the Second Amended and Restated Credit and Guaranty Agreement (the “Third Amendment to the Second Forbearance Agreement”) on June 30, 2009, pursuant to which the senior lenders extended the forbearance period under the Second Forbearance Agreement through August 14, 2009; and (iv) that certain Fourth Amendment to Second Forbearance Agreement; Seventh Amendment to the Second Amended and Restated Credit and Guaranty Agreement (the “Fourth Amendment to the Second Forbearance Agreement”) and, together with the First Amendment to the Second Forbearance Agreement, the Second Amendment to the Second Forbearance Agreement and the Third Amendment to the Second Forbearance Agreement, the “Amendment to the Second Forbearance Agreement”) on August 14, 2009, pursuant to which the senior lenders extended the forbearance period under Second Forbearance Agreement through August 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, liens, investments, 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 4.25% and 3.25%, 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;
- Providing a long-term business plan to the senior lenders by January 7, 2009;
- Commencing a process to solicit new debt and/or equity investment by January 9, 2009;
- Providing a potential restructuring proposal to the senior lenders by January 26, 2009; and
- Increased financial reporting requirements.

As of June 27, 2009, the Company was in compliance with the covenant requirements of the Second Forbearance Agreement, as amended.

The First 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 Base Rate plus 6.25% per annum or Eurodollar Rate plus 7.25% per annum.

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 (\$0.6 million) 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 (\$2.6 million) 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 in 2008 and expensed the third party fees associated with the forbearance agreements as incurred. In connection with the Third Amendment to the Second Forbearance Agreement, Simmons Bedding agreed to pay the senior lenders who approved the agreement a forbearance fee equal to 0.15% of the aggregate outstanding amount of approving lender's outstanding debt (\$0.7 million), which the Company capitalized for the quarter ending September 26, 2009.

During the forbearance period as extended, Simmons Bedding has met various covenants and other provisions related to continued progress in its restructuring efforts and reporting on the status of the restructuring process.

#### *Subordinated Notes*

Simmons Bedding's \$200.0 million senior subordinated notes due 2014 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 103.938% 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.

The indenture for the Subordinated Notes require 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.

Simmons Bedding did not make scheduled interest payments of \$7.9 million due on January 15, 2009 and July 15, 2009 on the Subordinated Notes resulting in defaults under the indenture governing the Subordinated Notes. On February 14, 2009, the default associated with the failure to pay the interest due on January 15, 2009 matured into an event of default, which gives the holders of the Subordinated Notes the right 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 governing the Subordinated Notes ("Subordinated Forbearance Agreement"), pursuant to which such noteholders agreed to refrain from enforcing their respective rights and remedies under the Subordinated Notes and the related indenture through March 31, 2009. In consideration for their entry into the amendment to the Subordinated Forbearance Agreement, the noteholders party to the forbearance agreement received an amendment fee equal to 0.5% of the aggregate outstanding amount of such holder's Subordinated Notes (\$0.5 million). In connection with the Subordinated Forbearance Agreement, Simmons Bedding also 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, May 27, 2009, June 30, 2009, and August 14, 2009, whereby a majority of the noteholders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. 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 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.

### *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 will accrue 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. 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 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. Holdings was in compliance with such covenants as of June 27, 2009.

### *Toggle Loan*

We do not guarantee or have any of our assets pledged as collateral under Bedding Superholdco'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, Bedding Superholdco 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. Under the terms of the credit agreement governing the Toggle Loan, Bedding Superholdco 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 us from making distributions to its parent companies during the forbearance period, except in the ordinary course of business. Accordingly, Bedding Superholdco has elected to make its February 2009, August 2009 and February 2010 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.

### **Seasonality/Other**

Our third fiscal quarter sales are typically higher than sales for 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.

### **Accounting Pronouncements**

See Note J in the Notes to our Unaudited Condensed Consolidated Financial Statements in Item 1 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 quarterly report on Form 10-Q 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) compliance with covenants in, and any defaults under, our debt agreements or instruments; (ii) our ability to (a) comply with the terms of the forbearance agreements, including meeting certain conditions contained therein, (b) obtain further extensions to the forbearance periods, or (c) develop and implement a restructuring on acceptable terms, on a timely basis or at all; (iii) compliance by the lenders and noteholders with the terms of the forbearance agreements; (iv) 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; (v) Simmons Bedding being required to immediately repay all amounts outstanding under the senior credit facility resulting from the noncompliance with the covenants thereunder or otherwise being in default under its debt which could in turn result in a default under the indebtedness of Simmons Bedding, Simmons Company or Bedding Superholdco or could result in a bankruptcy filing by or against us or any of our affiliates and have an adverse impact on the value of our and our affiliate’s debt and equity securities; (vi) the potential adverse impact of any restructuring or any related pre-arranged or voluntary bankruptcy filing on our business, financial condition, liquidity, results of operations and the value of our and our affiliate’s debt and equity securities; (vii) interest rate and credit market risks; (viii) competitive pressures in the bedding industry; (ix) general economic and industry conditions; (x) our ability to launch new products on a timely basis, the success of our new products and the future costs to rollout such products; (xi) legal and regulatory requirements; (xii) our relationships with and viability of our suppliers, significant customers and licensees; (xiii) fluctuations in our costs of raw materials and energy prices; (xiv) our ability to hold or increase prices on our products and the related effect on our unit sales; (xv) an increase in our return rates and warranty claims; (xvi) our labor relations; (xvii) encroachments on our intellectual property; (xviii) our product liability, intellectual property and other litigation claims; (xix) our level of indebtedness; (xx) foreign currency exchange rate risks; (xxi) our future acquisitions; (xxii) our ability to achieve the expected benefits from any personnel realignments; (xxiii) higher bad debt expense as a result of increased customer bankruptcies due to instability in the economy and slowing consumer spending; (xxiv) our ability to maintain sufficient liquidity to operate our business; and (xxv) other risks and factors identified from time to time in our reports filed with the Securities Exchange Commission. We undertake no obligation to update or revise any forward-looking statements, either to reflect new developments or for any other reason.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q. 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 3. Quantitative and Qualitative Disclosures about Market Risk**

Information relative to our market risk sensitive instruments by major category should be read in conjunction with the related disclosure contained in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2008.

#### **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 the 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 June 27, 2009.

#### **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 June 27, 2009, we had floating rate debt of \$533.3 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 \$5.6 million for the quarter ended June 27, 2009.

#### **Commodity Price Risk**

The major raw materials that we purchase for production are foam, wire, spring components, lumber, cotton, insulator pads, 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 expected to be \$1.1 million.

### **Item 4T. Internal 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 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 June 27, 2009.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in internal controls in the second quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

See paragraph 1 and 2 of Note H to the Unaudited Condensed Consolidated Financial Statements, Part 1, Item 1 included herein.

### Item 1A. Risk Factors

*In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 27, 2008, which could materially affect our business, financial condition or future results. To the extent that the risk factors set forth below appear in our Annual Report on Form 10-K, the risk factors set forth below amend and supplement those risk factors with the same titles contained in such previously filed reports.*

#### 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 periods 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, March 28, 2009 and June 27, 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, since 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 with its senior lenders on March 25, 2009, May 27, 2009, June 30, 2009, and August 14, 2009, whereby the senior lenders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. 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 and July 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 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, May 27, 2009, June 30, 2009, and August 14, 2009, whereby such holders extended their forbearance period through May 31, 2009, June 30, 2009, August 14, 2009, and August 31, 2009, respectively. 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 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 the forbearance agreements and related amendments, which are reflected in our restructuring charges, as well as increased interest margins.

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 Bedding Superholdco 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 or default could result in a voluntary filing of bankruptcy by, or the filing of an involuntary petition for bankruptcy against, Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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, our assets or assets of our affiliates, 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 tax credits 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, Bedding Holdco, Holdings or Bedding Superholdco to repay their respective debt. Any debt or equity holder of Simmons Bedding, Holdings or Bedding Superholdco 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 Bedding Superholdco. 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, including a possible sale of Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or the assets of Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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 Bedding Superholdco'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, Bedding Holdco, Holdings, Bedding Superholdco 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 Bedding Superholdco 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 Bedding Superholdco 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 or default could result in a voluntary filing of bankruptcy by Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates, which would have the material adverse impacts described above.***

The factors described in this Quarterly Report on Form 10-Q, 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, Bedding Holdco, Holdings, Bedding Superholdco or any of our affiliates or the filing of an involuntary petition for bankruptcy against Simmons Bedding, Bedding Holdco, Holdings, Bedding Superholdco 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 June 27, 2009, we had \$1,000.0 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 Bedding Superholdco is a holding company with no operations. Each of Holdings and Bedding Superholdco 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 Bedding Holdco, which in turn is a holding company that conducts no operations and the only assets of which are the capital stock of Simmons Bedding. Bedding Superholdco 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 Bedding Superholdco'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 Bedding Superholdco'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 Bedding Superholdco, 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 Bedding Superholdco and otherwise transferring assets to Holdings or to Bedding Superholdco. 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 Bedding Superholdco could suffer the loss of a significant part or all of its loan or investment.

***The actions of Bedding Superholdco's controlling stockholder could conflict with the interests of the holders of our debt.***

Bedding Superholdco'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, Bedding Superholdco 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 \$162.7 million 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 Bedding Superholdco's controlling stockholder could negatively impact the debt or equity holders of Simmons Bedding, Holdings or Bedding Superholdco.

***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 \$0.7 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 for the balance of 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, 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 67% of the conventional bedding industry's wholesale revenues in 2008 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 at such time as a final rule becomes effective. 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, certain sales volume rebates or exclusivity to certain products could be lost.

Additionally, our domestic operations primarily utilize three 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 logistics 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. 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 and write-off the unamortized portion of expenditures for customer supply agreements. 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 at December 27, 2008) 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 June 27, 2009, we had approximately \$67.3 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

See Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

### **Item 5. Other Information**

Amendments to Articles of Incorporation.

On August 18, 2009, Simmons Bedding amended its amended and restated certificate of incorporation to provide for three classes of directors, as nearly equal in number as possible. Accordingly, the current members of the Board of Directors of Simmons Bedding will be divided into three classes. The term of office of the first class of directors will expire in 2009, the term of office of the second class of directors will expire in 2010 and the term of the third class of directors will expire in 2011. The amended and restated certificate of incorporation of Simmons Bedding is filed herewith as Exhibit 3.1.

On August 20, 2009, THL-SC Bedding Company filed a certificate of amendment of certificate of incorporation to change its name to Bedding Holdco Incorporated. On August 20, 2009, Simmons Holdco, Inc., Holdings’ parent company, also filed a certificate of amendment of certificate of incorporation to change its name to Bedding Superholdco Incorporated. The certificates of amendment of certificate of incorporation are filed herewith as Exhibits 3.2 and 3.3.

### **Item 6. Exhibits**

- 3.1 Third Amended and Restated Certificate of Incorporation of Simmons Bedding.
- 3.2 Certificate of Amendment of Certificate of Incorporation of THL-SC Bedding Company.
- 3.3 Certificate of Amendment of Certificate of Incorporation of Simmons Holdco Inc.
- 10.1 Second Amendment to Second Forbearance Agreement and Fifth Amendment to the Second Amended and Restated Credit and Guaranty Agreement dated as of May 27, 2009, by and among Simmons Bedding, Bedding Holdco and certain subsidiaries of Simmons Bedding, and the senior lenders.
- 10.2 Amendment No. 2 to Forbearance Agreement to Indenture dated May 27, 2009, by and among Simmons Bedding Company, the Guarantors (as defined in the Indenture) and the Amending Holders.
- 31.1 President and Chief Operating Officer Certification of the Type Described in Rule 13a — 14(a) and Rule 15d — 14(a).
- 31.2 Chief Financial Officer Certification of the Type Described in Rule 13a — 14(a) and Rule 15d — 14(a).
- 32.1 Certification of President and Chief Operating Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).

## SIGNATURES

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

SIMMONS COMPANY

By: /s/ William S. Creekmuir

William S. Creekmuir

Executive Vice President & Chief Financial Officer

Date: August 21, 2009





## EXHIBIT C

### PROJECTED FINANCIAL INFORMATION OF SERTA HOLDINGS

Serta Holdings has prepared its projected financial results on a consolidated basis for the calendar years 2009, 2010, 2011, 2012 and 2013 (the “Projections”). Estimates for 2009 comprise unaudited actual results from management accounts for the nine months ended September 30, 2009 and projections for the period October 1, 2009 to December 31, 2009. The financial information discussed herein includes certain statements that may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. See “Cautionary Statement Regarding Forward Looking Statements” in the Disclosure Statement.

The Projections included in this document have been prepared by, and are the responsibility of, Serta Holdings’ management. The Projections were not prepared to comply with the guidelines for prospective financial statements published by the American Institute of Certified Public Accountants and the Rules and Regulations of the Securities and Exchange Commission. Serta Holdings’ independent auditors have neither examined, compiled nor performed any procedures with respect to the Projections and accordingly do not express any opinion or any other form of assurance with respect to the Projections, assume no responsibility for the Projections and disclaim any association with the projections. Results set forth in the financial projections should not be viewed as indicative of future results. Except for purposes of the Disclosure Statement, Serta Holdings does not publish projections of its anticipated financial position or results of operations.

### SIGNIFICANT ASSUMPTIONS FOR FINANCIAL PROJECTIONS

SERTA HOLDINGS HAS PREPARED THESE FINANCIAL PROJECTIONS BASED UPON THE FOLLOWING ASSUMPTIONS THAT THEY BELIEVE TO BE REASONABLE UNDER THE CIRCUMSTANCES. MANY OF THE ASSUMPTIONS ON WHICH THE FINANCIAL PROJECTIONS ARE BASED ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES. INEVITABLY, SOME ASSUMPTIONS WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY AFFECT THE ACTUAL FINANCIAL RESULTS. THEREFORE, THE ACTUAL RESULTS ACHIEVED THROUGHOUT THE PROJECTION PERIOD MAY VARY FROM THE PROJECTED RESULTS AND THE VARIATIONS MAY BE MATERIAL. ALL HOLDERS OF CLAIMS AND INTERESTS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN ARE URGED TO EXAMINE CAREFULLY ALL OF THE ASSUMPTIONS ON WHICH THE FINANCIAL PROJECTIONS ARE BASED IN EVALUATING THE PLAN.

#### General

- *Methodology.* The Projections were developed based on assumptions of macroeconomic and industry factors, as well as factors specific to Serta Holdings’ brands, products and customers. These assumptions were developed by Serta Holdings’ management using their best business judgment. The Projections were prepared in good faith by Serta Holdings’ management using the same accounting policies, to the extent applicable, as those used to prepare its historical financial statements.
- *Fiscal Years.* Financial projections are presented on a calendar year end.
- *Effective Date.* The Financial Projections assume an Effective Date of March 15, 2010.

- Macroeconomic and Industry Environment. The projections reflect management's expectation of the bedding industry reverting to historical levels of unit and AUSP growth going forward, driven by a broader economic recovery beginning in late 2010 and 2011.

### **Projected Income Statement**

- Revenues. Net revenues are projected to increase 7.4% in 2010, 7.6% in 2011 and 5.9% in 2012 and 2013. Management expects Serta Holdings' unit sales to grow in line with the rest of the bedding industry and AUSP to increase as a result of inflation and changes in product mix toward higher-end products.
- Cost of Goods Sold. Cost of goods sold primarily includes raw material costs (steel, foams, fabric and others) with labor and overhead being a smaller portion of the total cost. Annual inflation factors were applied to various material categories as well as variable overhead based on expected commodity price increases and product mix shifts and adjusted for anticipated productivity and efficiency gains such as reduced pounds of scrap per piece and reduced direct labor hours per piece. Fixed manufacturing overhead is projected to increase in line with inflation.
- Gross Margins. Gross margins are expected to remain flat at 40.5% driven primarily by commodity price inflation adjusted for improvements in manufacturing efficiency and labor productivity.
- Selling, General and Administrative Expenses. SG&A expenses primarily consist of variable expenses, such as distribution costs which are expected to remain flat as a percentage of revenue going forward and selling and advertising costs which are expected to increase moderately as a percentage of revenue over the projection period. SG&A expenses also include fixed expenses, such as salaries and fringe benefits which are expected to grow in line with inflation.
- Other Operating Expenses. Other operating expenses include the amortization of intangible assets, non-cash stock-based compensation, plant closure costs and a goodwill impairment charge in 2008. The projections reflect management's expectation that there will be no goodwill impairment charges and plant closure costs. Non-cash stock-based compensation expense and amortization reflect scheduled amounts through 2013.
- Tax Shield. Prior to the acquisition of NBC and certain of its affiliates by AOT in 2005, NBC was a limited liability company that was treated as partnership for tax purposes. As a result of the acquisition by AOT of 100% of the NBC interests and subsequent acquisitions, the tax basis of the company's assets were increased to their fair market values, resulting in additional tax deductible amortization over a 15-year period. The amortization associated with the increase in tax basis reduces Serta Holdings' taxable income by approximately \$48 million annually. On a present value basis assuming blended U.S. federal and state income tax rate of 40% and a discount rate equal to 11%, the value of this tax shield is expected to be approximately \$123 million as of December 31, 2009. As of December 31, 2008, Serta Holdings had approximately \$40 million of net operating losses that may be available to reduce taxable income throughout the projection period and beyond.
- Capital Expenditures. Serta Holdings expects to spend approximately \$7 million per annum on maintenance and expansion capital expenditures, based on historical maintenance capital spending requirements and project-level budgets for expansion capex.
- Working Capital. Accounts Receivable and Accounts Payable levels are projected to fluctuate with Revenues and throughout the year based on historical seasonality and levels. Inventory turns are projected to remain constant going forward.

- Capital Structure and Interest Expense. Interest expense projections are based on Serta Holdings' existing capital structure using the forward LIBOR curve (adjusted for hedges currently in place). The projections assume that upon maturity the capital structure is refinanced by another facility with substantially similar terms.
- Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). For purposes of the projections, Adjusted EBITDA is a pro forma measure defined as operating income (loss) plus the amortization of intangible assets, depreciation, goodwill impairment charge, non-cash stock-based compensation, gains and losses on property and equipment, management fees, plant closure costs and other credit agreement related adjustments. Adjusted EBITDA is presented because it is used by Serta Holdings' lenders for purposes of compliance with provisions of its credit agreements and assessment of credit evaluation, by management and the investors in assessing the operating performance of the company and the determination of management incentive compensation.

**Serta Holdings Financial Information**

(\$ in millions)	Actual		9ME		LTM	Estimated		Forecast		
	2007	2008	Sep-08	Sep-09		2009E	2010P	2011P	2012P	2013P
Net Sales	\$756.4	\$812.2	\$649.8	\$573.9	\$736.3	\$742.3	\$797.0	\$857.3	\$908.2	\$962.2
Cost of Goods Sold	450.0	524.0	419.5	335.2	439.7	434.7	474.3	510.0	540.6	572.6
Gross Profit	306.4	288.2	230.3	238.7	296.6	307.6	322.7	347.2	367.6	389.5
Selling & Advertising Expense	141.5	145.9	122.3	105.3	128.9	132.1	145.5	157.2	166.2	176.2
Delivery Expense	31.7	38.9	31.7	24.1	31.4	34.2	38.5	40.4	41.7	43.1
Administrative Expense	38.3	42.6	31.4	33.4	44.6	48.4	42.7	44.2	45.7	47.3
Other Operating Expenses	12.1	90.1	7.6	8.8	91.4	9.6	9.0	5.8	5.8	5.8
Operating Income / (Loss)	\$82.8	(\$29.3)	\$37.4	\$67.0	\$0.2	\$83.4	\$86.9	\$99.6	\$108.2	\$117.2
<b><u>Reconciliation to Adjusted EBITDA</u></b>										
Operating Income / (Loss)	\$82.8	(\$29.3)	\$37.4	\$67.0	\$0.2	\$83.4	\$86.9	\$99.6	\$108.2	\$117.2
Amortization of Intangibles	7.4	7.4	5.6	5.6	7.4	7.4	6.9	5.8	5.8	5.8
Severance & Restructuring (Plant Closures)	2.2	2.5	0.2	0.4	2.8	--	--	--	--	--
Goodwill Impairment	--	77.8	--	--	77.8	--	--	--	--	--
Depreciation Expense	8.5	8.4	6.5	6.5	8.4	8.5	8.5	8.5	8.5	8.5
Other Credit Agreement Adjustments	4.1	3.4	2.2	3.2	4.4	2.7	2.7	0.5	0.5	0.5
Adjusted EBITDA	\$105.0	\$70.2	\$51.9	\$82.7	\$101.0	\$102.0	\$105.0	\$114.4	\$123.0	\$132.0

	Actual		Estimated			Forecast			
	2007	2008	Sep-09	Dec-09	Mar-10	2010P	2011P	2012P	2013P
Cash	\$53.3	\$29.1	\$97.3	\$100.6	\$104.9	\$116.8	\$133.3	\$149.3	\$166.8
Current Assets exc. Cash	113.8	126.5	121.2	91.0	111.9	98.7	121.7	129.2	137.1
Current Liabilities exc. Debt	105.3	104.9	109.3	81.6	101.5	88.9	110.4	117.3	124.5
Total Long-Term Debt	631.8	627.6	624.4	613.5	599.6	560.8	507.0	454.6	397.9

## EXHIBIT D

### PROJECTED FINANCIAL INFORMATION OF NEW PARENT

Set forth below are the pro forma and projected financial results for New Parent on a combined basis for calendar years 2009, 2010, 2011, 2012 and 2013 (the “New Parent Projections”). The financial information discussed herein includes certain statements that may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. See “Cautionary Statement Regarding Forward Looking Statements” in the Disclosure Statement.

The New Parent Projections included in this document have been prepared by, and are the responsibility of, the management of Serta Holdings and Simmons Company. The New Parent Projections were not prepared to comply with the guidelines for prospective financial statements published by the American Institute of Certified Public Accountants and the Rules and Regulations of the Securities and Exchange Commission. Serta Holdings’ independent auditors and the Company’s independent registered public accounting firm have neither examined, compiled nor performed any procedures with respect to the New Parent Projections and accordingly do not express any opinion or any other form of assurance with respect to the New Parent Projections, assume no responsibility for the New Parent Projections and disclaim any association with the projections. Results set forth in the financial projections should not be viewed as indicative of future results. Except for purposes of the Disclosure Statement, the Purchasers do not publish projections of the anticipated financial position or results of operations of New Parent.

### SIGNIFICANT ASSUMPTIONS FOR FINANCIAL PROJECTIONS

THE FINANCIAL PROJECTIONS FOR NEW PARENT ARE BASED UPON THE FOLLOWING ASSUMPTIONS THAT THEY BELIEVE TO BE REASONABLE UNDER THE CIRCUMSTANCES. MANY OF THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES. INEVITABLY, SOME ASSUMPTIONS WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY AFFECT THE ACTUAL FINANCIAL RESULTS. THEREFORE, THE ACTUAL RESULTS ACHIEVED THROUGHOUT THE PROJECTION PERIOD MAY VARY FROM THE PROJECTED RESULTS AND THE VARIATIONS MAY BE MATERIAL. ALL HOLDERS OF CLAIMS AND INTERESTS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN ARE URGED TO EXAMINE CAREFULLY ALL OF THE ASSUMPTIONS ON WHICH THE FINANCIAL PROJECTIONS ARE BASED IN EVALUATING THE PLAN.

#### Assumptions

- Equity Capitalization. The equity capitalization of New Parent will consist of approximately \$310 million of Class B membership interests issued in return for new capital invested as part of this transaction; up to \$15 million of Class A Units issued to Eligible Investors in accordance with the Plan; and \$200 million of Class A membership interests issued to the Sponsors and their affiliates and co-investors who are currently equity holders of Serta Holdings as well as management, employees and independent directors of Serta Holdings in exchange for all of the outstanding stock of Serta Holdings. Additional Class B Membership interests may be issued to fund additional working capital needs or strategic transactions.
- Operations. The combined financial projections assume that Simmons Company and Serta Holdings will continue to operate as separate and independent entities. Any transactions between the two entities, whether to realize synergies or for any other reason, will be negotiated at arm’s length in accordance with the provisions of the master services agreement between the two companies. Only nominal incremental tax, audit and board fees are expected to be incurred at the New Parent.

- Cost Savings. Run-rate cost savings totaling approximately \$50 million annually are expected to be achieved within 18 to 36 months after the closing. Cost savings are primarily expected to be derived from improvements in raw material sourcing through volume purchasing and vendor best-pricing, optimization of logistics including expansion of in-house logistics capabilities and implementation of manufacturing best practices. Based on a detailed investigation of cost-savings opportunities, it is expected that approximately 51% of the total cost savings will be realized by Simmons Company and 49% will be realized by Serta Holdings and its subsidiaries.
- Cost to Achieve Synergies. Aggregate cost of achieving the aforementioned synergies is expected to be in the \$30-40 million range. These expenses will be incurred in the form of capital expenditures and non-recurring restructuring costs.
- Effective Date. The New Parent Projections assume an Effective Date of March 15, 2010.
- Pro Forma. The 2009 financial information presented below is pro forma to assume an Effective Date as of the beginning of 2009. The March 15, 2010 balance sheet presented below is pro forma to assume an Effective Date as of March 15, 2010. The pro forma information does not purport to be indicative of the financial position and results that actually would have been obtained had the transactions been completed as of the assumed Effective Date and for the period presented or that may be obtained in the future.

#### New Parent Financial Information

(\$ in millions)	Pro Forma	Forecast			
	2009E	2010P	2011P	2012P	2013P
Net Sales	\$1,645.4	\$1,861.5	\$2,017.0	\$2,104.1	\$2,248.0
Cost of Goods Sold	949.0	1,136.5	1,232.8	1,293.6	1,377.3
Gross Profit	\$696.4	\$725.0	\$784.2	\$810.5	\$870.6
SG&A	561.3	565.5	571.5	591.5	632.6
Operating Income / (Loss)	\$135.1	\$159.5	\$212.7	\$219.0	\$238.1
Adjusted EBITDA	\$232.5	\$225.6	\$260.2	\$268.6	\$286.6
Run-Rate Cost Savings	50.0				
Adj. EBITDA w/ Run-Rate Cost Savings	\$282.5				

(\$ in millions)	Pro Forma	Forecast			
	Mar-10	2010P	2011P	2012P	2013P
Cash	\$119.3	\$182.0	\$254.4	\$342.1	\$443.4
Current Assets	272.0	266.1	303.1	314.9	332.7
Current Liabilities	211.7	220.0	253.5	265.5	283.3
Total Long-Term Debt	1,047.6	1,005.0	947.7	885.2	815.8

### Pro Forma Capitalization – Serta Holdings

	PF
<i>\$ in millions</i>	Mar-10
Cash	\$104.9
1st Lien Term Loan	389.6
2nd Lien Term Loan	210.0
Total Net Debt	\$494.7
Common Equity	200.0
<b>TEV inc. Tax Shield</b>	<b>\$694.7</b>
(-) PV of Serta Tax Shield	(122.9)
<b>TEV exc. Tax Shield</b>	<b>\$571.8</b>

### Pro Forma Capitalization – Simmons

	PF
<i>\$ in millions</i>	Mar-10
Cash	\$14.4
Existing IRB's	13.0
New ABL Revolver <sup>(1)</sup>	10.0
New Sr. Sec. Notes	425.0
Total Net Debt	\$433.6
New Preferred <sup>(2)</sup>	314.5
New Common Equity — Holdco	15.0
<b>TEV</b>	<b>\$763.2</b>

(1) Such amount may not be drawn if LC's can be rolled to new ABL facility.

(2) Assumes all Holdco Noteholders elect to purchase common equity and includes purchaser fees and expenses.



## Pro Forma Capitalization – New Parent

	PF
<i>\$ in millions</i>	Mar-10
Simmons Cash	\$14.4
Serta Holdings Cash	104.9
Serta Holdings 1st Lien Term Loan	389.6
Serta Holdings 2nd Lien Term Loan	210.0
Serta Holdings Net Debt	\$494.7
Existing Simmons IRB's	13.0
New Simmons ABL Revolver	10.0
New Simmons Sr. Sec. Notes	425.0
Simmons Net Debt	\$433.6
<b>Total Net Debt</b>	<b>\$928.4</b>
New Preferred	314.5
New Common Equity — HoldCo	15.0
Common Equity — Serta Holdings Contributed Equity	200.0
<b>TEV inc. Tax Shield</b>	<b>\$1,457.9</b>
(-) PV of Serta Holdings Tax Shield	(122.9)
<b>TEV exc. Tax Shield</b>	<b>\$1,335.0</b>

## EXHIBIT E

### DESCRIPTION OF CLASS A UNITS

*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 descendants, 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 from 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 F**

Liquidation Analysis and Best Interests Test

Please see attached.



---

# Simmons Company

## Liquidation Analysis Assumptions

As of August 2009 Unaudited Balance Sheet

---

### General Assumptions

The Liquidation analysis reflects the estimated cash proceeds, net of liquidation related costs, which would be realized if the debtors were to be liquidated in a Chapter 7 proceeding. Underlying the liquidation analysis are a number of assumptions that, although considered to be reasonable and accurate, are inherently subject to significant business, economic and competitive uncertainties and contingencies outside the control of the debtors and management. Given the preceding, there can be no assurance that the values reflected in the liquidation analysis would be realized in the event of such liquidation, and actual results could vary materially from those shown here. The liquidation analysis is based upon assumptions with respect to certain liquidation decisions which could be subject to change. The liquidation period would allow for the collection of accounts receivables, sale of inventory and the sale of fixed assets. The duration of the process is estimated to be 9 months.

Below provides additional information related to assumptions used to generate the liquidation analysis. Specific recovery percentages are provided in the following pages of this report.

**(1) Cash**

Cash and cash equivalents are presented on a consolidated basis as represented by the Debtors' August 2009 unaudited financial statements. Cash and cash equivalents are assumed to be 100% recoverable.

**(2) Accounts Receivable**

The liquidation assumes recovery of A/R balances in the 0 - > 90 days level and is adjusted for risks of charge backs, non collection, cash discounts and other normal and ordinary course customer deductions. Based on the estimated aged recovery percentages the blended recovery ranges are from 57% - 69%.

**(3) Inventories**

The company has little work in process (WIP) inventory given its just in time manufacturing process. Value would be recovered from raw materials and to a lesser extent finished goods. The inventory reserve of \$7.3mm (company currently buying materials below standard cost) is an accounting adjustment and will have no recovery value. Based on the inventory classes the blended recovery ranges are from 10% - 20%

**(4) Other Current Assets**

Some prepaid deposits and royalty receivables are assumed to have a liquidation recovery value or off - set to wind down expenses. Deferred financing fees, deferred taxes and other current assets are assumed to have no liquidation recovery value. The recovery ranges from 0% - 3%.

**(5) Property Plant and Equipment**

The sale process of PP&E may take up to a year and value would be impacted for the carrying costs and changes in the market value of the property. The blended recovery ranges from 18% to 33%.

- (6) **Goodwill**  
It is assumed that Goodwill will have no Liquidation recovery value.
- (7) **Trademarks**  
It is assumed that Trademarks will have some recovery value based on the strong brand name. The ranges of recovery are from 10%- 40%.
- (8) **Patents & Customer Relations**  
It is assumed that Patents & Customer Relations will have some recovery value based on the Pocketed-Coil® process. The ranges of recovery are from 10% - 40%.
- (9) **Deferred Fees**  
It is assumed that Deferred Fees will have no Liquidation recovery value.
- (10) **Other Assets**  
Fees related to product placement payments to customers are assumed to have no liquidation recovery value.
- (11) **Wind Down Costs**  
Operating expenses, including rent and personnel costs were estimated and assumed to decrease after the first three months of the nine month wind down. The wind down costs also include estimates for the final tax return preparation, the Trustee's legal counsel and the Trustee's financial advisors.
- (12) **Claims - Administrative, secured, priority, unsecured**  
Secured claims are bank debt, outstanding letters of credit and industrial revenue bonds currently totaling \$553,216. The liquidation analysis illustrates that after secured claims and the cost to administer the Chapter 7 process, all of the proceeds are exhausted. Given this analysis, no estimate was made for Administrative, Priority or Other classes of claims.

Source: Internal unaudited financial statements and trial balance as of August 2009

**Simmons Company - Including Canada and Puerto Rico**  
**Summary of Assets, Liabilities, & Estimated Recovery**  
**Amounts in Thousands**

	Notes	August 2009 Balance Sheet Value	Recovery Percentage		Recovery Amount	
			Low	High	Low	High
Cash	(1)	\$66,168	100%	100%	\$66,168	\$66,168
Accounts Receivable	(2)	\$112,092	57%	69%	\$64,362	\$77,064
Inventory	(3)	\$27,893	10%	20%	\$2,789	\$5,579
Other Current Assets	(4)	\$31,939	0%	3%	\$	\$958
<b>Total Current Assets</b>		<b>\$238,091</b>			<b>\$133,319</b>	<b>\$149,768</b>
Property, Plant, & Equipment	(5)	\$79,340	18%	33%	\$14,564	\$26,547
Goodwill	(6)	\$230,856	0%	0%	\$	\$
Trademarks	(7)	\$213,969	10%	40%	\$21,397	\$85,587
Patents & Customer Relations	(8)	\$126,781	10%	40%	\$12,678	\$50,712
Deferred Fees	(9)	\$538	0%	0%	\$	\$
Other Assets	(10)	\$13,872	0%	0%	\$	\$
<b>Long-Term Assets, Net</b>		<b>\$665,355</b>			<b>\$48,639</b>	<b>\$162,847</b>
<b>Total Proceeds Available for Distribution</b>		<b>\$903,447</b>			<b>\$181,958</b>	<b>\$312,615</b>
<b>Wind Down Costs</b>						
Wind Down Costs (Operating Expenses & Other Professional Fees)	(11)				-\$13,638	-\$13,638
Trustee Fees	3%				-\$5,459	-\$9,378
Commissions/cost of liquidation PP&E of equipment	10%				-\$1,456	-\$2,655
<b>Total Wind Down Costs</b>					<b>-\$20,553</b>	<b>-\$25,671</b>
<b>Net Proceeds Available after Wind Down Costs</b>					<b>\$161,405</b>	<b>\$286,944</b>
<b>Claims of Secured Creditors</b>						
Revolving Credit Facility due 12/2009		\$64,532				
Letters of Credit		\$10,277				
Sr. Sec Term Loan due 12/2011		\$465,000				
IRB's		\$13,407				
<b>Subtotal</b>		<b>\$553,216</b>				
Recovery Dollars for Secured Creditors					\$161,405	\$286,944
Recovery Percentage for Secured Creditors					29.2%	51.9%
<b>Net Proceeds Available after Claims of Secured Creditors</b>					<b>\$0.0</b>	<b>\$0.0</b>
<b>Administrative and Other Priority Claims</b>	(12)					
Recovery Dollars for Administrative and Other Priority Claims					\$0.0	\$0.0
Recovery Percentage for Administrative and Other Priority Claims					0.0%	0.0%
<b>Net Proceeds Available after Administrative and Priority Claims</b>					<b>\$0.0</b>	<b>\$0.0</b>
<b>General Unsecured Claims</b>						
Recovery Dollars for Unsecured Claims					\$0.0	\$0.0
Recovery Percentage for Unsecured Claims					0.0%	0.0%
<b>Net Proceeds Available after General Unsecured Claims</b>					<b>\$0.0</b>	<b>\$0.0</b>



[THIS PAGE INTENTIONALLY LEFT BLANK]

## **EXHIBIT G**

### **PROJECTED FINANCIAL INFORMATION OF SIMMONS COMPANY**

Simmons Company has prepared their projected financial results on a consolidated basis for the 52 weeks ended December 26, 2009, 52 weeks ended December 25, 2010, the 53 weeks ended December 31, 2011, 52 weeks ended December 29, 2012 and 52 weeks ended December 28, 2013 (the “Projections”). The consolidated entity includes operations in the United States, Puerto Rico, and Canada. This projected financial information has been prepared for Simmons Company on a consolidated basis that includes all of the Debtors; however, if the Plan is approved and consummated, the Purchasers will acquire the Company, which excludes Simmons Company. Because Simmons Company does not have operations independent of Bedding Holdco and its other consolidated subsidiaries, the only differences between the consolidated financial information of Simmons Company and Bedding Holdco are items related to Simmons Company’s ownership of Bedding Holdco. As a result, the Debtors do not believe the differences between the projected financial information for Simmons Company and for Bedding Holdco, in each case on a consolidated basis, are material to a decision to accept or reject the Plan or, if applicable, to purchase Class A Units. The financial information discussed herein includes certain statements that may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. See “Cautionary Statement Regarding Forward Looking Statements” in the Disclosure Statement.

The Projections included in this document have been prepared by, and are the responsibility of, Simmons Company’s management. The Projections were not prepared to comply with the guidelines for prospective financial statements published by the American Institute of Certified Public Accountants and the Rules and Regulations of the Securities and Exchange Commission. Simmons Company’s registered public accounting firm have neither examined, compiled nor performed any procedures with respect to the Projections contained herein and, accordingly, do not express an opinion or any other form of assurance with respect to the Projections, assume no responsibility for the Projections and disclaim any association with the Projections. The PricewaterhouseCoopers LLP report included in this document relates to the Company’s historical financial information. It does not extend to the projections and should not be read to do so. The information contained in the Projections is furthermore different from that required to be included in the reports filed by Simmons Company pursuant to the securities and exchange act of 1934, as amended and might not be indicative of Simmons Company’s financial condition or operating results that would be reflected in the financial statements of Simmons Company or in its reports pursuant to the exchange act. Results set forth in the financial projections should not be viewed as indicative of future results. Except for purposes of the Disclosure Statement, Simmons Company does not publish projections of their anticipated financial position or results of operations.

### **SIGNIFICANT ASSUMPTIONS FOR FINANCIAL PROJECTIONS**

SIMMONS COMPANY HAS PREPARED THESE FINANCIAL PROJECTIONS BASED UPON THE FOLLOWING ASSUMPTIONS THAT THEY BELIEVE TO BE REASONABLE UNDER THE CIRCUMSTANCES. MANY OF THE ASSUMPTIONS ON WHICH THE FINANCIAL PROJECTIONS ARE BASED ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES. INEVITABLY, SOME ASSUMPTIONS WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY AFFECT THE ACTUAL FINANCIAL RESULTS. THEREFORE, THE ACTUAL RESULTS ACHIEVED THROUGHOUT THE PROJECTION PERIOD MAY VARY FROM THE PROJECTED RESULTS AND THE VARIATIONS MAY BE MATERIAL. ALL HOLDERS OF CLAIMS AND INTERESTS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN ARE URGED TO EXAMINE CAREFULLY ALL OF THE ASSUMPTIONS ON WHICH THE FINANCIAL PROJECTIONS ARE BASED IN EVALUATING THE PLAN.

## General

- Methodology. The Projections were prepared on a bottom-up basis by brand/sub-brand taking into consideration macroeconomic and industry forecasts, brand launch assumptions, Simmons' historical performance and management's business judgment. The Projections were prepared in good faith by Simmons Company's management using the same accounting policies, to the extent applicable, as those used to prepare its historical financial statements. The Projections assume the Company's current restructuring plan is implemented through a consensual and short chapter 11 process.
- Fiscal Years. Simmons Company has a 52 or 53 week fiscal year. The 2009 fiscal year ends on December 26, 2009, the 2010 fiscal year ends on December 25, 2010, the 2011 fiscal year ends on December 31, 2011, the 2012 fiscal year ends on December 29, 2012, and the 2013 fiscal year ends on December 28, 2013.
- Effective Date. The Financial Projections assume an Effective Date of March 15, 2010.
- Macroeconomic and Industry Environment. The Projections reflect management's judgment for the bedding industry based on the International Sleep Products Association "ISPA" forecasts and general inflation estimates. Economic recovery expected to begin midyear 2010 and the Company begins to benefit from a similar sales spike as the industry experienced in 1983 (post recession). Economic recovery continues in 2011 and the Company continues to benefit from a similar sales spike as the industry experienced in 1983 (post 1980 – 1982 recession). In 1983, after the last consumer-led recession, the bedding industry experienced dollar sales growth of ~16% (unit growth of ~14%). The Company projects similar dollar sales growth to occur in Q4 2010 and into 2011. Company projects in 2012 and 2013 industry growth rates revert to historical average of 6%, which is based on ISPA's long-term compound annual growth rate since 1974.
- Bonding Capacity. The projections of the Debtors' financial performance assume that the Debtors will be able to achieve a successful arrangement with their surety providers for the continued provision of bid and performance bonds. Even if the Debtors are able to obtain sufficient bonding capacity, they will likely be required to secure such bonds with a significant amount of cash collateral.

## Projected Income Statement

- Revenues. Total revenues are projected to increase 17.9% in 2010, 8.9% in 2011, 3.1% in 2012, and 7.5% in 2013<sup>1</sup>. The Financial Projections are based on maintaining key relationships with all major customers

---

<sup>1</sup> The projected income statements for 2010 – 2013 were originally prepared in late 2008 and updated in early 2009 for the launch of the BeautySleep product line. The original projections exclude the effects of potential changes in the capital structure of the Company following the restructuring. The Company has commenced its budgeting process for 2010 but the budget will not be complete until late in 2009. Based on preliminary analysis, including year-to-date 2009 performance and updated assumptions for the 2010 budget, management believes:

- 2010 net sales will be in the range of approximately \$950 - \$960 million
- 2010 gross margins will be approximately two percentage points better than previously projected, but approximately 3 percentage points less than 2009 estimated results due to anticipated inflation, pricing pressures and sales mix
- 2010 adjusted EBITDA will be in the range of \$120 - \$125 million

The Company has not updated its projections for 2011 – 2013. However, based upon year-to-date 2009 results and initial budget assumptions for 2010, management believes:

and continuing operations with current business segments. Significant line launches are planned in 2010 and limited line launches in 2012. Typical unit lift and changes in AUSP assumptions, associated with a new line roll-out, were applied to each sub-brand in its scheduled time period. The out year assumptions for overall company unit and AUSP growth were modeled after long term industry averages and Simmons results versus the industry. It is forecasted that the anticipated economic recovery will drive an increase in unit sales as consumers re-enter the market for consumer durables and it will also lead to an increase in AUSP due to mix as consumers traded up to higher price point mattresses both within a sub-brand and between sub-brands.

- *Cost of Goods Sold.* Cost of goods consists primarily of raw material costs, principally steel, polyurethane and latex foams, wood and fabric. Labor and overhead represent a smaller percentage of cost of goods. Material prices are influenced by various supply and demand factors as well as the underlying prices of certain commodities, such as steel and petro-chemical prices. Annual material, labor and variable overhead inflation factors were applied to each of the sub-brand cost per unit amounts to determine the cost per unit for the following year. The overall material inflation factor was calculated by using a weighted average percent of total material cost by raw material category times the estimated annual inflation percent of each raw material category. These raw material inflation factors by category looked at average historical inflation rates for each category and were normalized for major supply disruptions. It was assumed that any major unplanned raw material inflation would be offset by unplanned price increases. Annual labor and variable overhead inflation were estimated based on historical average inflation. Fixed overhead costs were built each year based on known rent increases and a fixed cost inflation factor applied to the fixed cost base.
- *Gross Margins.* Gross margins are expected to remain relatively constant at 37.5% in 2010, 37.7% in 2011, 37.0% in 2012 and 37.4% in 2013<sup>1</sup>. Execution of line launches is an important part to maintaining gross margins. Gross margins for 2010 are negatively impacted by an estimated \$3.3 million write-up of inventory to fair market value less the cost to dispose as a result of the assumed acquisition of Bedding Holdco and its subsidiaries on March 15, 2010.
- *Selling, General and Administrative Expenses.* SG&A expenses primarily consist of volume variable expenses, such as selling and distribution costs. SG&A expenses also include fixed expenses, such as salaries and fringe benefits. SG&A expense as a percentage of total revenue is expected to decline from 30.6% in 2010 to 27.7% in 2011, 27.5% in 2012 and 27.8% in 2013. The SG&A spending assumptions include an increase in volume variable expenses as a percentage of total revenue in 2011, 2012 and 2013 compared to 2010 due to inflation in diesel costs and a shift in sales mix.
- *Adjusted EBITDA.* For purposes of the Financial Projections, Adjusted EBITDA is a pro forma measure defined as earnings before interest and taxes plus depreciation and amortization, certain other expenses and other non-recurring costs as defined by the Company's senior credit facility. Adjusted EBITDA is a metric used by the Company's management, and is frequently used by the financial community to provide insight into an organization's operating trends and facilitate comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a

- 
- Although year over year growth estimates remain unchanged, net sales levels are forecasted to be lower than presented due to lower sales levels in 2009 and 2010
  - Gross margins will be better than plan as a result of greater than expected decreases in commodity costs in 2009 benefiting future years
  - Forecasted adjusted EBITDA for 2010 – 2013 will remain in the range originally planned

company's ability to service debt and is one of the measures used for determining the Company's debt covenant compliance. Adjusted EBITDA does not represent net income (loss) 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 Adjusted EBITDA detail should be read in conjunction with the reconciling GAAP detail provided below.

- Interest Expense. Based on the transaction contemplated by the Plan, interest expense is assumed to be approximately \$49 million annually in the projection period based on the 11.25% interest rate on the exit financing and the stated interest rates on the Janesville and Kansas City IRBs and Banco Santander Loan.
- Income Taxes. The Financial Projections assume a weighted-average annual effective income tax rate of 37% for Simmons Company. The income tax projections assume that in connection with the Plan, the Company's NOL carryforwards and other tax attributes will be eliminated.
- Capital Expenditures. Simmons Company has assumed annual capital expenditures requirements of approximately \$12 million for maintenance and expansion for 2010, 2012 and 2013 and assumed approximately \$16 million for maintenance and expansion for 2011. The capital expenditure assumptions were built bottom-up by project or segment including replacement, capacity, automation, innovation, information technology, Canada, Juvenile and other as yet unidentified projects.
- Working Capital. Accounts Receivable levels fluctuate with overall revenues, with the assumption that Simmons Company will approximately maintain its current average day's sales outstanding. Inventory values are generally flat based on the assumption of maintaining optimal operation levels for production. Accounts Payable assumes historical credit terms with major suppliers consistent with normal terms prior to the filing date.
- Pro Forma Balance Sheet. The unaudited pro forma consolidated balance sheet of Simmons Bedding Company as of March 15, 2010 has been adjusted to give effect to the transactions as if it had occurred on such date (the "Pro Forma Consolidated Balance Sheet"). The Pro Forma Consolidated Balance Sheet reflects the financial position of the ongoing enterprise. The Pro Forma Consolidated Balance Sheet for March 15, 2010 is based on the latest currently available information, and on certain assumptions that Simmons Company's management believe are reasonable under the circumstances. The Pro Forma Consolidated Balance Sheet does not purport to be indicative of the financial position and results that actually would have been obtained had the transactions been completed as of the date and for the period presented or that may be obtained in the future.

**Simmons Company Financial Information**

(\$ in millions)	Actual		8ME		LTM		Estimated		Forecast		
	2007	2008	Aug-08	Aug-09	Aug-09	Aug-09	2009E	2010P	2011P	2012P	2013P
Net sales	\$1,126.8	\$1,028.7	\$743.7	\$608.2	\$893.2	\$903.1	\$1,064.4	\$1,159.7	\$1,195.9	\$1,285.8	
Cost of goods sold	676.3	648.8	456.6	346.8	539.0	514.3	662.2	722.8	753.0	804.7	
Gross profit	\$450.6	\$379.9	\$287.1	\$261.4	\$354.2	\$388.8	\$402.3	\$436.9	\$442.9	\$481.1	
SG&A	336.2	329.7	221.3	198.8	307.3	330.9	325.9	320.7	328.9	357.1	
Impairment of goodwill & intangibles	--	547.6	--	--	547.6	--	--	--	--	--	--
Amortization of intangibles	6.1	6.3	4.2	4.1	6.2	6.2	3.8	3.1	3.1	3.2	
Operating income / (loss)	\$108.3	(\$503.6)	\$61.6	\$58.5	(\$506.8)	\$51.7	\$72.6	\$113.1	\$110.8	\$120.9	
Interest expense, net	75.7	73.1	47.7	65.9	91.2	82.2	61.3	50.0	50.1	50.1	
Earnings (loss) before taxes	32.6	(576.7)	13.9	(7.4)	(598.0)	(30.5)	11.3	63.1	60.8	70.8	
Income tax expense (benefit)	8.7	(84.5)	7.3	0.3	(91.4)	(13.1)	4.2	23.3	22.5	26.2	
Net income (loss)	\$23.9	(\$492.2)	\$6.6	(\$7.8)	(\$506.6)	(\$17.4)	\$7.1	\$39.7	\$38.3	\$44.6	
<b><u>Reconciliation to Adjusted EBITDA</u></b>											
Net income / (loss)	\$23.9	(\$492.2)	\$6.6	(\$7.8)	(\$506.6)	(\$17.4)	\$7.1	\$39.7	\$38.3	\$44.6	
Interest expense, net	75.7	73.1	47.7	65.9	91.2	82.2	61.3	50.0	50.1	50.1	
Income tax expense (benefit)	8.7	(84.5)	7.3	0.3	(91.4)	(13.1)	4.2	23.3	22.5	26.2	
Depreciation	13.9	17.4	11.2	10.7	17.0	15.7	18.0	18.8	19.6	19.5	
Amortization of intangibles	6.1	6.3	4.2	4.1	6.2	6.2	3.8	3.1	3.1	3.2	
Amortization of upfront fees	10.6	16.1	9.2	6.2	13.1	9.5	10.4	10.8	12.1	11.2	
Impairment charges	--	547.6	--	--	547.6	--	--	--	--	--	--
Interest income	0.5	0.4	0.3	0.1	0.2	0.1	--	--	--	--	--
Management fee	1.7	1.8	1.2	1.1	1.7	1.6	--	--	--	--	--
Restructuring expenses	1.7	10.8	2.5	18.6	26.8	45.6	15.9	--	--	--	--
Other	14.1	18.9	4.7	(0.1)	14.2	0.1	(0.1)	(0.1)	(0.0)	(0.0)	
Adjusted EBITDA	\$156.9	\$115.7	\$94.9	\$99.2	\$120.0	\$130.5	\$120.6	\$145.7	\$145.6	\$154.6	

(\$ in millions)	Actual		Pro Forma		Forecast		
	2007	2008	Aug-09	Mar-10	2010P	2011P	2012P
Cash	\$27.5	\$54.9	\$66.2	\$14.4	\$61.6	\$107.2	\$155.6
Current assets exc. cash	180.5	162.6	171.9	160.1	167.5	181.4	185.7
Current liabilities	168.9	128.1	124.9	110.2	131.1	143.1	148.2
Total long-term debt	901.5	988.2	1004.4	448.0	447.5	447.1	446.6

[THIS PAGE INTENTIONALLY LEFT BLANK]

**EXHIBIT H**

List of Subsidiaries

**SIMMONS COMPANY**

Bedding Holdco Incorporated

**BEDDING HOLDCO INCORPORATED**

Simmons Bedding Company

**SIMMONS BEDDING COMPANY**

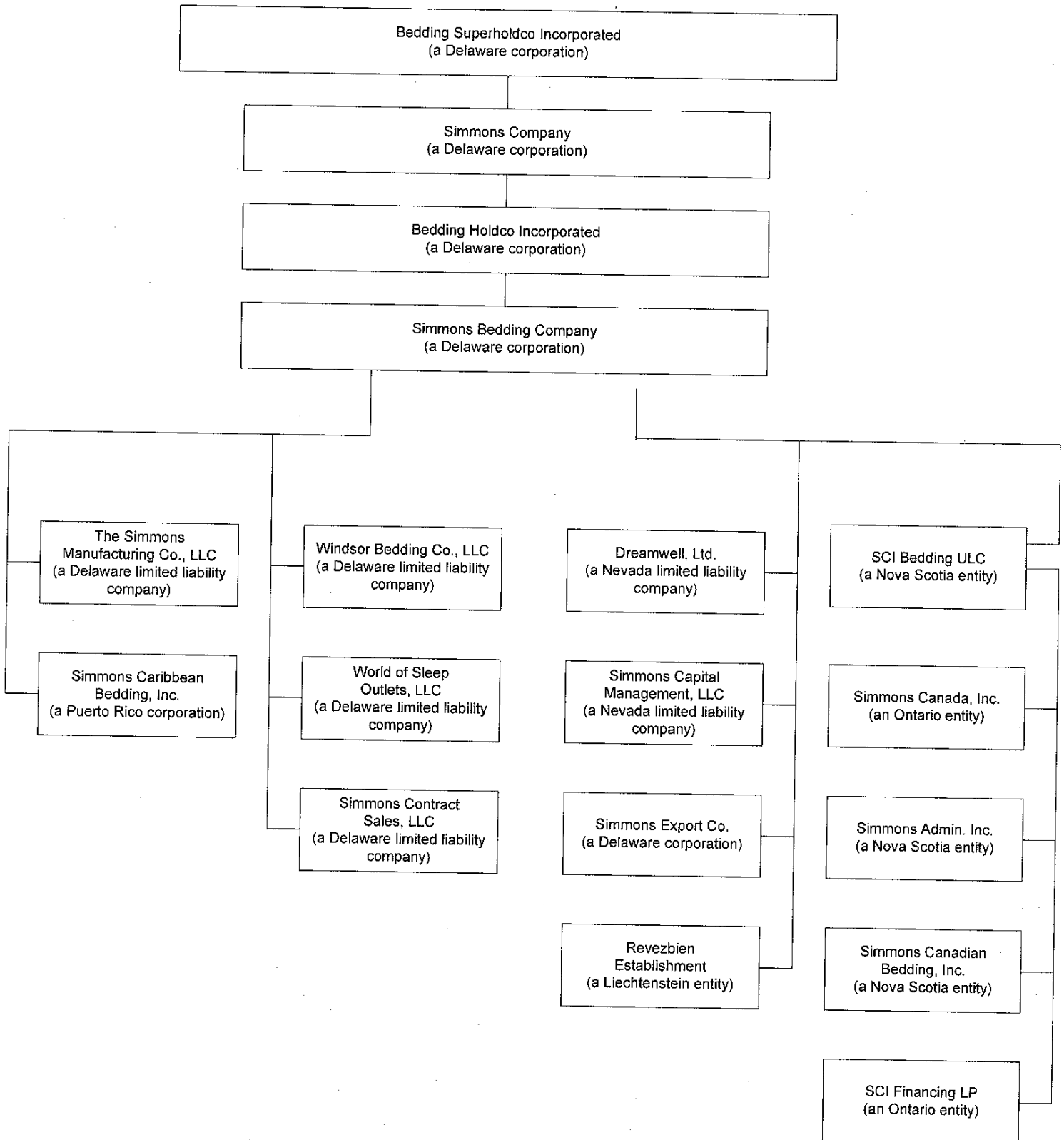
The Simmons Manufacturing Co., LLC  
Windsor Bedding Co, LLC  
World of Sleep Outlets, LLC  
Simmons Contract Sales, LLC  
Dreamwell, Ltd.  
Simmons Capital Management, LLC  
Simmons Export Co.





EXHIBIT I

Organizational Chart of the Debtors





**EXHIBIT J**

**Debt Commitment Letter**

Please see attached.



PROPRIETARY AND CONFIDENTIAL  
NOT FOR FURTHER DISTRIBUTION

**Ares Management LLC**

on behalf of certain funds and/or accounts that  
it manages and/or advises  
2000 Avenue of the Stars  
12th Floor  
Los Angeles, CA 90067

**DDJ Capital Management, LLC**

on behalf of certain funds and/or accounts that  
it manages and/or advises  
130 Turner Street  
Building #3, Suite 600  
Waltham, MA 02144

**Farallon Capital Management, LLC**

One Maritime Plaza Suite 2100  
San Francisco, CA 94111

**Fixed Income Group of J.P. Morgan**

**Investment Management Inc.**

383 Madison Avenue  
New York, NY 10179

**MSD SBI, L.P.**

645 Fifth Avenue, 21st Floor  
New York, NY 10022

**Oak Hill Advisors, L.P.**

on behalf of certain funds and/or accounts that  
it manages and/or advises  
1114 Avenue of the Americas, 27th Floor  
New York, NY 10036

**Oaktree Capital Management, L.P.**

As agent on behalf of certain funds and  
accounts  
333 South Grand Avenue, 28<sup>th</sup> Floor  
Los Angeles, CA 90071

**Sola Ltd**

**Solus Core Opportunities Master Fund Ltd**

c/o Solus Alternative Asset Management LP  
430 Park Avenue, 9th Floor  
New York, NY 10022

**Waddell & Reed Investment  
Management Company**

6300 Lamar Avenue  
P.O. Box 29217  
Shawnee Mission, KS 66201

**Ivy Investment Management Company**

6300 Lamar Avenue  
P.O. Box 29217  
Shawnee Mission, KS 66201

September 24, 2009

AOT Bedding Intermediate Holdings, LLC  
c/o National Bedding Company, L.L.C.  
2600 Forbs Avenue  
Hoffman Estates, IL 60192  
Attention: Robert Sherman

## Commitment to Purchase

Ladies and Gentlemen:

We are pleased to confirm the arrangements under which each of the entities set forth on Exhibit A hereto (as may be novated in accordance with the assignment provisions of this Commitment Letter, each a “**Commitment Party**” and collectively the “**Commitment Parties**”), severally and not jointly, commits to AOT Bedding Intermediate Holdings, LLC (“**Holdings**”) to purchase, and Holdings commits to cause Issuer (as defined below) to issue, notes to provide financing for the transactions described below on the terms and subject to the conditions set forth in this letter and in Exhibits A, B and C attached hereto (collectively, as amended from time to time in accordance with the terms hereof, the “**Commitment Letter**”).

You have informed us that AOT Bedding Super Holdings, LLC (“**SuperHoldings**”), a newly formed entity directly or indirectly controlled by one or more affiliated funds of Ares Management LLC (“**Ares**”) and Ontario Teachers’ Pension Plan Board (“**Teachers**” and, together with Ares and their respective affiliates, the “**Sponsor**”), and Holdings, a newly formed, wholly owned subsidiary of SuperHoldings, intend to acquire, directly or indirectly, all of the newly issued capital stock of Bedding Holdco Incorporated (the “**Company**”), the direct parent company of Simmons Bedding Company (“**Opco**” or “**Borrower**”, together with the Company and its subsidiaries, the “**Acquired Business**”) pursuant to the plan of reorganization (the “**Plan**”) described in the Plan Sponsor Agreement (as defined below) with respect to the Acquired Business to be confirmed and consummated in one or more voluntary cases (the “**Bankruptcy Cases**”) under Chapter 11 of Title 11 of the United States Bankruptcy Code, 11 U.S.C. §§101, et seq., (the “**Bankruptcy Code**”) to be commenced by the Company and Borrower in the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”). Concurrently herewith, you are entering into that certain Plan Sponsor Agreement (as amended or otherwise modified from time to time in accordance with Exhibit C, the “**Plan Sponsor Agreement**”) by and among SuperHoldings, Holdings, Simmons Company, the Company, Opco, and its direct and indirect domestic subsidiaries. For purposes of this Commitment Letter, the “**Acquisition**” refers to any direct or indirect acquisition of all or substantially all the common stock or assets of the Company pursuant to the Plan Sponsor Agreement and a plan of reorganization approved by the class of holders of Opco Notes and Holdco Notes (each as defined below) in accordance with Section 1126(b) of the Bankruptcy Code.

You have also informed us that the Acquisition pursuant to the Plan Sponsor Agreement and the working capital requirements of the Acquired Business after consummation of the Acquisition will be financed from the following sources:

- \$425 million of aggregate principal amount of the initial series of senior secured term notes to be issued by the Borrower (the “**Issuer**”) and guaranteed by the “**Guarantors**” described in Exhibit B (the “**Guarantors**”) having the terms set forth in Exhibit B (the “**Notes**”);
- up to \$75 million under a senior secured revolving credit facility (the “**ABL Facility**”) having terms and conditions which are permitted by the description of the Notes, attached as Exhibit B or as otherwise are reasonably satisfactory

to (i) Holdings and (ii) Commitment Parties holding more than 50% of total Commitments (“**Majority Commitment Parties**”); and

- common equity investments in Holdings in an amount of gross proceeds of not less than \$300 million (the “**Equity Contribution**”) that do not constitute Disqualified Stock (as defined in Exhibit B).

## **Commitment**

Each Commitment Party is pleased to confirm its several, but not joint, commitment (each, a “**Commitment**” and collectively, the “**Commitments**”) to Holdings to purchase, directly or through one or more of its affiliates, and Holdings is pleased to confirm its commitment (the “**Issue Commitment**”) to cause Issuer to issue and sell to such Commitment Party, at the closing of the Acquisition (the “**Closing Date**”), the percentage specified for each such Commitment Party on Exhibit A hereto of the \$425 million in aggregate principal amount of the Notes, in each case, on the terms, and subject to the conditions, set forth in this Commitment Letter.

It is anticipated that the Notes will be issued in a private placement and will not be eligible for resale without restrictions. The note purchase agreement for the Notes (the “**Note Purchase Agreement**”) will contain (a) a covenant for the Issuer to deliver on the Closing Date any and all documentation and information necessary to satisfy the requirements of Rule 144A(d)(4) promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”), (b) a customary representation and warranty (with customary materiality qualifiers) with respect to the most recent financial information described in Legal and Documentary Conditions (attached as Exhibit C hereto) #6 and 7 and a customary 10b-5 representation and warranty regarding the Disclosure Statement (as defined in the Plan Sponsor Agreement), the Information Statement (as defined below), Rule 144A(d)(4) information and any supporting information prepared by the Company to describe the Company to potential purchasers of Notes, and (c) a customary securities law indemnity for the Commitment Parties by the Company with respect thereto. The Notes will not benefit from registration rights.

The payment price for the purchase of the Notes shall be equal to 100% of the aggregate principal amount of the notes listed on Exhibit A and each Commitment Party shall pay, and Holdings directs such Commitment Party to pay, the amount indicated in Exhibit A as the commitment amount (the “**Commitment Amount**”) of such Commitment Party to the Issuer in cash at closing of the Acquisition, without setoff or counterclaim, in partial satisfaction of the purchase price payable under the Plan Sponsor Agreement and, as part of a simultaneous transaction, netted against such Commitment Party’s and its affiliates’ distributions to be made simultaneously under the Plan pursuant to a standard set of closing date payment instructions.

This Commitment Letter, the Plan, the Plan Sponsor Agreement, the Equity Contribution, the Acquisition and all of the transactions contemplated hereby or thereby are referred to herein as the “**Transactions**”.

There are and shall be no titles awarded to any Commitment Party or any Eligible Purchaser (as defined below) and no fees shall be payable in connection with any Commitment except as expressly provided otherwise herein.



## Placement of the Notes

The assignment by any Commitment Party of any portion of its Commitment is subject to the Section entitled “**Limitation on Assignments**,” provided that, except as provided therein or if Holdings consents to novation (such consent not to be unreasonably withheld), no such assignment shall relieve the Commitment Party of its obligations hereunder at any time prior to the funding of such Commitment Party’s Commitment. You have agreed that the Note Purchase Agreement (for the period ending on the date of the issuance of the Notes) and the indenture that will govern the Notes (the “**Indenture**”) (as of and after the date of the issuance of the Notes) will require the Issuer to deliver on the Closing Date any and all documentation and information necessary to satisfy the requirements of Rule 144A(d)(4) promulgated under the Securities Act. Any future offers by the Commitment Parties to potential purchasers of the Notes must be to “qualified institutional buyers” as defined in Rule 144A(a)(1) under the Securities Act or to persons who are not “U.S. persons” as defined in Rule 902(k) under the Securities Act or institutions that are institutional “accredited investors” as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act (“**Eligible Purchasers**”) and in each case, be subject to customary provisions of the Indenture to be part of the definitive documentation and otherwise in accordance with applicable law. Each Commitment Party hereby represents and warrants that it is acquiring the Notes for its own account (or for accounts over which it exercises investment authority) and not with a view to distribution thereof.

In addition, the Note Purchase Agreement shall include an obligation of the Company to use commercially reasonable efforts (a) to provide to the Commitment Parties within 60 days of the date of issuance of the Notes an information statement (the “**Information Statement**”) including (i) the financial statements referenced in Legal and Documentary Conditions (attached as Exhibit C hereto) #6 and 7, (ii) the information required by Rule 144A(d)(4), (iii) a description of the Notes and related definitive documentation, (iv) a discussion of 'risk factors', and (v) such other information as the Company, in consultation with the initial Commitment Parties, reasonably believes appropriate to describe the Notes, the Company and the business of the Company to secondary purchasers of Notes, (b) to obtain a rating of the Notes by at least two nationally recognized statistical rating organizations within 60 days of the date of issuance of the Notes, and (c) to make the Notes DTC eligible within 60 days of the date of issuance of the Notes. If the Company shall have failed to take any of the actions set forth in clauses (a), (b) and (c) above (for the avoidance of doubt, regardless of the Company’s commercially reasonable efforts) on or prior to the 60th day following the date of issuance, the Indenture for the Notes shall provide that the Notes shall bear supplemental interest from (but excluding) such 60th day until the first date on which all such actions have been taken at a rate per annum equal to 0.50%.

## Specific Performance

Notwithstanding anything in this Commitment Letter or the Plan to the contrary, each Commitment Party hereby acknowledges and agrees that Holdings and the Issuer would be irreparably damaged by any breach of this Commitment Letter by such Commitment Party (including, without limitation, the failure of such Commitment Party to fund its Commitment hereunder) and, without prejudice to the rights and remedies otherwise available to Holdings or the Issuer, each Commitment Party agrees that Holdings, or in the case of a Condition Failure (as defined below) the Issuer, shall be entitled to equitable relief, including an injunction or specific

performance, in the event of any breach or threatened breach of the provisions of this Commitment Letter. Such remedies shall not be deemed to be exclusive remedies but shall be in addition to all other remedies available at law or equity to Holdings or the Issuer.

### **Liquidated Damages**

If Holdings breaches either (i) its obligation to cause Issuer to issue and sell the Notes to any Commitment Party in order to consummate the Acquisition or (ii) its obligations under the second paragraph of the “Termination; Survival” Section below, you agree to pay upon consummation of the Acquisition to such Commitment Party as liquidated damages, as its sole and exclusive remedy in the case of such breach and in lieu of any other right, claim, cause of action, loss or damages (including specific performance) that could be asserted by such Commitment Party against you in connection with this Commitment Letter or the debt financing transaction contemplated hereby, an amount (the “**Liquidated Damages**”) equal to 7.0% of such Commitment Party’s Commitment Amount.

Notwithstanding the foregoing, no amounts shall be payable to any Commitment Party pursuant to this paragraph if such Commitment Party has been offered, and failed to purchase, notes having terms and conditions substantially similar to those set forth in this Commitment Letter (it being understood that any notes being offered to such Commitment Party will not be substantially similar to those set forth in this Commitment Letter unless (A) each financial term of such notes (including, without limitation, the interest rate, maturity and call protections thereof) is identical except for variations that, with respect to such financial term, are de minimis or more favorable to such Commitment Party, (B) the rights and remedies of the holders of such notes and any agent or trustee in respect thereof are identical in all material respects to those set forth in this Commitment Letter, (C) the ranking, guarantors and secured status of the notes is identical or more favorable to such Commitment Party (other than de minimis changes in the scope and nature of collateral), and (D) any other divergence from the terms and conditions set forth in this Commitment Letter, taken as a whole with all such divergences, would not be materially adverse to such Commitment Party solely in its capacity as a provider of its Commitment hereunder).

### **Confidentiality**

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter nor any of its terms or substance shall be disclosed, directly or indirectly, to any other person except (i) to (A) the persons party to the Plan Sponsor Agreement, (B) the persons party to the preferred equity investment anticipated to be consummated concurrently with the purchase of the Notes, (C) the persons party to the Second Amended and Restated Credit and Guaranty Agreement, dated as of May 25, 2006 (as has been amended, restated, supplemented or otherwise modified from time to time), among Opco, as borrower, the Company and the domestic subsidiaries of Opco, as guarantors, Deutsche Bank AG, New York Branch, as administrative agent, and other lenders, issuing banks, and parties thereto (the “**Senior Debt Credit Agreement**”), (D) the persons party to the ABL Facility, (E) the trustee and/or the holders of Opco’s \$200 million aggregate principal amount of 7.875% Senior Subordinated Notes due January 15, 2014 (the “**Opco Notes**”), (F) the trustee and/or the holders of the Simmons Company’s \$269 million aggregate principal amount of 10% Senior Discount Notes due 2014

(the “*Holdco Notes*”), and (G) Holdings’ and each of Holdings’ and Simmons Company and its subsidiaries’ respective directors, officers, employees, attorneys, accountants, agents, advisors and other representatives who need to know such information and are informed of the confidential nature of such information and such attorneys, accountants, agents, advisors and other representatives are or have been advised of their obligation to keep information of this type confidential, (ii) in any legal, judicial, administrative or other regulatory proceeding, including, without limitation, the Bankruptcy Cases, or as otherwise required by law or regulation or as requested by a governmental or regulatory authority (in which case Holdings agrees, to the extent permitted by law, to inform the Commitment Parties promptly in advance thereof), and (iii) the existence and contents of this Commitment Letter may be disclosed in the Plan, the disclosure statement for the Plan or any prospectus or offering memorandum relating to the Notes or in connection with any public filing requirement.

Each of the Commitment Parties shall use all nonpublic information received by it in connection with its Commitment and the Transactions solely in connection with the Commitment, the investment contemplated by this Commitment Letter or in connection with the Transactions and in compliance with securities laws and regulations and shall treat confidentially all such information and the terms and contents of this Commitment Letter; provided, however, that nothing herein shall prevent such Commitment Party from disclosing any such information (i) in any legal, judicial, administrative or other regulatory proceeding, including, without limitation, the Bankruptcy Cases, or otherwise as required by applicable law or regulation (in which case such Commitment Party shall promptly notify Holdings, in advance, to the extent permitted by law), (ii) prior to the Closing Date, to the persons party to the Plan Sponsor Agreement, the persons party to the Senior Debt Credit Agreement, the persons party to the ABL Facility, the trustee and/or the holders of the Opco Notes and the trustee and/or the holders of the Holdco Notes and their respective directors, officers, employees, attorneys, accountants, agents, advisors and other representatives, (iii) upon the request or demand of any governmental or regulatory authority having jurisdiction over such Commitment Party or its affiliates (in which case such Commitment Party shall notify Holdings as soon as reasonably practicable if such notification does not violate the terms of such request or demand or applicable law), (iv) to the employees, legal counsel, independent auditors, professionals and other experts or agents of such Commitment Party who need to know such information and are informed of the confidential nature of such information and are or have been advised of their obligation to keep information of this type confidential, (v) to any of its affiliates solely in connection with the Commitments and the related transactions (provided that such affiliate is advised of its obligation to retain such information as confidential, and such Commitment Party shall be responsible for their affiliates’ compliance with this paragraph), (vi) to the extent any such information becomes publicly available other than by reason of disclosure by any Commitment Party in breach of this Commitment Letter or from a source not known by such Commitment Party (or not known by such Commitment Party to be bound by confidentiality obligations to the Issuer), (vii) to the extent applicable, and only in respect of the information received in connection with the Commitment, for purposes of establishing a “due diligence” defense and (viii) following the Closing Date, in connection with the trading of the Notes to third parties to the extent permitted by law.

## **Conditions to Commitment**

The Commitment of each Commitment Party hereto is subject to the following conditions precedent:

1. The Equity Contribution shall have been funded or shall be funded contemporaneously with the purchase of the Notes and the funding of the Commitment and Holdings shall have contributed, or shall contribute contemporaneously with the purchase of the Notes such Equity Contribution to the Issuer; and
2. The legal and documentary conditions described in Exhibit C shall, subject to the “Amendment” section set forth below, have been satisfied.

The Issue Commitment with respect to each Commitment Party is subject to the satisfaction or waiver by Holdings of the following conditions precedent:

1. Such Commitment Party shall have provided or given adequate assurances of its readiness to provide at closing of the Acquisition gross cash proceeds to the Issuer in an amount equal to the amount of its Commitment in exchange for the Notes to be purchased by such Commitment Party;
2. The consummation of the Acquisition; and
3. Such Commitment Party shall have executed and delivered (or be willing to execute and deliver) the documents set forth in the condition described in #3 to Exhibit C and shall have made (or be willing to make) any representation reasonably required to be made in the documents set forth in the condition described in #3 in Exhibit C relating to securities law exemptions, provided that each Commitment Party shall be permitted to represent that it is either a “qualified institutional buyer”, non-“U.S. persons” or an institution that is an institutional “accredited investor,” each as defined in the Securities Act.

Each Commitment Party shall work in good faith with Holdings to prepare and agree on the forms of all definitive documentation and other legal and documentary conditions relating to its investment as promptly as practicable after the approval of the Plan Sponsor Order (as defined in the Plan Sponsor Agreement), in each case on terms consistent with this Commitment Letter. The parties agree that this Commitment includes all material terms for the purchase of the Notes by the Commitment Parties and is intended to be a binding commitment of purchase and sale effective as of the date hereof.

## **Limitation of Liability**

Except as set forth in the “Liquidated Damages” section, in no event will any party hereto or any of its affiliates or any of their respective officers, directors, partners, trustees, employees, affiliates, stockholders, advisors, agents, attorneys in fact, representatives or controlling persons be liable for consequential, indirect, punitive or special damages as a result of any failure to issue or purchase the Notes or otherwise in connection with the transactions contemplated by this

Commitment Letter. Except in the case of gross negligence, willful misconduct or bad faith of such person, no such person will be liable for any damages arising from the use by unauthorized persons of any written information, any financial projections or any other materials sent through electronic, telecommunications or other information transmission systems.

### **Termination; Survival**

Each Commitment Party's Commitment, Holdings' Issue Commitment and all other obligations under this Commitment Letter will be terminated upon the earlier of (x) the date of termination of the Plan Sponsor Agreement; and (y) March 15, 2010 (any such date, the "***Termination Date***").

This Commitment Letter may at any time (whether before or after its scheduled expiration or termination in accordance with its terms) be amended by an instrument in writing signed by Holdings and the Supermajority Commitment Parties (as defined below) to extend the Termination Date if it would otherwise terminate pursuant to clause (y) of the preceding paragraph, for one or more consecutive 30 day periods, so long as there continues to be a confirmed or confirmable Plan involving the Acquisition; provided that if Supermajority Commitment Parties have requested and Holdings has refused to consent to any such extension, Holdings agrees that it shall not consummate the Acquisition pursuant to the Plan Sponsor Agreement.

Upon any expiration or termination of this Commitment Letter, there shall be no liability under this Commitment Letter on the part of any Commitment Party or Holdings or any of its subsidiaries, other than any liability arising out of or relating to any breach prior to or upon termination. Notwithstanding the foregoing, the following Sections shall remain in full force and effect until the execution and delivery of Definitive Documentation (as defined below): "Confidentiality;" "Termination; Survival;" "Liquidated Damages;" "Limitation of Liability;" "Specific Performance;" and "Additional Matters."

"***Supermajority Commitment Parties***" shall mean the Commitment Parties (other than any Commitment Party affiliated with Ares Management LLC (together, "***Ares Capital Markets Affiliates***")) holding more than 66 2/3% of the total Commitments (excluding from total Commitments for the purpose of such calculation the Commitments of Ares Capital Markets Affiliates).

### **Limitation on Assignments; Funding Failure**

This Commitment Letter may not be assigned by you to any person other than to an affiliate of Holdings who becomes the purchaser of the Acquired Business under the Plan Sponsor Agreement and has assumed and agreed to perform for the Commitment Parties' benefit all of Holdings' obligations to the Commitment Parties under this Commitment Letter. Each Commitment Party may not assign its Commitment and agreements hereunder, in whole or in part, to any person other than an affiliate of such Commitment Party or a fund or account on whose behalf such Commitment Party acts as an agent or manager, or a fund that is under common investment management, *provided* that no such assignment shall release such Commitment Party from its obligations to Holdings hereunder unless (i) such assignee has

assumed in writing all obligations of such Commitment Party hereunder and (ii) such assignee is a fund with assets under management of at least twenty times the Commitment Amount being assigned. Any purported assignment made other than in accordance with this paragraph shall be void.

Notwithstanding any other provision of this Commitment Letter, Holdings shall have the right to require any Defaulting Commitment Party or Adverse Commitment Party, as applicable, to assign its Commitment to either (i) another Commitment Party (with the consent of such Commitment Party who is the assignee of such Commitment) or (ii) another entity that assumes in writing all of such Commitment hereunder. For the avoidance of doubt, such assignee may be any affiliate of Holdings or any Sponsor and Holdings may pay to such assignee such fees or other consideration as it determines appropriate in consideration with such assignment. For purposes of the foregoing, (a) a Commitment Party shall be a “**Defaulting Commitment Party**” if a deficit has arisen from the failure of such Commitment Party to fund or provide adequate assurances of its readiness to fund its commitment amount on the Closing Date and such failure is not otherwise remedied (whether through the exercise of specific performance rights provided herein or otherwise), and (b) a Commitment Party shall be an “**Adverse Commitment Party**” if such Commitment Party, its controlled, controlling or commonly controlled affiliates or their respective officers, directors, agents or representatives shall have (i) materially breached any obligations under the Restructuring Support Agreement, dated as of the date hereof (as amended or otherwise modified from time to time, the “**Restructuring Support Agreement**”), by and among Simmons Company, the Company, Opco, Holdings and SuperHoldings, on the one hand, and certain lenders under the Senior Secured Credit Facility and certain holders of the Opco Notes and Holdco Notes, on the other hand, while a party thereto and such breach remains uncured for a period of 3 business days following written notice from the Purchaser (as defined in the Plan Sponsor Agreement) or (ii) directly or indirectly, filed or joined in the filing of any motion, pleading or notice in the Bankruptcy Case (as defined in the Plan Sponsor Agreement) or any related appellate proceeding that objects to or challenges the Plan, the Plan Sponsor Order, the Confirmation Order, the Disclosure Statement (in each case, as defined in the Plan Sponsor Agreement) or the transactions contemplated by the Plan Sponsor Agreement, provided that no Commitment Party shall become an Adverse Commitment Party (1) because of any action taken or motion, pleading or notice filed (X) to object to or oppose any proposed Restructuring Document (as defined in the Restructuring Support Agreement), or amendments, modifications or supplements to any Restructuring Document that are inconsistent with the terms and conditions of any other Restructuring Document to which it is a party or beneficiary or to this Commitment Letter or the Equity Commitment Letter or (Y) to enforce its rights under the Restructuring Support Agreement or any Restructuring Document to which it is a party; or (2) if any of the Plan Proponents (as defined in the Plan) shall have amended or modified any of the provisions of the Plan specified in Section 2.3 of the Restructuring Support Agreement in violation of Section 2.3 of the Restructuring Support Agreement but only to the extent such Commitment Party is a beneficiary thereof. For the avoidance of doubt, the Commitment of an Adverse Commitment Party shall remain in full force and effect until the Commitment of such Adverse Commitment Party is assumed and assigned in accordance herewith.

### **Third Party Beneficiaries**

This Commitment Letter is intended to be solely for the benefit of the parties hereto and, except as set forth in this paragraph, is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto and any purported assignment not in conformity herewith shall be null and void and of no force and effect; provided that the Issuer is intended to be, and shall be, a third party beneficiary of, and of Holdings' rights and remedies under, this Commitment Letter, it being understood that the Issuer shall not be entitled to exercise any rights or remedies hereunder unless the Acquisition is not consummated as a result of the failure of the condition precedent set forth in Section 8.1(g) of the Plan Sponsor Agreement (as in effect on the date hereof except as amended in accordance with the terms of Exhibit C) as it relates to Exit Financing (as defined in the Plan Sponsor Agreement) to be satisfied (such event, a "**Condition Failure**").

### **Amendment**

Except as provided under the "Termination; Survival" Section with respect to extensions of the term of this Commitment Letter, this Commitment Letter may not be amended or any term or provision hereof waived or otherwise modified except by an instrument in writing signed by Holdings and the Majority Commitment Parties, provided that, (i) Holdings' and each Commitment Party's consent shall be required with respect to (A) a decrease in the stated interest rate of the Notes, (B) an extension of the maturity date of the Notes, (C) a change in the call provision in a manner that is adverse to the Commitment Parties, (D) an increase in the principal amount of the Notes in excess of \$425 million, (E) an increase in the commitments under the ABL Facility in excess of \$75 million, (F) a material reduction in the collateral or a change in the priority of the liens securing the Notes, (G) a change in the identity of the Sponsor under the Plan Sponsor Agreement, (H) to the extent affected, a change in the Commitment Amount of such Commitment Party, (I) an amendment to the definition of Majority Commitment Parties or Supermajority Commitment Parties, (J) any waiver or amendment to the assignability of this Commitment Letter, (K) any modification, amendment or waiver of the covenants, representations and warranties and indemnities to be included in the Note Purchase Agreement as set forth above under "Commitments", (L) any modification, amendment or waiver of the 1st condition set forth under "Conditions to Commitment", the first sentence of the 1st condition set forth on Exhibit C or the 2nd condition set forth on Exhibit C with respect to a default in respect of covenants to be included in the Note Purchase Agreement as set forth above under "Commitments" (together, the "**Unanimous Closing Conditions**"), or (M) any amendment to clause (i), (iii) or (iv) of this proviso to the Section "Amendment"; (ii) the Issuer's consent shall be required with respect to any modifications to the conditions set forth in this Commitment Letter; bankruptcy court jurisdiction in the event of a Condition Failure; an amendment to the "Specific Performance" Section; the Issuer's status as a third party beneficiary as set forth above; the definition of a Condition Failure; an amendment to the "Termination; Survival" Section and an amendment to the "Limitation on Assignments; Funding Failure" Section; (iii) except as specifically set forth therein, the consent of Holdings and Supermajority Commitment Parties shall be required with respect to any amendments to the "Termination; Survival" Section; and (iv) the consent of Supermajority Commitment Parties, (such consent not to be unreasonably withheld or delayed in the case of any waiver under Legal and Documentary Conditions

(attached as Exhibit C hereto) #2, 3(B), 5 and 11 that is reasonably necessary for the consummation of the transactions specified in the Plan), shall be required to modify, amend or waive any closing condition set forth herein, including under “Conditions to Commitment” and Exhibit C hereto, other than the Unanimous Closing Conditions.

### **Additional Matters**

The Commitment Parties hereby notify the Sponsor, Holdings and the Acquired Business that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “*Patriot Act*”), they and each Eligible Purchaser may be required to obtain, verify and record information that identifies the Sponsor, the Issuer and each of the Guarantors, which information includes the name and address of the Sponsor, the Issuer and each of the Guarantors and other information that will allow the Commitment Parties and each Eligible Purchaser to identify the Sponsor, the Issuer and each of the Guarantors in accordance with the Patriot Act. This notice is given in accordance with the requirements of the Patriot Act and is effective for each Commitment Party and each Eligible Purchaser.

The Commitment Parties and Holdings and their respective equity holders and affiliates may have economic interests that are in conflict or that conflict with those of the Issuer, the Acquired Business, or the equity holders or affiliates or any of the foregoing. Each Commitment Party and Holdings agree that each Commitment Party and Holdings each has acted and will continue to act under this Commitment Letter and in connection with the Transactions for its own account as an independent actor and that nothing in this Commitment Letter or otherwise creates or will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty as among the Commitment Parties or between any Commitment Party and Holdings or between any Commitment Party or Holdings and any of the Issuer, the Acquired Business, or any of the equity holders or affiliates of any of the foregoing. Each of Holdings and each Commitment Party acknowledge and agree that it has consulted its own legal and financial advisors to the extent it deems it appropriate to do so and that it is responsible for making its own independent judgment with respect to this Commitment Letter, all Transactions and the process leading thereto. Each of Holdings and each Commitment Party agrees that it will not claim that any of Holdings or any Commitment Party, or any equity owner or affiliate of Holdings or any Commitment Party, has rendered advisory services of any nature or respect with respect to the Transactions, or owes a fiduciary or similar duty to it in connection with the Transactions or the process leading thereto.

**Each party hereto agrees for itself and its affiliates that any suit or proceeding arising in respect to this Commitment Letter or the purchase and sale of the Notes contemplated hereby will be tried exclusively in the U.S. District Court for the Southern District of New York, or if that court does not have subject matter jurisdiction, in any state court located in the City and County of New York; provided that if the Condition Failure occurs, the parties agree that the Bankruptcy Court shall have sole and exclusive jurisdiction with respect to any suit or proceeding arising in respect to this Commitment Letter and the purchase and sale of the Notes contemplated hereby, and each party hereto agrees for itself and its affiliates to submit to the exclusive jurisdiction of, and to venue in, such courts. Any right to trial by jury with respect to any action or proceeding arising in connection with, or as a result of, this Commitment Letter or the purchase and sale of the Notes**



**contemplated hereby is hereby waived by the parties hereto. This Commitment Letter shall be governed by and construed in accordance with the laws of the State of New York; provided that the “Material Adverse Change” condition set forth in Exhibit C shall be governed by and construed in accordance with the laws of the State of Delaware.**

This Commitment Letter may be executed in any number of counterparts, each of which when executed will be an original, and all of which, when taken together, will constitute one agreement. Delivery of an executed counterpart of a signature page of this Commitment Letter by facsimile transmission or electronic transmission (in .pdf format) will be effective as delivery of a manually executed counterpart hereof. This Commitment Letter is the only agreement that has been entered into among the parties hereto with respect to the Notes and sets forth the entire understanding of the parties with respect thereto and supersedes any prior written or oral agreements among the parties hereto with respect to the Notes.

Please confirm that the foregoing is in accordance with your understanding by signing and returning to Commitment Parties the enclosed copy of this Commitment Letter, on or before the close of business on September 24, 2009, whereupon this Commitment Letter will become binding between us. If this Commitment Letter has not been signed and returned as described in the preceding sentence by such date, this offer will terminate on such date. We look forward to working with you on this transaction.

Very truly yours,

ARES MANAGEMENT LLC  
on behalf of certain funds and/or accounts that it  
manages and/or advises

By: /s/ Seth J. Brufsky  
Name: Seth J. Brufsky  
Title: Authorized Signatory

DDJ CAPITAL MANAGEMENT, LLC,  
on behalf of certain funds and/or accounts that it  
manages and/or advises

By: /s/ David J. Breazzano  
Name: David J. Breazzano  
Title: President

SPRINGBOK, L.L.C.

By: Farallon Capital Management, L.L.C., its  
manager and attorney in fact

By: /s/ Rajiv A. Patel  
Name: Rajiv A. Patel  
Title: Managing Member

J.P. MORGAN INVESTMENT MANAGEMENT  
INC.,  
on behalf of certain accounts set forth on Exhibit A

By: /s/ Robert L. Cook  
Name: Robert L. Cook  
Title: Managing Director

MSD SBI, L.P.

By: /s/ Marc R. Lisker  
Name: Marc R. Lisker  
Title: Manager and General Counsel

OAK HILL ADVISORS, L.P.,  
on behalf of certain private funds and separate  
accounts that it manages set forth on Exhibit A

By: Oak Hill Advisors GenPar, L.P.  
*its general partner*

By: Oak Hill Advisors MGP, Inc.  
*its managing general partner*

By: /s/ Scott D. Krase  
Name: Scott D. Krase  
Title: Authorized Signatory

OAKTREE CAPITAL MANAGEMENT, L.P.

By: /s/ Desmond Shirazi  
Name: Desmond Shirazi  
Title: Managing Director

By: /s/ Frances Nelson  
Name: Frances Nelson  
Title: Managing Director

SOLA LTD

By: /s/ Christopher Pucillo  
Name: Christopher Pucillo  
Title: Director

SOLUS CORE OPPORTUNITIES MASTER  
FUND LTD

By: /s/ Christopher Pucillo  
Name: Christopher Pucillo  
Title: Director

Waddell & Reed Investment  
Management Company

By: /s/ William Nelson  
Name: William Nelson  
Title: Senior Vice President

Ivy Investment Management Company

By: /s/ Bryan C. Krug  
Name: Bryan C. Krug  
Title: Vice President

**ACCEPTED AND AGREED AS OF SEPTEMBER 24, 2009:**

**AOT BEDDING INTERMEDIATE HOLDINGS, LLC**

By: AOT Bedding Super Holdings, LLC,  
its sole member

By: Ares Corporate Opportunities Fund III, L.P.,  
its member

By: ACOF Operating Manager III LLC,  
its manager

By: /s/ Nav Rahemtulla  
Name: Nav Rahemtulla  
Title: Authorized Signatory

and

By: Ontario Teachers' Pension Plan Board,  
its member

By: /s/ Romeo Leemrijse  
Name: Romeo Leemrijse  
Title: Director



**Exhibit A**

[REDACTED]





**Exhibit B**

[REDACTED]



## Exhibit C

### Legal and Documentary Conditions

In addition to the conditions described in the body of the Commitment Letter, the obligations of each Commitment Party under the Commitment Letter are subject to the satisfaction or waiver (in accordance with the “Amendments” Section thereof) of the following additional conditions precedent (capitalized terms used and not otherwise defined in this Exhibit C having the meaning attributed thereto in the Commitment Letter or Exhibit B):

1. Consummation of Plan Sponsor Agreement; Plan. The Acquisition shall be consummated pursuant to the Plan Sponsor Agreement concurrently with the purchase of the Notes and no provision thereof shall have been amended or waived and no consent shall have been granted thereunder by any Purchaser Entity (with such term, for purposes of this Exhibit C, having the meaning attributed thereto in the Plan Sponsor Agreement and, for the avoidance of doubt, including any affiliate of Holdings who becomes a purchaser of the Acquired Business under the Purchase Agreement), in each case, in any respect materially adverse to the Commitment Parties, solely in their capacity as providers of their respective Commitment. No Purchaser Entity shall have consented to any amendment or modification of the Plan attached as Exhibit A to the Plan Sponsor Agreement that would require the consent of such Purchaser Entity (including pursuant to the Plan or Plan Sponsor Agreement) other than one that would not be materially adverse to the Commitment Parties, solely in their capacity as providers of their respective Commitment.

2. Absence of Defaults. There shall not exist any default or event of default under the Indenture after giving effect to the use of the proceeds of the Notes and the Equity Contribution. There shall not exist any default or event of default under the Note Purchase Agreement (other than with respect to representations and warranties) and the Specified Representations of the Issuer set forth therein shall be true and complete in all material respects.

3. Definitive Documentation; Customary Closing Documents. (A) The other relevant parties shall have executed and delivered (or be willing to execute and deliver) (a) the Note Purchase Agreement, containing terms consistent in all material respects with this Commitment Letter and otherwise substantially similar to the Note Purchase Agreement dated as of December 10, 2003, by and among the Issuer and the other parties thereto (including a representation by each purchaser thereunder that it is an Eligible Purchaser), except that the Note Purchase Agreement (i) shall not contain any closing conditions other than as specified in this Commitment Letter; (ii) shall not contain any representations and warranties by the Issuer or Holdings other than with respect to corporate power and authority, due authorization, execution and delivery, in each case as they relate to the entering into and performance of the relevant definitive documentation, the enforceability of the relevant definitive documentation, Federal Reserve margin regulations, the Investment Company Act and, in the case of the Notes, the status of the Notes as senior debt and the creation of security interests (such representations and warranties, the “*Specified Representations*”) and the representation to be included in the Note Purchase Agreement and described in the Commitment Letter under “Commitment” and (iii) as the Commitment Parties are not underwriters, shall not contain a requirement for an offering memorandum or other offering documentation beyond the documentation and information

necessary to satisfy the requirements of Rule 144A(d)(4) promulgated under the Securities Act and the Information Statement; (b) the Indenture consistent with the terms set forth in Exhibit B and otherwise containing customary terms for senior secured high yield notes issued in a private placement and eligible for resale on a “144A-for-life” basis; and (c) a pledge and security agreement covering the Collateral; in each of cases (a) through (c) in form and substance reasonably satisfactory to the Supermajority Commitment Parties and Holdings (collectively, the “**Definitive Documentation**”); and (B) the Commitment Parties shall have received customary closing certificates (including a solvency certificate of a financial officer as to the solvency of the Borrower and its subsidiaries, taken as a whole, after giving effect to the Plan), customary legal opinions (for the avoidance of doubt, other than a 10b-5 letter), corporate records, financing statements, good standing certificates and other customary closing documents for the closing for a private placement of senior secured high yield notes.

4. Discharge of Existing Debt. After giving effect to the Transactions, the Borrower and its subsidiaries shall have (A) outstanding no material indebtedness for borrowed money or preferred stock, other than (i) up to \$75 million of indebtedness under the ABL Facility, (ii) up to \$425.0 million of indebtedness under the Notes, and (iii) certain other indebtedness and preferred stock permitted under the Plan or the Plan Sponsor Agreement, including, without limitation, the IRB Debt and (B) no liens in respect of borrowed money, other than liens permitted by or expressly provided for under the ABL Facility, the Plan, the Plan Sponsor Agreement or the Indenture.

5. Intercreditor Agreement. To the extent an ABL Facility shall have been entered into, the agent, on behalf of itself and the lenders, under the ABL Facility shall have entered into an intercreditor agreement (the “**Intercreditor Agreement**”) with the trustee on behalf of the purchasers of the Notes (the “**Trustee**”) that is not materially less favorable to the holders of Notes than the terms described on Exhibit B.

6. Audited Financial Statements. The Commitment Parties shall have received audited consolidated balance sheets and related statements of operations, stockholder’s equity and cash flows, together with all related notes and schedules thereto, accompanied by the reports thereon of the accountants of Simmons Company and its subsidiaries as of and for the three most recently completed fiscal years ended at least ninety days before the Closing Date, which (x) were prepared in all material respects in accordance with the books of account and other financial records of Simmons Company, (y) except as disclosed in the notes and schedules thereto, have been prepared in accordance with generally accepted accounting principles in the United States (“**GAAP**”), consistently applied without modification of the accounting principles used in the preparation thereof throughout the periods presented, and (z) present fairly in all material respects the consolidated financial condition, results of operations and cash flows of Simmons Company, as applicable, as at the dates and for the periods indicated therein, except to the extent any failure of the foregoing clauses to be true and correct (without giving effect to any materiality qualification) does not result in or constitute a Company Material Adverse Effect (as defined in the Plan Sponsor Agreement as of the date hereof).

7. Unaudited Financial Statements. The Commitment Parties shall have received (a) unaudited consolidated balance sheets and related statements of operations, stockholder’s equity and cash flows of Simmons Company and its subsidiaries for each fiscal quarter ended

after the date of this Commitment Letter and at least sixty (60) days before the Closing Date, which were prepared in accordance with GAAP, subject to the absence of footnotes and normal year-end adjustments, and (b) a pro forma consolidated balance sheet and related pro forma consolidated statement of operations of Simmons Company and its subsidiaries for the twelve-month period ending on the last day of the most recently completed four-fiscal quarter period ended at least sixty (60) days prior to the Closing Date, prepared after giving effect to the Transactions, as if such Transactions had occurred as of such date (in the case of such balance sheet) or at the beginning of such period (in the case of such other financial statements).

8. PATRIOT Act. The Issuer shall have delivered all documentation and other information reasonably required by regulatory authorities under applicable “know-your-customer” and anti-money laundering rules and regulations, including the PATRIOT Act, in any case, requested in writing by the Commitment Parties at least three business days prior to the Closing Date.

9. Confirmation Order. The Confirmation Order (as defined in the Plan Sponsor Agreement) shall have been entered on the docket of the Bankruptcy Court in a form that is substantially similar to the form attached to the Plan Sponsor Agreement, with such amendments or modifications as are not materially adverse to the Commitment Parties, solely in their capacity as providers of their respective Commitment. The Confirmation Order shall not be stayed or vacated.

10. Material Adverse Change. Except as otherwise contemplated by the Plan Sponsor Agreement or the Plan, since December 27, 2008, no Company Material Adverse Effect has occurred which would excuse the Purchaser from its obligation to consummate the Acquisition.

11. Collateral. All filings, recordations, searches and other actions reasonably necessary or desirable to create and perfect the first priority and second priority (as applicable) liens and security interests in respect of the collateral securing the Notes shall have been duly made (including, without limitation, the filing of financing statements under the Uniform Commercial Code), customary short-form security agreements with respect to intellectual property shall have been executed and delivered to the Notes Collateral Agent for filing with the U.S. Patent and Trademark Office and the U.S. Copyright Office and certificates representing the capital stock and membership interests of the Borrower and Guarantors shall have been delivered to the collateral agent under the Indenture; provided, that, to the extent the creation of any lien on any collateral or perfection of such lien requires any action on the part of any third party (including, without limitation, delivery of reasonably satisfactory mortgages, title insurance policies, surveys and other customary documentation in connection with real estate collateral) and is not provided on the Closing Date after the Issuer’s use of commercially reasonable efforts to do so (other than in respect of the filing of financing statements and the delivery of short-form security agreements and, if in existence, certificates representing capital stock and membership interests, in each case as set forth above), the creation or perfection (as applicable) of such lien shall not constitute a condition precedent to the issuance of the Notes on the Closing Date but such action shall be required to have been taken within a commercially reasonable time after the Closing Date and in any event within 90 days thereafter; provided, further, that (1) no control agreement will be required with respect to any deposit or securities accounts (x) so long as the ABL Collateral Agent shall have entered into a control agreement with respect to such accounts

serving as agent with respect to the perfection of the Notes Collateral Agent's security interest therein or (y) with respect to which the ABL Collateral Agent has not required a control agreement and that are (A) payroll, trust or tax withholding accounts funded in the ordinary course of business or required by applicable law, (B) deposit or concentration accounts funded in the ordinary course of business the average daily balance of which for the most recently completed period of twelve consecutive months does not aggregate more than \$3,000,000 or (C) checking or demand deposit accounts used solely for disbursements in the ordinary course of business and subject to automatic ACH or wire transfer on each banking day of all funds on deposit therein to a concentration account subject to an account control agreement with the ABL Collateral Agent or the Notes Collateral Agent (subject to clause (B) above) and (2) the Collateral Documents will not require scheduling or notice to the Notes Collateral Agent in respect of Commercial Tort Claims (as such term is defined in the Uniform Commercial Code for the State of New York) unless the aggregate claimed damages thereunder exceeds \$5,000,000.

**EXHIBIT K**

**ABL Commitment Letter**

Please see attached.





EXECUTION COPY

October 8, 2009

AOT Bedding Intermediate Holdings, LLC  
c/o National Bedding Company, L.L.C.  
2600 Forbs Avenue  
Hoffman Estates, IL 60192  
Attn: Robert Sherman

**COMMITMENT LETTER**  
**\$75 MILLION SENIOR SECURED CREDIT FACILITY**

Dear Mr. Sherman:

As we, Wells Fargo Foothill, LLC (“**WFF**” or “**we**” or “**us**”), understand, AOT Bedding Super Holdings, LLC (“**SuperHoldings**”), a newly formed entity directly or indirectly controlled by an investor group consisting of an affiliated fund of Ares Management, LLC (“**Ares**”) and Ontario Teachers’ Pension Plan Board (“**Teachers**” and, together with Ares and their respective affiliates and any other stockholders of AOT Bedding Holdings Corp. who become co-investors hereunder, the “**Sponsor**”) and AOT Bedding Intermediate Holdings, LLC (“**Holdings**” or “**you**”), a newly formed, wholly owned subsidiary of SuperHoldings, intend to acquire (the “**Acquisition**”), directly or indirectly, all of the newly issued capital stock of Bedding Holdco Incorporated (the “**Company**”), the direct parent company of Simmons Bedding Company (the “**Borrower**”, together with the Company and its subsidiaries, the “**Acquired Business**”) pursuant to a plan of reorganization (the “**Plan of Reorganization**”) with respect to the Acquired Business to be confirmed and consummated in one or more voluntary cases (the “**Bankruptcy Case**”) commenced under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”). WFF further understands that Holdings is desirous of obtaining financing for the Borrower in order to (a) to repay the Borrower’s secured working capital indebtedness on the effective date (the “**Effective Date**”) of the Plan of Reorganization, (b) to otherwise enable the Acquired Business to consummate the Plan of Reorganization on the Effective Date, (c) finance general corporate purposes of the Acquired Business, and (d) pay fees and expenses associated with the transaction contemplated hereby (the “**Transaction**”).

We are pleased to confirm our commitment to provide the Borrower a \$75,000,000 senior secured credit facility (the “**Facility**”) on the terms and conditions set forth in this commitment letter and the exhibits attached hereto (the “**Commitment Letter**”) and the term sheet and the annexes attached thereto (the “**Term Sheet**”). The parties acknowledge that the Term Sheet and this Commitment Letter (a) summarize all of the substantive conditions precedent to the Facility,

and (b) do not purport to summarize all of the covenants, representations, warranties and other provisions that will be contained in the definitive documentation for the Facility. The parties agree that such covenants, representations, warranties and other provisions (to the extent not already addressed in the Term Sheet or this Commitment Letter) will be customary and commercially reasonable for transactions of this type or as otherwise reasonably acceptable to Holdings and WFF.

Capitalized terms used herein and the accompanying Annexes shall have the meanings set forth herein and therein unless otherwise defined herein or therein.

### ***Syndication***

The parties agree that the syndication provisions shall be as set forth on Exhibit A hereto. Notwithstanding anything to the contrary in this Commitment Letter or the Term Sheet, neither the completion nor the success of syndication is a condition to the closing or funding of the Facility.

### ***Expenses and Indemnification***

You agree (a) to pay or reimburse all reasonable and documented out-of-pocket fees, costs, and expenses (including, without limitation, reasonable fees and disbursements of counsel except as set forth herein, filing and recording fees, and reasonable costs and expenses associated with due diligence, travel, appraisals, valuations, audits, and syndication, but limited to reasonable fees and disbursements of one law firm to WFF and one law firm in each relevant foreign jurisdiction) (the “***Expenses***”) incurred by or on behalf of WFF (whether before, on, or after the date hereof) in connection with (i) legal and business due diligence, (ii) the preparation, negotiation, execution, and delivery of this Commitment Letter and the Term Sheet and any and all documentation for the Facility, (iii) the syndication of the Facility, and (iv) the enforcement of any of WFF’s rights and remedies under this Commitment Letter, in each case irrespective of whether the Transaction is consummated, and (b) to indemnify, defend, and hold harmless WFF, each of its affiliates, and each of their officers, directors, employees, agents, advisors, attorneys, and representatives (each, an “***Indemnified Person***”) as set forth on Exhibit B hereto. In order to enable Holdings to understand the extent of its obligations under this paragraph, WFF agrees to advise Holdings if Expenses are at or about \$75,000 (the “***Expense Amount***”). Except as set forth in this and the next sentence, the Expense Amount is not a cap or limitation on Holdings’ obligations under this paragraph, except that at any time that Holdings receives such updated information as to the amount of Expenses accrued or advice relative to the Expenses being at or about the Expense Amount from WFF, Holdings shall have the right to request in writing that WFF cease pursuing the financing for the Transaction and cease incurring new Expenses and Holdings’ obligations under this paragraph shall terminate with respect to any Expenses first incurred by WFF after the date of its receipt of such request. If WFF does not advise Holdings if its Expenses are at or about the Expense Amount promptly after they reach such level and in the absence of any further written agreement by the parties hereto, the obligation of Holdings with respect to Expenses shall be limited to the Expense Amount.

### ***Fees***

You agree to pay or cause Company to pay the fees set forth on Annex A-I and Annex A-II to the Term Sheet to WFF, in immediately available funds, as and when indicated therein.

### ***Conditions***

The commitment of WFF to provide the Facility shall be subject to (a) the negotiation, execution and delivery of definitive documentation customary for transactions of this type and consistent with the terms and conditions set forth herein and in the Term Sheet (the “***Loan Documents***”), in form and substance reasonably satisfactory to WFF, (b) since the date of the Plan Sponsor Agreement relative to the Acquisition dated September 24, 2009 (such agreement, as in effect on the date hereof, the “***Plan Sponsor Agreement***”), there has not occurred any Company Material Adverse Effect (as that term is defined in the Plan Sponsor Agreement), and (c) the performance of your obligations set forth herein and in the Term Sheet, and the satisfaction or waiver of the conditions set forth herein and in Annex B of the Term Sheet.

### ***Confidentiality***

(a) You agree that this Commitment Letter (including the Term Sheet) is for your confidential use only and that neither its existence, nor the terms hereof, will be disclosed by you to any person other than the Sponsor’s and Holdings’ respective officers, directors, employees, accountants, attorneys, affiliates and other agents and advisors who have been advised of the confidential nature of the matter, and then only on a “need-to-know” basis in connection with the Transaction contemplated hereby. The foregoing notwithstanding, you may (i) provide a copy hereof (including the Term Sheet) to the Acquired Business (so long as it has been advised not to disclose this Commitment Letter other than to its officers, directors, employees, accountants, attorneys, and other agents and advisors who have been advised of the confidential nature of the matter, and then only on a “need-to-know” basis in connection with the Transaction contemplated hereby), (ii) following your acceptance of this Commitment Letter in accordance herewith and your return of an executed counterpart of this Commitment Letter to us, make public filings or other disclosures of the terms and conditions hereof (including the Term Sheet, but redacting Exhibit A and Annex A-II to the Term Sheet to exclude the flex provisions and the provisions pertaining to pricing and fees), (x) to the office of the U.S. Trustee, to any ad-hoc or statutorily appointed committee of unsecured creditors, and to their respective representative and professional advisors and (y) as you are required by law to make, (iii) disclose this Commitment Letter (including the Term Sheet) (x) as required by law or compulsory legal process in any legal, judicial, administrative or other regulatory proceeding, including, without limitation, the Bankruptcy Case, or otherwise, (y) (A) to the agents and lenders under the credit facility in existence on the date hereof and available to the debtors during the pendency of the Bankruptcy Case (redacting Annex A-II to the Term Sheet to exclude the provisions pertaining to pricing and fees) or (B) otherwise in connection with the Bankruptcy Case (redacting Annex A-II to the Term Sheet to exclude the provisions pertaining to pricing and fees) or (z) as requested by a governmental or regulatory authority (in each case Holdings agrees to inform WFF promptly to the extent practicable to do so and permitted by law), (iv) disclose the Term Sheet to Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (redacting Annex A-II to the Term Sheet to exclude the provisions pertaining to pricing and fees), (v) disclose the Commitment Letter and the Term Sheet to (x) Bank of America, N.A. (“***BofA***”), in connection with BofA evaluating WFF’s offer to assign a portion of its commitments hereunder pursuant to the terms hereof and (y) the purchasers of the Senior

Secured Notes (as defined in the Term Sheet) of the Borrower to be issued prior to or concurrently with the closing of the Facility and (vi) disclose the Commitment Letter and the Term Sheet in connection with any litigation or other adverse proceeding involving parties to this Commitment Letter; provided that prior to any disclosure to a party other than Holdings, Company, the Lenders (as defined in the Term Sheet), their respective affiliates and their respective counsel under this clause (vi) with respect to litigation involving a party other than Holdings, Company, the Lenders, and their respective affiliates, the disclosing party agrees to provide WFF with prior notice thereof.

(b) WFF agrees that non-public, confidential information regarding Holdings, the Acquired Business and their respective subsidiaries, their operations, assets, and existing and contemplated business plans shall be treated by WFF in a confidential manner, and shall not be disclosed by WFF to persons who are not parties to this Commitment Letter, except: (i) to WFF's officers, directors, employees, attorneys, advisors, accountants, auditors, and consultants to WFF on a "need to know" basis in connection with Transaction contemplated hereby and on a confidential basis, (ii) to subsidiaries and affiliates of WFF, provided that any such subsidiary or affiliate shall have agreed to receive such information hereunder subject to the terms of this clause (b), (iii) as may be required by regulatory authorities so long as such authorities are informed of the confidential nature of such information, (iv) as may be required by statute, decision, or judicial or administrative order, rule, or regulation, provided that prior to any disclosure under this clause (iv), the disclosing party agrees to provide Holdings with prior notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior notice to Holdings pursuant to the terms of the applicable statute, decision, or judicial or administrative order, rule, or regulation, (v) as may be agreed to in advance by Holdings, (vi) as requested or required by any governmental authority pursuant to any subpoena or other legal process, provided that prior to any disclosure under this clause (vi) the disclosing party agrees to provide Holdings with prior notice thereof, to the extent that it is practicable to do so and to the extent that the disclosing party is permitted to provide such prior notice to Holdings pursuant to the terms of the subpoena or other legal process, (vii) as to any such information that is or becomes generally available to the public (other than as a result of prohibited disclosure by WFF), (viii) in connection with any proposed assignment or participation of WFF's interest in the Facility, provided that any such proposed assignee or participant shall have agreed to receive such information subject to the terms of this clause (b), and (ix) in connection with any litigation or other adverse proceeding involving parties to this Commitment Letter; provided that prior to any disclosure to a party other than Holdings, Company, the Lenders (as defined in the Term Sheet), their respective affiliates and their respective counsel under this clause (ix) with respect to litigation involving a party other than Holdings, Company, the Lenders, and their respective affiliates, the disclosing party agrees to provide Holdings with prior notice thereof.

(c) Anything to the contrary in this Commitment Letter notwithstanding you agree that (i) WFF shall have the right to provide information concerning the Facility to loan syndication and reporting services, and (ii) the projections, any marketing materials and all other information provided by or on behalf of you and your and the Company's affiliates to WFF regarding Sponsor, Holdings and their respective affiliates, the Transaction and the other transactions contemplated hereby in connection with the Facility may be disseminated by or on behalf of WFF to prospective lenders and other persons, who have agreed to be bound by customary confidentiality undertakings (including, "click-through" agreements), all in accordance with WFF's standard loan syndication practices (whether transmitted electronically by means of a

website, e-mail or otherwise, or made available orally or in writing, including at potential lender or other meetings). You (and you will use commercially reasonable efforts to cause the Borrower to) hereby further authorize WFF to download copies of Sponsor's and the Borrower's logos from their respective websites and post copies thereof on an Intralinks<sup>®</sup> or similar workspace and use the logos on any confidential information memoranda, presentations and other marketing materials prepared in connection with the syndication of the Facility.

### ***Information***

In issuing this Commitment Letter, WFF is relying on the accuracy of the information furnished to it by or on behalf of Sponsor and/or Holdings and their affiliates, without independent verification thereof. Holdings acknowledges that it is a condition precedent to the funding of the Facility that (a) all written information (other than forward looking information and projections of future financial performance (collectively, the "***Projections***")) concerning Company and its subsidiaries (the "***Information***") that has been, or is hereafter, made available by or on behalf of Sponsor or Holdings or their affiliates in connection with the Transaction is, or when delivered shall be, when considered as a whole, complete and correct in all material respects and does not, or shall not when delivered, contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in any material respect in light of the circumstances under which such statements have been made, and (b) all Projections that have been or are hereafter made available by or on behalf of Sponsor or Holdings or their affiliates in connection with the Transaction are, or when delivered shall be, prepared in good faith on the basis of information and assumptions that are believed by Sponsor or Holdings to be reasonable at the time such Projections were prepared (you hereby acknowledge that the most recent Projections delivered by or on behalf of Sponsor or Holdings to WFF were prepared on August 15, 2009); it being recognized by WFF that projections of future events are not to be viewed as facts and actual results may vary significantly from projected results.

### ***Sharing Information; Absence of Fiduciary Relationship; Affiliate Activities***

You acknowledge that WFF or one or more of its affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which you may have conflicting interests regarding the transactions described herein or otherwise. You also acknowledge that we do not have any obligation to use in connection with the transactions contemplated by this Commitment Letter, or to furnish to you, confidential information obtained by us from other companies.

You further acknowledge and agree that (a) no fiduciary, advisory or agency relationship between you, on the one hand, and WFF, on the other hand, is intended to be or has been created in respect of any of the transactions contemplated by this Commitment Letter, irrespective of whether WFF or one or more of its affiliates has advised or is advising you on other matters, (b) WFF, on the one hand, and you, on the other hand, have an arms-length business relationship that does not directly or indirectly give rise to, nor do you rely on, any fiduciary duty on the part of WFF, (c) you are capable of evaluating and understanding, and you understand and accept, the terms, risks and conditions of the transactions contemplated by this Commitment Letter, (d) you have been advised that WFF or one or more of its affiliates is engaged in a broad range of transactions that may involve interests that differ from your interests and that WFF does not have

any obligation to disclose such interests and transactions to you by virtue of any fiduciary, advisory or agency relationship, and (e) you waive, to the fullest extent permitted by law, any claims you may have against WFF for breach of fiduciary duty or alleged breach of fiduciary duty in respect of any of the transactions contemplated by this Commitment Letter and agree that WFF shall not have any liability (whether direct or indirect) to you in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of you, including your stockholders, employees or creditors. For the avoidance of doubt, the provisions of this paragraph apply only to the transactions contemplated by this Commitment Letter and the relationships and duties created in connection with the transactions contemplated by this Commitment Letter.

You further acknowledge that one or more of WFF's affiliates are full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, WFF or one or more of WFF's affiliates may provide investment banking and other financial services to, and/or acquire, hold or sell, for their respective own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of, you, and Company and other companies with which you or Company may have commercial or other relationships. With respect to any debt or other securities and/or financial instruments so held by WFF or one or more of its affiliates or any of their respective customers, all rights in respect of such securities and financial instruments, including any voting rights, will be exercised by the holder of the rights, in its sole discretion.

### ***Break-Up Fee***

You agree that if Holdings or Sponsor or any of your affiliates consummate the Acquisition and, in connection with the Acquisition, obtain an asset-backed revolving debt financing alternative to the Facility (other than a debt financing (i) provided by Holdings, Ares, Teachers or any of their affiliates or (ii) in which WFF holds not less than 50% of the commitments and has pricing and other economic terms either substantially similar to the Facility or more favorable to WFF), then you immediately shall pay to WFF, in immediately available funds, a fee equal to \$375,000 (which amount is in addition to any other amount paid or payable hereunder).

### ***Governing Law, Etc.***

This Commitment Letter, the Term Sheet, and any claim or dispute concerning the subject matter hereof or thereof shall be governed by, and construed in accordance with, the law of the State of New York. Each of the parties hereto consents to the exclusive jurisdiction and venue of the federal and/or state courts located in New York, New York. This Commitment Letter (together with the Term Sheet) sets forth the entire agreement between the parties with respect to the matters addressed herein, supersedes all prior communications, written or oral, with respect hereto, and may not be amended, supplemented, or modified except in a writing signed by the parties hereto. This Commitment Letter may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Commitment Letter by telecopier or other electronic transmission shall be equally effective as delivery of a manually executed counterpart of this Commitment Letter. This Commitment Letter shall not be assignable by you (except to an affiliate of Holdings that is

directly or indirectly controlled by Ares and Teachers) without the prior written consent of WFF (any purported assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto, and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto and the Indemnified Persons. Notwithstanding any other provision of this Commitment Letter, WFF agrees to offer to assign 50% of the commitments under this Commitment Letter to BofA upon the following terms and subject to the following conditions: (a) the assignment must be for at least 30% of the total commitments under the Facility; (b) BofA and WFF shall be co-lead arrangers under this Commitment Letter, in each case with WFF as the lead loan arranger; and (c) BofA shall be entitled to a *pro rata* percentage of the fees otherwise payable to WFF under Annex A-I to the Term Sheet and the Closing Fee under Annex A-II to the Term Sheet. In the event that this Commitment Letter is terminated or expires, the Expenses and Indemnification, Fees, Confidentiality, Sharing Information; Absence of Fiduciary Relationship; Affiliate Transactions, Governing Law, Etc., and Waiver of Jury Trial provisions hereof shall survive such termination or expiration. Anything contained herein to the contrary notwithstanding, your obligations under this Commitment Letter, other than your obligations under the paragraph captioned "Syndication", shall terminate at the time of the execution and delivery of the Loan Documents relative to the Facility.

#### ***Waiver of Jury Trial***

To the maximum extent permitted by applicable law, each party hereto irrevocably waives any and all rights to a trial by jury in any action or proceeding (whether based on contract, tort, or otherwise) arising out of or relating to this Commitment Letter or the Transaction contemplated hereby or the actions of WFF or any of its affiliates in the negotiation, performance, or enforcement of this Commitment Letter.

#### ***Patriot Act***

WFF hereby notifies you that pursuant to the requirements of the USA PATRIOT Act, Title III of Pub. L. 107-56 (signed into law October 26, 2001) (the "PATRIOT Act"), WFF may be required to obtain, verify and record information that identifies the Loan Parties (as defined in the Term Sheet), which information includes the name, address, tax identification number and other information regarding the Loan Parties that will allow WFF to identify the Loan Parties in accordance with the PATRIOT Act. This notice is given in accordance with the requirements of the PATRIOT Act. You agree to use commercially reasonable efforts to cause Company to provide WFF, prior to the Closing Date, with all documentation and other information required by bank regulatory authorities under "know your customer" and anti-money laundering rules and regulations, including, without limitation, the PATRIOT Act.



This Commitment Letter shall expire at 3:00 p.m. (New York time) on October 9, 2009, unless prior thereto WFF has received a copy of this Commitment Letter signed by Holdings. In the event the initial funding under the Facility does not occur on or prior to March 15, 2010 then WFF's commitment to provide the Facility shall automatically expire on such date. If you elect to deliver your signed counterpart of this Commitment Letter by telecopier or other electronic transmission, please arrange for the executed original to follow by next-day courier.

Very truly yours,

**WELLS FARGO FOOTHILL, LLC**

By: /s/ David A. Ernst

Name: David A. Ernst

Title: Vice President

**ACCEPTED AND AGREED TO**

this 8th day of October, 2009

**AOT BEDDING INTERMEDIATE  
HOLDINGS, LLC**

By: AOT Bedding Super Holdings, LLC,  
its sole member

By: Ares Corporate Opportunities Fund III, L.P.,  
its member

By: ACOF Operating Manager III LLC,  
its manager

By: /s/ Nav Rahemtulla  
Name: Nav Rahemtulla  
Title: Authorized Signatory

and

By: Ontario Teachers' Pension Plan Board,  
its member

By: /s/ Romeo Leemrijse  
Name: Romeo Leemrijse  
Title: Director

## EXHIBIT A

### *Syndication Provisions*

WFF may syndicate the financing for the Transaction to additional lenders with a corresponding reduction in WFF's share of the Facility. Any assignment by WFF of its commitment under the Commitment Letter will be made with the prior written consent of Holdings (prior to the closing of the Facility), and the Borrower (after the closing of the Facility), in each case, such consent shall not be required in connection with an assignment to Bank of America, N.A. and shall not be unreasonably withheld, conditioned or delayed. WFF will manage all aspects of any syndication, including the timing of all offers to potential lenders and the acceptance of commitments, the amount offered, and the compensation provided; provided, that WFF shall notify and consult with Holdings (prior to the closing of the Facility) and Borrower (after the closing of the Facility) regarding each potential lender and the amount offered to such lender.

If WFF elects to syndicate the Facility, Holdings agrees to use commercially reasonable efforts to assist WFF in forming a syndicate acceptable to WFF and Holdings. Such assistance shall include but not be limited to (a) using commercially reasonable efforts to make senior management and representatives of Borrower available to participate in meetings and to provide information to potential lenders and participants at such times and places as WFF may reasonably request; and (b) using commercially reasonable efforts to provide all information reasonably deemed necessary by WFF to complete the syndication, subject to confidentiality agreements in form and substance reasonably satisfactory to Holdings and WFF. In addition, Holdings agrees that WFF shall have the right to provide information concerning the Facility to loan syndication and reporting services.

[REDACTED]

## EXHIBIT B

### *Indemnification Provisions*

Capitalized terms used herein shall have the meanings ascribed to them in the commitment letter, dated October 8, 2009 (the “**Commitment Letter**”) addressed to AOT Bedding Intermediate Holdings, LLC (the “**Indemnifying Party**”) from Wells Fargo Foothill, LLC (“**WFF**”).

To the fullest extent permitted by applicable law, the Indemnifying Party agrees that it will indemnify, defend, and hold harmless each of the Indemnified Persons from and against (i) any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements, (ii) any and all actions, suits, proceedings and investigations in respect thereof, and (iii) any and all legal or other costs, expenses or disbursements in giving testimony or furnishing documents in response to a subpoena or otherwise (including, without limitation, the costs, expenses and disbursements, as and when incurred, of investigating, preparing or defending any such action, proceeding or investigation (whether or not in connection with litigation in which any of the Indemnified Persons is a party) and including, without limitation, any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements, resulting from any act or omission of any of the Indemnified Persons), directly or indirectly, caused by, relating to, based upon, arising out of or in connection with (a) the Transaction, (b) the Commitment Letter or the Facility, or (c) any untrue statement or alleged untrue statement of a material fact contained in, or omissions or alleged omissions in, information furnished by Indemnifying Party or Company, or any of their subsidiaries or affiliates, or any other person in connection with the Transaction or the Commitment Letter; provided, however, such indemnity agreement shall not apply to any portion of any such loss, claim, damage, obligation, penalty, judgment, award, liability, cost, expense or disbursement of an Indemnified Person to the extent it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from the gross negligence or willful misconduct of such Indemnified Person.

These Indemnification Provisions shall be in addition to any liability which the Indemnifying Party may have to the Indemnified Persons.

If any action, suit, proceeding or investigation is commenced, as to which any of the Indemnified Persons proposes to demand indemnification, it shall notify the Indemnifying Party with reasonable promptness; provided, however, that any failure by any of the Indemnified Persons to so notify the Indemnifying Party shall not relieve the Indemnifying Party from its obligations hereunder. WFF, on behalf of the Indemnified Persons, shall have the right to retain counsel of its choice to represent the Indemnified Persons, and the Indemnifying Party shall pay the reasonable and documented fees, expenses, and disbursement of such counsel, and such counsel shall, to the extent consistent with its professional responsibilities, cooperate with the Indemnifying Party and any counsel designated by the Indemnifying Party. The Indemnifying Party shall be liable for any settlement of any claim against any of the Indemnified Persons made with its written consent, which consent shall not be unreasonably withheld. Without the prior written consent of WFF, the Indemnifying Party shall not settle or compromise any claim, permit a default or consent to the entry of any judgment in respect thereof.

In order to provide for just and equitable contribution, if a claim for indemnification pursuant to these Indemnification Provisions is made but is found by a judgment of a court of competent jurisdiction (not subject to further appeal) that such indemnification may not be enforced in such case, even though the express provisions hereof provide for indemnification in such case, then the Indemnifying Party, on the one hand, and the Indemnified Persons, on the other hand, shall contribute to the losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements to which the Indemnified Persons may be subject in accordance with the relative benefits received by the Indemnifying Party, on the one hand, and the Indemnified Persons, on the other hand, and also the relative fault of the Indemnifying Party, on the one hand, and the Indemnified Persons collectively and in the aggregate, on the other hand, in connection with the statements, acts or omissions which resulted in such losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements and the relevant equitable considerations shall also be considered. No person found liable for a fraudulent misrepresentation shall be entitled to contribution from any other person who is not also found liable for such fraudulent misrepresentation. Notwithstanding the foregoing, none of the Indemnified Persons shall be obligated to contribute any amount hereunder that exceeds the amount of fees previously received by such Indemnified Person pursuant to the Commitment Letter.

Neither expiration nor termination of WFF's commitments under the Commitment Letter or funding or repayment of the loans under the Facility shall affect these Indemnification Provisions which shall remain operative and continue in full force and effect.

## TERM SHEET

This Term Sheet is part of the commitment letter, dated October 8, 2009 (the “**Commitment Letter**”), addressed to AOT Bedding Intermediate Holdings, LLC by Wells Fargo Foothill, LLC (“**WFF**”) and is subject to the terms and conditions of the Commitment Letter. Capitalized terms used herein and the accompanying Annexes shall have the meanings set forth in the Commitment Letter unless otherwise defined herein or therein.

***Borrower:***

**Simmons Bedding Company** (“**Simmons**”), reorganized debtor under a plan of reorganization (the “**Plan of Reorganization**”) confirmed in a case (the “**Bankruptcy Case**”) commenced under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “**Bankruptcy Court**”), and certain of Simmons’ present and future domestic subsidiaries as are reasonably acceptable to WFF (Simmons and such subsidiaries, collectively, the “**US Borrowers**”) and present and future subsidiaries organized under the laws of Canada as are acceptable to WFF (collectively, the “**Canadian Borrowers**” and, together with the US Borrowers, collectively, the “**Borrowers**”).

***Guarantors:***

Bedding Holdco Incorporated (“**Parent**”) and all of Parent’s present and future United States and Canadian subsidiaries (other than Borrowers and unrestricted subsidiaries); provided, that, any Canadian Subsidiary that is characterized as a corporation for US federal income tax purposes shall only guaranty the obligations of the Canadian Borrowers. Such Guarantors, together with Borrowers, each a “**Loan Party**” and collectively, the “**Loan Parties**”).

***Lenders and Agent:***

WFF and such other lenders (the “**Lenders**”) as Agent, Holdings and the Borrowers elect to include within the syndicate in accordance with Exhibit A to the Commitment Letter. WFF shall act as the sole agent for the Lenders (in such capacity, the “**Agent**”).

***Facility:***

A senior secured credit facility (the “**Facility**”) with a maximum credit amount (“**Maximum Credit Amount**”) of \$75,000,000. Under the Facility, Lenders will provide Borrowers with a revolving credit facility (the “**Revolver**”).

***Closing Date:***

The date on or before March 15, 2010 on which the borrowings under the Facility are made and the Acquisition is consummated (the “**Closing Date**”).

***Revolver:***

Advances under the Revolver (“**Advances**”) will be available up to a maximum amount outstanding at any one time of \$75,000,000 (the “**Maximum Revolver Amount**”). In addition, Advances under the Revolver may not, at any time, exceed the Borrowing Base (as hereinafter defined).

A portion of the Revolver shall be made available to the US Borrowers (the “**US Revolver**”) and a portion of the Revolver shall be made available to the Canadian Borrowers in an amount to be determined based on further diligence (the “**Canadian Revolver**”).

***Borrowing Base:***

85% of the amount of Borrowers’ eligible accounts (including eligible “Other Receivables”, as defined in the description of notes with respect to the Senior Secured Notes), not older than 90 days from invoice date and net of customary reserves including a reserve of 1% for each incremental percentage in dilution over 5%, and 95% of the amount of cash held in Blocked Deposit Accounts (as defined below).

In addition, the Borrowing Base would include availability based upon Borrowers’ inventory up to the least of the following: (i) 65% of eligible inventory, net of customary reserves, (ii) 85% times the net orderly liquidation value of Borrowers’ eligible inventory, and (iii) 33% of the amount of credit availability created by Borrowers’ eligible accounts.

The Borrowing Base with respect to the US Revolver shall be based solely on accounts and inventory of the US Borrowers and the Borrowing Base with respect to the Canadian Revolver shall be based solely on accounts and inventory of the Canadian Borrowers.

“**Blocked Deposit Accounts**” will mean deposit accounts maintained at Wells Fargo Bank, N.A. or Wachovia Bank, N.A. that are the subject of control agreements among the applicable Borrower, Agent and the depository. Agent shall not be required to release deposits held in such Blocked Deposit Accounts to the Borrowers if (i) an event of default has occurred and is continuing or (ii) if after giving effect to the release of

such deposits, the outstanding revolving loans and letters of credit would exceed availability under the Revolver.

***Letter of Credit Subfacility:***

Under the Revolver, Borrowers will be entitled to request that Agent issue guarantees of payment ("***Letters of Credit***") with respect to letters of credit issued by Wells Fargo Bank, N.A. in an aggregate amount not to exceed \$30,000,000 at any one time outstanding; which sublimit may be divided between the US Revolver and the Canadian Revolver to be determined based on further diligence. The aggregate amount of outstanding Letters of Credit will be reserved against the credit availability created under the Borrowing Base and the Maximum Revolver Amount.

***Optional Prepayment:***

The Advances may be prepaid in whole or in part from time to time and without penalty or premium. The Facility may be prepaid and the commitments terminated in whole at any time upon 3 business days prior written notice.

***Use of Proceeds:***

To (i) repay Borrowers' secured working capital indebtedness on the effective date (the "***Effective Date***") of the Plan of Reorganization, (ii) otherwise enable Borrowers to consummate the Plan of Reorganization on the Effective Date, (iii) fund certain fees and expenses associated with the Facility and the Transaction, and (iv) finance the ongoing general corporate needs of Borrowers.

***Fees and Interest Rates:***

As set forth on Annex A-I and A-II.

***Term:***

4 years from the Closing Date but not to exceed 90 days prior to the maturity of the Senior Secured Notes (as defined below) ("***Maturity Date***").

***Collateral:***

A (a) first priority perfected security interest in all of the Loan Parties' now owned or hereafter acquired (i) accounts (but excluding such accounts for equipment sold or leased) and certain royalty and licensing receivables, (ii) inventory, (iii) to the extent evidencing or governing any of the items referred to in the preceding clauses, general intangibles, documents, contract rights, chattel paper (including tangible chattel paper and electronic chattel paper) and instruments (including promissory notes), (iv) to the extent relating to any of the items referred to in the preceding clauses, guarantees, letters of credit, security and other credit enhancements,



letter-of-credit rights and supporting obligations, (v) cash and cash equivalents from whatever source derived, all lockboxes (excluding safe deposit boxes), deposit accounts and, solely to the extent constituting cash or cash equivalents or representing a claim to cash equivalents, securities accounts as original collateral, (vi) all intercompany loans and advances among the Loan Parties, (vii) to the extent relating to any of the items referred to in the preceding clauses, books and records and (viii) proceeds of any of the foregoing to the extent they would otherwise constitute Working Capital Assets, including proceeds received in respect of Working Capital Assets from casualty insurance or condemnation, and excluding all Asset Sale Proceeds Accounts (as defined below) and all cash, Cash Equivalents, Money, Instruments, Securities, Investment Property and Financial Assets (as each such term is defined in the Uniform Commercial Code for the State of New York) held in or credited to any Asset Sale Proceeds Account (collectively, the “**Working Capital Assets**”) and (b) second priority perfected security interest in (i) substantially all of the Loan Parties’ now owned or hereafter acquired property and assets (other than Working Capital Assets) and all proceeds and products thereof to the extent they would otherwise constitute Senior Secured Notes Assets and any proceeds received upon an asset sale or event of loss with respect to the Senior Secured Notes Assets to the extent they are held in an Asset Sale Proceeds Account, including proceeds received in respect of Senior Secured Notes Assets from casualty insurance or condemnation (collectively, the “**Senior Secured Notes Assets**”), in each case subject to permitted liens and customary excluded collateral (including special purpose and de-minimus deposit accounts acceptable to Agent in its reasonable discretion) and other exceptions (to be mutually agreeable to Agent and Borrowers), and (ii) in all of the stock (or other ownership interests in) of each Loan Party other than Parent and all proceeds and products thereof. “**Asset Sales Proceeds Accounts**” means deposit and/or securities accounts maintained exclusively for the purpose of holding proceeds of identifiable cash proceeds received upon an asset sale or event of loss with respect to any Senior Secured Notes Assets and any proceeds and any investment of such Cash Proceeds, in each case, constituting cash, Cash Equivalents, Money, Instruments, Securities, Investment Property and/or Financial Assets.

The priority of the security interests and related creditor rights between the Facility and the \$425 million of senior secured notes (the "**Senior Secured Notes**") will be set forth in an intercreditor agreement (the "***Intercreditor Agreement***").

***Representations and Warranties:***

The credit agreement governing the Facility will include such representations and warranties to be made by the Loan Parties and their respective subsidiaries as are usual and customary for financings of this type, including representations and warranties (certain of which will be subject to materiality thresholds, baskets and customary or bankruptcy-related exceptions and qualifications to be negotiated in the definitive Loan Documents) regarding: due organization and qualification; subsidiaries; due authorization; no conflict; governmental consents; binding obligations; perfected liens; title to assets; no encumbrances; jurisdiction of organization; location of chief executive office; organizational identification number; commercial tort claims; litigation; compliance with laws; no material adverse change; fraudulent transfer; employee benefits; environmental condition; intellectual property; leases; deposit accounts and securities accounts; complete disclosure; material contracts; Patriot Act and OFAC; indebtedness; payment of taxes; margin stock; governmental regulation; Parent as holding company; acquisition documents; eligible accounts; eligible inventory; location of inventory and equipment; inventory records, entry of the Confirmation Order (as defined in Annex B) and satisfaction of the conditions to effectiveness of the Plan of Reorganization, or as may be agreed.

***Affirmative Covenants:***

The credit agreement governing the Facility will include such affirmative covenants (certain of which will be subject to materiality thresholds, baskets and customary exceptions and qualifications to be negotiated in the definitive Loan Documents) applicable to the Loan Parties and their respective subsidiaries as are usual and customary for financings of this type, including covenants regarding: financial statements, reports, and certificates; collateral reporting; existence; maintenance of properties; taxes; insurance; inspection; compliance with laws; environmental; disclosure updates; formation of subsidiaries; further assurances; lender meetings; material contracts; employee benefits, location of inventory and equipment and satisfaction of the ongoing obligations under the Plan of Reorganization, or as may

be agreed.

***Negative Covenants:***

The credit agreement governing the Facility will include such negative covenants (certain of which will be subject to materiality thresholds, baskets and customary exceptions and qualifications to be negotiated in the definitive Loan Documents) applicable to the Loan Parties and their respective subsidiaries as are usual and customary for financings of this type, including covenants regarding: limitations on: indebtedness; liens; fundamental changes; disposal of assets; change of name; nature of business; prepayments and amendments; change of control; distributions; accounting methods; investments; transactions with affiliates; use of proceeds; Parent as a holding company; consignments; and inventory and equipment with bailees, or as may be agreed.

***Financial Covenants:***

If at any time excess availability falls below \$14,000,000 (a "***Covenant Event***"), Simmons, on a consolidated basis, shall be required to maintain fixed charge coverage ratio of not less than 1.1:1.0; provided, that, no default or event of default shall occur as a result of Simmons failing to maintain such fixed charge coverage ratio if within 15 days after the applicable Covenant Event Simmons receives a cash equity contribution (an "***Equity Contribution***") resulting in excess availability being equal to or greater than \$14,000,000; provided, further, that Agent and Lenders shall not be obligated to make any loans or issue any letters of credit during the period from the occurrence of such Covenant Event until Simmons receives such Equity Contribution.

***Collection:***

The Borrowers would direct all of their customers to remit all payments either to (i) deposit accounts that are the subject of springing control agreements among the applicable Borrower, Agent, and the depository bank, or (ii) Blocked Deposit Accounts, and would be required promptly to remit any payments received by them to one of these deposit accounts. All collections received would be subject to a one business day clearance charge.

***Events of Default:***

The credit agreement governing the Facility will include such events of default applicable to the Loan Parties and their respective subsidiaries as are usual and customary for financings of this type, including (and certain of

which will be subject to materiality thresholds, exceptions and grace periods to be negotiated in the definitive Loan Documents): non-payment of obligations; non-performance of covenants and obligations; material judgments; bankruptcy or insolvency; any restraintment against all or a material portion of business affairs; default on other material debt (including secured hedging agreements); breach of any representation or warranty; limitation or termination of any guarantee with respect to the Facility; impairment of security; employee benefits; and actual or asserted invalidity or unenforceability of any Facility documentation or liens securing obligations under the Facility documentation.

***Conditions Precedent to Closing:***

The conditions set forth on Annex B.

***Assignments:***

Each Lender shall be permitted to assign, in an amount not less than \$1.0 million, its rights and obligations under the Loan Documents, or any part thereof, to any person or entity with the consent of Agent and Borrowers (such consent not to be unreasonably withheld, delayed or conditioned); provided that no consent by Borrowers shall be required for assignments (a) to another Lender, an affiliate of a Lender or an approved fund under common control with a Lender, or (b) after the occurrence and during the continuance of a default or an event of default. Subject to customary voting limitations, each Lender shall be permitted to sell participations in such rights and obligations, or any part thereof to any person or entity without the consent of Borrowers.

***Governing Law and Forum:***

State of New York

***Counsel to Agent:***

Goldberg Kohn

## Annex A-I

### Interest Rates and Fees

**Interest Rate Options**.....Borrowers may elect that the loans bear interest at a rate *per annum* equal to:

(i) the Base Rate plus 4.50%; or

(ii) the LIBOR Rate plus 3.50% (the "***LIBOR Margin***").

As used herein:

The "***Base Rate***" means the greatest of (a) the prime lending rate as publicly announced from time to time by Wells Fargo Bank, N.A., (b) the Federal Funds Rate plus ½% and (c) the three-month LIBOR rate (which shall be determined daily) plus 1.00%.

The "***LIBOR Rate***" means the rate per annum appearing on Bloomberg L.P.'s (the "Service") Page BBAM (official BBA USD Dollar Libor Fixings) (or on any successor or substitute page of such Service or any successor to or substitute for such Service 2 Business Days prior to the commencement of the requested Interest Period, adjusted by the reserve percentage prescribed by governmental authorities as determined by Agent. The LIBOR Rate shall be available for interest periods of 1, 2 and 3 months.

**Interest Payment Dates**..... In the case of loans bearing interest based upon the Base Rate ("***Base Rate Loans***"), monthly in arrears.

In the case of Loans bearing interest based upon the LIBOR Rate ("***LIBOR Rate Loans***"), on the last day of each relevant interest period.

**Letter of Credit Fees** ..... An amount equal to the LIBOR Margin per annum times the undrawn amount of each Letter of Credit, payable in cash monthly in arrears, plus the charges imposed by the letter of credit issuing bank; provided however, that if the Default Rate is in effect, the Letter of Credit Fee shall be increased by an additional 2.0% per annum.

**Default Rate** ..... At any time when an event of default has occurred and is continuing and upon written election of

Required Lenders (to be defined in the Loan Documents) all amounts due under the Facility shall bear interest at 2.0% above the interest rate otherwise applicable thereto.

**Rate and Fee Basis** ..... All *per annum* rates shall be calculated on the basis of a year of 360 days and the actual number of days elapsed.

**Unused Revolver Fee** ..... A fee in an amount equal to 0.50% per annum times the unused portion of the Revolver shall be due and payable monthly in arrears.

**Annex A-II**

**Fees**

[REDACTED]

## **Annex B**

The initial availability of the Facility is subject to the satisfaction of each of the following conditions precedent:

(a) Delivery of Loan Documents customary for transactions of this type duly executed by the Loan Parties (or applicable third parties as the case may be) including a credit agreement, security agreements, control agreements, landlord waivers, mortgages, pledge agreements, intercreditor agreements and intercompany subordination agreements, and receipt of other documentation customary for transactions of this type including legal opinions, officers' certificates, governing documents, evidence of corporate authority and certificates of status, payoff letters, instruments necessary to perfect the Agent's first priority security interest in the Collateral, and certificates of insurance policies and/or endorsements naming Agent as additional insured or loss payee, as the case may be, all in form and substance consistent with the terms set forth in the Commitment Letter and otherwise on customary and commercially reasonable terms as may be agreed by the parties hereto; provided, that, to the extent the any landlord agreement, mortgage, certificates of insurance policies and/or endorsements naming Agent as additional insured or loss payee, as the case may be, or control agreement is not provided on the Closing Date after the Borrowers' use of commercially reasonable efforts to do so, the delivery of such document shall not constitute a condition precedent to the availability of the Facility on the Closing Date but (i) such item shall be required to be delivered within a commercially reasonable time after the Closing Date and in any event within 90 days thereafter and (ii) to the extent certificates of casualty insurance and/or endorsements covering inventory are not received on the Closing Date, Agent may exclude inventory from the Borrowing Base until such certificates and/or endorsements are delivered;

(b) Receipt of all documentation and other information required by bank regulatory authorities in connection with the Facility under "know your customer" and anti-money laundering rules and regulations, including, without limitation, the PATRIOT Act;

(c) Minimum availability under the Facility plus unrestricted cash and cash equivalents of the Loan Parties (excluding cash and cash equivalents included in the Borrowing Base) at closing, after giving effect to the initial use of proceeds (including the payment of all fees and expenses (including Expenses), of not less than \$35,000,000;

(d) The following transactions shall have occurred prior to or concurrently with the initial extension of credit under the Facility:

(i) There shall have been contributed to the equity of Parent at least \$275,000,000 in cash from Sponsor and its respective affiliates and any other co-investors in AOT Bedding Holdings Corp., on terms and conditions reasonably satisfactory to Agent;

(ii) The Acquisition shall be consummated in accordance with all applicable requirements of law;

(iii) The Plan Sponsor Agreement, and the Restructuring Support Agreement (as defined in the Plan Sponsor Agreement and all other material documentation associated with the Acquisition (collectively, the "***Acquisition Documentation***") shall be in form



and substance reasonably satisfactory to Agent (Agent hereby confirms that the terms of the Plan Sponsor Agreement and Restructuring Support Agreement provided to it on or prior to that date of the Commitment Letter are satisfactory); and

(iv) the Acquisition shall be completed on the closing date in all material respects in accordance with the terms and conditions of the Acquisition Documentation, and no such terms or conditions shall have been amended or waived in any respect (other than amendments and waivers not adverse to Agent and/or Lenders in any respect) without the prior written consent of the Agent, which consent shall not be unreasonably withheld, conditioned or delayed.

(e) Receipt of documentation evidencing the offering of the Senior Secured Notes in an aggregate principal amount not to exceed \$425,000,000 by the Borrowers, all in form and substance reasonably satisfactory to Agent (Agent hereby confirms that the terms expressly set forth in the Description of Notes most recently provided to it on or prior to that date of the Commitment Letter are satisfactory), and delivery of intercreditor agreements in respect of the Senior Secured Notes, in form and substance reasonably satisfactory to Agent;

(f) There has been no material change in Simmons' corporate structure since the date of the Commitment Letter except as contemplated by the Plan (as defined below) and, after giving effect to the Transactions, the Borrowers and their subsidiaries shall not have outstanding any material indebtedness for borrowed money or preferred stock, other than (i) this Facility, (ii) up to \$425 million of indebtedness under the Senior Secured Notes and (iii) certain other indebtedness and preferred stock expressly permitted under the Plan (as defined below) or the Plan Sponsor Agreement, including, without limitation, the Borrowers' IRB loans and the Loan Agreement, dated December 12, 1997, between Banco Santander Puerto Rico and Simmons Caribbean Bedding, Inc. (which is guaranteed by Simmons Bedding Company);

(g) Completion by Agent of the initial Borrowing Base, the results of which are reasonably satisfactory to Agent;

(h) Either (1) the "Confirmation Order" (as defined in the Plan Sponsor Agreement) shall have become a "Final Order" as defined in the Plan (as defined below) or (2) an order approving the Facility pursuant to sections 364(c), (d), and (e) of the Bankruptcy Code, in form and substance reasonably satisfactory to Agent and based on a motion heard on not less than 15 days' notice, shall have been entered by the Bankruptcy Court ("Replacement DIP Order"); and

(i) The "Confirmation Order" (as defined in the Plan Sponsor Agreement) shall have been entered and effective no fewer than 10 days prior to the Closing Date and shall not be subject to stay. The approved plan of reorganization attached to the Plan Sponsor Agreement (as in effect on the date hereof) as Exhibit A (the "**Plan**") and entered Confirmation Order shall be in substantially identical form and substance as are attached to the Plan Sponsor Agreement as in effect on the date hereof, except for any amendment, modification, supplement or waiver made to the Confirmation Order or the Plan with the consent of the Agent, which consent shall not be unreasonably withheld, conditioned or delayed, and except for such modifications reasonably required by Agent to reflect and approve the assumption by the Reorganized Debtors of the Facility authorized by the Replacement DIP Order, if applicable. All

conditions precedent to the effectiveness of the Plan shall have been satisfied (or, with the prior written consent Agent, waived) in the reasonable judgment of Agent; provided, however, that except as consented to by Agent, the Bankruptcy Court's retention of jurisdiction under the Confirmation Order shall not govern the enforcement of the Loan Documents or any rights or remedies related thereto.

[THIS PAGE INTENTIONALLY LEFT BLANK]