

**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 April 1, 2006

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

20-0646221

(State or other jurisdiction of  
incorporation or organization)

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

One Concourse Parkway, Suite 800, Atlanta, Georgia

30328-6188

(Address of principal executive offices)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

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 May 1, 2006: 4,464,189.36

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

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**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	Quarter Ended	
	April 1, 2006	March 26, 2005
Net sales	\$235,867	\$ 205,582
Cost of products sold	<u>136,439</u>	<u>114,166</u>
Gross profit	<u>99,428</u>	<u>91,416</u>
Operating expenses:		
Selling, general and administrative expenses	70,906	79,161
Amortization of intangibles	1,417	1,441
Licensing fees	<u>(2,288)</u>	<u>(2,051)</u>
	<u>70,035</u>	<u>78,551</u>
Operating income	29,393	12,865
Interest expense, net	<u>19,176</u>	<u>16,414</u>
Income (loss) before income taxes	10,217	(3,549)
Income tax expense (benefit)	<u>3,784</u>	<u>(1,357)</u>
Net income (loss)	6,433	(2,192)
Other comprehensive income (loss):		
Foreign currency translation adjustment	<u>44</u>	<u>3</u>
Comprehensive income (loss)	<u>\$ 6,477</u>	<u>\$ (2,189)</u>

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

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

	<u>April 1, 2006</u>	<u>December 31, 2005*</u>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,388	\$ 24,622
Accounts receivable, less allowances for doubtful receivables, discounts, and returns of \$4,474 and \$4,032	79,175	76,032
Inventories	29,031	33,050
Deferred income taxes	2,917	2,865
Other current assets	<u>19,602</u>	<u>15,085</u>
Total current assets	<u>152,113</u>	<u>151,654</u>
Property, plant and equipment, net	59,066	58,360
Goodwill	488,208	488,230
Intangible assets, net	535,872	537,290
Other assets	<u>42,964</u>	<u>45,243</u>
	<u>\$ 1,278,223</u>	<u>\$ 1,280,777</u>

\* Derived from the Company's 2005 audited Consolidated Financial Statements.

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

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

	<u>April 1, 2006</u>	<u>December 31, 2005*</u>
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 413	\$ 1,602
Accounts payable	47,766	45,031
Accrued liabilities	<u>65,075</u>	<u>65,139</u>
Total current liabilities	<u>113,254</u>	<u>111,772</u>
Non-current liabilities:		
Long-term debt	891,953	906,148
Deferred income taxes	147,770	144,418
Other	<u>14,729</u>	<u>14,092</u>
Total liabilities	<u>1,167,706</u>	<u>1,176,430</u>
Commitments and contingencies		
Common stockholders' equity:		
Class A common stock, \$.01 par value:		
Authorized - 4,000,000 shares		
Issued and outstanding - 3,878,307 shares	39	39
Class B common stock, \$.01 par value:		
Authorized, issued and outstanding - 688,235 shares	7	7
Additional paid-in capital	101,885	102,337
Retained earnings	11,081	4,648
Accumulated other comprehensive income	178	134
Deferred compensation	—	(361)
Treasury stock, at cost, 60,118 and 46,860 shares of class A common stock and 44,245 and 48,411 shares of class B common stock	<u>(2,673)</u>	<u>(2,457)</u>
Total common stockholders' equity	<u>110,517</u>	<u>104,347</u>
	<u>\$ 1,278,223</u>	<u>\$ 1,280,777</u>

\* Derived from the Company's 2005 audited Consolidated Financial Statements.

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

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

	Quarter Ended	
	April 1, 2006	March 26, 2005
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 6,433	\$ (2,192)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	7,281	6,462
Provision for bad debts, net	442	936
Provision for deferred income taxes	3,322	(1,509)
Non-cash interest expense	5,569	4,777
Non-cash stock compensation expense	2	—
<b>Net changes in operating assets and liabilities:</b>		
Accounts receivable	(3,585)	7,069
Inventories	4,019	(182)
Other current assets	(4,517)	4,320
Accounts payable	2,735	(3,126)
Accrued liabilities	(64)	(12,352)
Other, net	(1,325)	(5,407)
 Net cash provided by (used in) operating activities	 20,312	 (1,204)
 <b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(3,309)	(1,378)
Other, net	15	1
 Net cash used in investing activities	 (3,294)	 (1,377)
 <b>Cash flows from financing activities:</b>		
Payments of senior credit facility, net	(19,933)	(3,655)
Payments of other debt	(54)	(88)
Proceeds from issuance of common stock	2	—
Purchase of common stock	(311)	(67)
 Net cash used in financing activities	 (20,296)	 (3,810)
 Net effect of exchange rate changes	 44	 3
 Change in cash and cash equivalents	 (3,234)	 (6,388)
Cash and cash equivalents, beginning of period	24,622	24,206
 Cash and cash equivalents, end of period	 <u>\$ 21,388</u>	 <u>\$ 17,818</u>

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

**Simmons Company and Subsidiaries**  
**Condensed Consolidated Statement of Changes in Stockholders' Equity**  
(Dollars in thousands)

	Class A		Class B		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Compensation
	Common Shares	Common Stock	Common Shares	Common Stock				
<b>December 31, 2005</b> <b>(audited)</b>	3,831,447	\$39	639,824	\$ 7	\$102,337	\$ 4,648	\$134	\$(361)
Net income	—	—	—	—	—	6,433	—	—
Other comprehensive income:								
Change in foreign currency translation	—	—	—	—	—	—	44	—
Comprehensive income						6,433	44	—
Issuance of Class B common stock held in treasury	—	—	72,840	—	(93)	—	—	—
Non-cash stock compensation expense	—	—	—	—	2	—	—	—
Adoption of FASB Statement of Financial Standards No. 123R	—	—	—	—	(361)	—	—	361
Purchase of treasury stock, at cost	(13,258)	—	(68,674)	—	—	—	—	—
<b>April 1, 2006</b> <b>(unaudited)</b>	<u>3,818,189</u>	<u>\$39</u>	<u>643,990</u>	<u>\$ 7</u>	<u>\$101,885</u>	<u>\$11,081</u>	<u>\$178</u>	<u>\$ —</u>

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

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

**A. Basis of Presentation**

Simmons Company 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. All of Simmons Company’s business operations are conducted by Simmons Bedding and its direct and indirect subsidiaries (collectively “Simmons Bedding”). Simmons Company and its subsidiaries (collectively the “Company” or “Simmons Company”) is one of the largest bedding manufacturers in the United States.

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”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (the “Commission”). 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 April 1, 2006, 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 31, 2005. Operating results for the quarter ended April 1, 2006 are not necessarily indicative of future results that may be expected for the fiscal year ending December 30, 2006 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>April 1, 2006</b>	<b>December 31, 2005</b>
Raw materials	\$14,626	\$ 18,541
Work-in-progress	898	1,261
Finished goods	9,000	8,777
Inventory held at retail stores	<u>4,507</u>	<u>4,471</u>
	<u>\$29,031</u>	<u>\$ 33,050</u>

### C. Goodwill

The changes in the carrying amount of goodwill for the quarter ended April 1, 2006 are as follows (in thousands):

	<u>Wholesale Bedding</u>	<u>Retail</u>	<u>Consolidated</u>
Balance as of December 31, 2005	\$ 481,279	\$6,951	\$ 488,230
Tax benefit allocated to reduce goodwill	<u>(22)</u>	<u>—</u>	<u>(22)</u>
Balance as of April 1, 2006	<u>\$ 481,257</u>	<u>\$6,951</u>	<u>\$ 488,208</u>

### D. Warranties

The conventional bedding products that the Company currently manufactures generally include a ten year non-prorated warranty. The Company's warranty accrual is an estimate of future warranty returns recorded at the current average cost to settle warranty claims. The accrual is calculated as follows:

- 1) The Company records the amount of warranties issued during the period based upon its units sold, the cumulative average return rate for the previous ten years, and the estimated average cost to settle a warranty claim.
- 2) The Company adjusts the accruals related to pre-existing warranties for the estimated average cost to settle a warranty claim and changes in its estimate of the number of future warranty returns resulting from changes in its cumulative average return rate for the previous ten years.
- 3) The Company reduces the accrual for warranty settlements during the period based upon the number of warranty returns recorded at the estimated cost to settle warranty claims. The estimated cost to settle a warranty claims is based upon the average manufacturing cost per unit, including freight, less anticipated cost recovery resulting from the selling of returned product to "as-is" dealers and through the Company's owned retail outlet stores to consumers.

The following table presents a reconciliation of the Company's warranty accrual for the quarters ended April 1, 2006 and March 26, 2005 (in thousands):

	<b>April 1, 2006</b>	<b>March 26, 2005</b>
Balance at beginning of period	\$ 3,009	\$ 2,715
Additional warranties issued	624	512
Warranty settlements	(263)	(757)
Revision of estimate	(100)	388
Balance at end of period	<u>\$ 3,270</u>	<u>\$ 2,858</u>

#### **E. Long-Term Debt**

A summary of long-term debt follows (in thousands):

	<b>April 1, 2006</b>	<b>December 31, 2005</b>
Senior credit facility:		
Revolving loan	\$ —	\$ —
Tranche C term loan	<u>350,000</u>	<u>369,933</u>
Total senior credit facility	350,000	369,933
Senior unsecured term loan	140,000	140,000
7.875% senior subordinated notes due 2014	200,000	200,000
10.0% senior discount notes, due 2014, net of discount of \$81,569 and \$86,172	187,431	182,828
Other, including capital lease obligation	<u>14,935</u>	<u>14,989</u>
	892,366	907,750
Less current portion	<u>(413)</u>	<u>(1,602)</u>
	<u>\$891,953</u>	<u>\$ 906,148</u>

As of April 1, 2006, Simmons Bedding had availability to borrow \$65.1 million under the revolving loan after giving effect to \$9.9 million that was reserved for Simmons Bedding's reimbursement obligations with respect to outstanding letters of credit. The remaining availability under the revolving loan may be utilized to meet Simmons Bedding's current working capital requirements, including issuance of stand-by and trade letters of credit. Simmons Bedding also may utilize the remaining availability under the revolving loan to fund distributions, acquisitions and capital expenditures.

Depending on Simmons Bedding's leverage ratio, Simmons Bedding may be required to prepay the tranche C term loan with up to 50% of Simmons Bedding's excess cash flow (as defined in the senior credit facility) from each fiscal year. As a result of Simmons Bedding's fiscal year 2005 excess cash flow, Simmons Bedding made a \$1.2 million mandatory prepayment on the tranche C term loan in March 2006. Simmons Bedding voluntarily prepaid an

additional \$18.7 million of its tranche C term loan during the first quarter of 2006. As a result of these prepayments, the next scheduled quarterly principal payment on the term loan will be in June 2009.

The senior credit facility and the senior unsecured term loan bear interest at Simmons Bedding's choice of the Eurodollar Rate or Base Rate (both as defined), plus the applicable interest rate margins as follows:

	<b><u>Eurodollar Rate</u></b>	<b><u>Base Rate</u></b>
Revolving Loan	2.50%	1.50%
Tranche C Term Loan	2.50%	1.50%
Senior Unsecured Term Loan	3.75%	2.75%

The weighted average interest rates per annum in effect as of April 1, 2006 for the tranche C term loan and senior unsecured term loan were 7.35% and 8.50%, respectively.

Simmons Bedding has developed and implemented a policy to utilize extended Eurodollar contracts to minimize the impact of near term Eurodollar rate increases. For \$258 million of the tranche C term loan, Simmons Bedding has set the interest rate utilizing twelve month Eurodollar rate loans which fixed the Eurodollar Rate at 4.875% through January 26, 2007. The execution of this debt instrument resulted in the Company fixing the interest rate on approximately 52% of its floating rate debt as of April 1, 2006.

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 the Company and THL-SC Bedding (the "Parent Guarantors") and all of the Company's active domestic subsidiaries (the "Subsidiary Guarantors"). All the subsidiary guarantors are 100% owned by Simmons Bedding. The following Supplemental Consolidating Condensed Financial Statements provide additional guarantor/non-guarantor information.

**Supplemental Consolidating Condensed Statements of Operations**  
**For the Quarter Ended April 1, 2006**

(In thousands)

	<u>Issuer and Guarantors</u>				<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent</u> <u>Guarantors</u>	<u>Simmons</u> <u>Bedding</u> <u>Company</u>	<u>Subsidiary</u> <u>Guarantors</u>	<u>Non-Guarantor</u> <u>Subsidiaries</u>		
Net sales	\$ —	\$ (29,252)	\$ 263,294	\$ 1,825	\$ —	\$ 235,867
Cost of products sold	—	815	134,297	1,327	—	136,439
Gross profit	—	(30,067)	128,997	498	—	99,428
Operating expenses:						
Selling, general and administrative expenses	24	42,624	27,845	413	—	70,906
Amortization of intangibles	—	807	610	—	—	1,417
Intercompany fees	—	(78,176)	78,015	161	—	—
Licensing fees	—	(278)	(1,833)	(177)	—	(2,288)
	<u>24</u>	<u>(35,023)</u>	<u>104,637</u>	<u>397</u>	<u>—</u>	<u>70,035</u>
Operating income (loss)	(24)	4,956	24,360	101	—	29,393
Interest expense, net	4,658	14,279	212	27	—	19,176
Income from subsidiaries	<u>9,372</u>	<u>15,805</u>	<u>—</u>	<u>—</u>	<u>(25,177)</u>	<u>—</u>
Income before income taxes	4,690	6,482	24,148	74	(25,177)	10,217
Income tax expense (benefit)	<u>(1,743)</u>	<u>(2,890)</u>	<u>8,368</u>	<u>49</u>	<u>—</u>	<u>3,784</u>
Net income	<u>\$ 6,433</u>	<u>\$ 9,372</u>	<u>\$ 15,780</u>	<u>\$ 25</u>	<u>\$ (25,177)</u>	<u>\$ 6,433</u>

**Supplemental Consolidating Condensed Statements of Operations**  
**For the Quarter Ended March 26, 2005**

(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries		
Net sales	\$ —	\$ (16,033)	\$ 219,394	\$ 2,221	\$ —	\$ 205,582
Cost of products sold	—	288	112,146	1,732	—	114,166
Gross profit	—	(16,321)	107,248	489	—	91,416
Operating expenses:						
Selling, general and administrative expenses	91	51,480	27,105	485	—	79,161
Amortization of intangibles	—	807	634	—	—	1,441
Intercompany fees	—	(71,734)	71,531	203	—	—
Licensing fees	—	(265)	(1,607)	(179)	—	(2,051)
	91	(19,712)	97,663	509	—	78,551
Operating income (loss)	(91)	3,391	9,585	(20)	—	12,865
Interest expense, net	4,225	11,966	200	23	—	16,414
Income from subsidiaries	483	9,538	—	—	(10,021)	—
Income (loss) before income taxes	(3,833)	963	9,385	(43)	(10,021)	(3,549)
Income tax expense (benefit)	(1,641)	480	(227)	31	—	(1,357)
Net income (loss)	\$ (2,192)	\$ 483	\$ 9,612	\$ (74)	\$ (10,021)	\$ (2,192)

**Supplemental Consolidating Condensed Balance Sheets**  
**As of April 1, 2006**  
(In thousands)

	<u>Issuer and Guarantors</u>				<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent Guarantors</u>	<u>Simmons Bedding Company</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 17,753	\$ 967	\$ 2,668	\$ —	\$ 21,388
Accounts receivable	—	—	77,815	1,360	—	79,175
Inventories	—	—	28,268	763	—	29,031
Other	—	11,769	10,393	357	—	22,519
<b>Total current assets</b>	<b>—</b>	<b>29,522</b>	<b>117,443</b>	<b>5,148</b>	<b>—</b>	<b>152,113</b>
Property, plant and equipment, net	—	11,452	42,628	4,986	—	59,066
Goodwill and other intangibles, net	—	66,896	957,119	65	—	1,024,080
Other assets	3,173	37,301	2,020	470	—	42,964
Net investment in and advances to (from) affiliates	280,612	884,545	186,131	(2,120)	(1,349,168)	—
	<u>\$ 283,785</u>	<u>\$1,029,716</u>	<u>\$1,305,341</u>	<u>\$ 8,549</u>	<u>\$ (1,349,168)</u>	<u>\$ 1,278,223</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Current maturities of long-term debt	\$ —	\$ —	\$ 200	\$ 213	\$ —	\$ 413
Accounts payable and accrued liabilities	146	46,438	65,474	783	—	112,841
<b>Total current liabilities</b>	<b>146</b>	<b>46,438</b>	<b>65,674</b>	<b>996</b>	<b>—</b>	<b>113,254</b>
Long-term debt	187,431	690,000	13,100	1,422	—	891,953
Deferred income taxes	(14,309)	(9,398)	171,287	190	—	147,770
Other non-current liabilities	—	9,744	4,813	206	(34)	14,729
<b>Total liabilities</b>	<b>173,268</b>	<b>736,784</b>	<b>254,874</b>	<b>2,814</b>	<b>(34)</b>	<b>1,167,706</b>
Stockholders' equity	110,517	292,932	1,050,467	5,735	(1,349,134)	110,517
	<u>\$ 283,785</u>	<u>\$1,029,716</u>	<u>\$1,305,341</u>	<u>\$ 8,549</u>	<u>\$ (1,349,168)</u>	<u>\$ 1,278,223</u>

**Supplemental Consolidating Condensed Statements of Cash Flows**  
**For the Quarter Ended April 1, 2006**

(In thousands)

	<u>Issuer and Guarantors</u>				<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent Guarantors</u>	<u>Simmons Bedding Company</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>		
Net cash provided by (used in) operating activities	\$ (31)	\$ (32,268)	\$ 52,767	\$ (156)	\$ —	\$ 20,312
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(2,366)	(943)	—	—	(3,309)
Other, net	—	—	15	—	—	15
Net cash used in investing activities	—	(2,366)	(928)	—	—	(3,294)
Cash flows from financing activities:						
Proceeds from issuance of common stock	2	—	—	—	—	2
Repayment of long-term obligations	—	(19,933)	—	(54)	—	(19,987)
Purchase of treasury stock	(311)	—	—	—	—	(311)
Receipt from (distribution to) affiliates	340	52,497	(52,300)	(537)	—	—
Net cash provided by (used in) financing activities	31	32,564	(52,300)	(591)	—	(20,296)
Net effect of exchange rate changes	—	—	—	44	—	44
Change in cash and cash equivalents	—	(2,070)	(461)	(703)	—	(3,234)
Cash and cash equivalents:						
Beginning of period	—	19,823	1,429	3,370	—	24,622
End of period	<u>\$ —</u>	<u>\$ 17,753</u>	<u>\$ 968</u>	<u>\$ 2,667</u>	<u>\$ —</u>	<u>\$ 21,388</u>

**Supplemental Consolidating Condensed Statements of Cash Flows**  
**For the Quarter Ended March 26, 2005**

(In thousands)

	<u>Issuer and Guarantors</u>				<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent Guarantors</u>	<u>Simmons Bedding Company</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>		
Net cash provided by (used in) operating activities	\$ (161)	\$ 2,549	\$ (2,829)	\$ (763)	\$ —	\$ (1,204)
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	—	(585)	(782)	(11)	—	(1,378)
Other, net	—	1	—	—	—	1
Net cash provided by (used in) investing activities	—	(584)	(782)	(11)	—	(1,377)
Cash flows from financing activities:						
Payments of senior credit facility, net	—	(3,655)	—	—	—	(3,655)
Receipts from (distributions to) affiliates	(124)	(1,280)	184	1,220	—	—
Purchase of common stock	(67)	—	—	—	—	(67)
Payments of other debt	—	—	(33)	(55)	—	(88)
Net cash provided by (used in) financing activities	(191)	(4,935)	151	1,165	—	(3,810)
Net effect of exchange rate change	—	—	—	3	—	3
Change in cash and cash equivalents	(352)	(2,970)	(3,460)	394	—	(6,388)
Cash and cash equivalents:						
Beginning of period	352	15,923	7,333	598	—	24,206
End of period	\$ —	\$ 12,953	\$ 3,873	\$ 992	\$ —	\$ 17,818

## F. Share-Based Compensation

Under the Simmons Company Equity Incentive Plan (“Incentive Plan”), the Company is authorized to issue 688,235 shares of Class B common stock as restricted stock awards to the management and independent directors of the Company. The restricted stock awards are performance based awards, where the restrictions lapse based upon the achievement of specific measurable performance criteria. As of April 1, 2006, most of the awards vest ratably over a four year period based upon the Company meeting certain annual Adjusted EBITDA targets or on the eighth anniversary after issuance. Future vesting is subject to the holders continued full-time employment with the Company or continuance as a director of the Company. Unvested shares will accelerate upon a change of control of the Company if the Company has met certain performance criteria. Holders of the restricted stock have the right to receive dividends and vote shares, but may not sell, assign, transfer or pledge or otherwise encumber the stock.

The Company adopted the provisions of Statement of Financial Accounting Standard (“SFAS”) No. 123 (Revised 2004), *Share-Based Payment* (“SFAS 123R”) on January 1, 2006 (the first day of the 2006 first quarter). Prior to the adoption of SFAS 123R, the Company accounted for its awards of restricted stock made to its employees, directors and consultants pursuant to the Incentive Plan in accordance with the Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”), as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”). Under APB 25, compensation cost was measured upon issuance of the restricted stock award as the excess of the fair value of the award over the purchase price. Fair value was determined by the Company’s board of directors based upon a quarterly valuation of the Company’s enterprise value as measured by a third party valuation specialist. The Company’s enterprise value fluctuates based upon its operating performance, changes in market multiples for comparable publicly traded companies, and changes in multiples paid for companies with similar operations as the Company. The entire amount of the compensation cost was recorded as deferred compensation and amortized as a charge to selling, general and administrative expense over the period that the restrictions were expected to lapse.

The Company used the modified prospective application method of transition under SFAS 123R. Under the modified prospective application method, the Company will apply SFAS 123R for new awards granted after January 1, 2006 and for unvested awards as of January 1, 2006. Upon adoption of SFAS 123R, the Company made a one-time cumulative adjustment to record an estimate of the future forfeitures on all outstanding restricted stock awards. Additionally, the Company netted its deferred compensation related to awards issued prior to the adoption of SFAS 123R against additional paid in capital. Under SFAS 123R, compensation cost is measured at the grant date as the excess of the fair value of the award over the purchase price. Fair value is determined by the Company’s board of directors based upon a quarterly valuation of the Company’s enterprise value as measured by a third party valuation specialist.

The following table presents a rollforward of the number of unvested shares for the quarter ended April 1, 2006 and weighted-average grant-date fair value of the restricted stock awards:

	<b>Number of Shares</b>	<b>Weighted Average Fair Value at Grant Date</b>
Nonvested shares as of December 31, 2005	536,652	\$0.84
Granted	72,840	\$2.43
Vested	(7,905)	\$2.43
Forfeited	<u>(63,213)</u>	\$0.58
Nonvested shares as of April 1, 2006	<u>538,374</u>	\$1.06

Non-cash stock compensation expense was less than \$0.1 million for each of the quarters ended April 1, 2006 and March 26, 2005. As of April 1, 2006, there was \$0.3 million of total unrecognized compensation cost related to nonvested restricted stock awards granted under the Incentive Plan which is expected to be recognized over a weighted average period of 5.8 years.

### G. Segment Information

Operating segments are generally organized internally by whether the products are sold to a reseller or to an end consumer. The Company has aggregated similar operating segments into two reportable segments: (1) wholesale bedding and (2) retail bedding.

The wholesale bedding segment consists of (i) the manufacture, sale and distribution of premium branded bedding products to retail customers and institutional users of bedding products, such as the hospitality industry; (ii) the manufacture, sale and distribution of branded juvenile bedding and related soft good products; (iii) the licensing of intellectual property to domestic and international companies that manufacture and sell the Company's premium branded bedding products or products which complement the bedding products manufactured by the Company and its licensees; (iv) the sale of product returns, off-quality product and excess inventory to "as-is" dealers and through the Company's owned retail outlet stores to consumers; and (v) corporate costs related to the Company.

The retail bedding segment currently operates specialty sleep stores in Oregon and Washington that sell to consumers principally premium branded bedding products.

The Company evaluates segment performance and allocates resources based on net sales and Adjusted EBITDA. Adjusted EBITDA differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees and unusual or non-recurring items as defined by the Company's senior credit facility. Management believes the aforementioned approach is the most informative representation of how management evaluates

performance. Adjusted EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs.

The following tables summarize segment information:

**Quarter Ended April 1, 2006**  
(In thousands)

	Wholesale Bedding	Retail	Eliminations	Totals
Net sales to external customers	\$ 212,232	\$23,635	\$ —	\$ 235,867
Intersegment net sales	4,715	—	(4,715)	—
Adjusted EBITDA	36,109	2,615	(21)	38,703
Depreciation and amortization expense	6,964	317	—	7,281
Expenditures for long-lived assets	2,615	694	—	3,309
Segment assets	1,257,721	22,104	(1,602)	1,278,223
<b>Reconciliation of EBITDA and Adjusted EBITDA to net income:</b>				
Net income	\$ 5,079	\$ 1,375	\$ (21)	\$ 6,433
Depreciation and amortization	6,964	317	—	7,281
Income taxes	2,983	801	—	3,784
Interest expense, net	19,172	4	—	19,176
Interest income	84	—	—	84
EBITDA	34,282	2,497	(21)	36,758
Reorganization expense	641	—	—	641
Management fees	302	118	—	420
Management severance	826	—	—	826
Other, net	58	—	—	58
Adjusted EBITDA	<u>\$ 36,109</u>	<u>\$ 2,615</u>	<u>\$ (21)</u>	<u>\$ 38,703</u>

**Quarter Ended March 26, 2005**

(In thousands)

	Wholesale Bedding	Retail	Eliminations	Totals
Net sales to external customers	\$ 186,451	\$19,131	\$ —	\$ 205,582
Intersegment net sales	3,149	—	(3,149)	—
Adjusted EBITDA	17,693	2,117	78	19,888
Depreciation and amortization expense	6,136	326	—	6,462
Expenditures for long-lived assets	1,124	254	—	1,378
Segment assets	1,262,652	25,175	(1,596)	1,286,231
<b>Reconciliation of EBITDA and Adjusted EBITDA to net income (loss):</b>				
Net income (loss)	\$ (3,364)	\$ 1,094	\$ 78	\$ (2,192)
Depreciation and amortization	6,136	326	—	6,462
Income taxes	(1,955)	598	—	(1,357)
Interest expense, net	16,411	3	—	16,414
Interest income	36	—	—	36
EBITDA	17,264	2,021	78	19,363
Management fees	324	96	—	420
Management severance	105	—	—	105
Adjusted EBITDA	<u>\$ 17,693</u>	<u>\$ 2,117</u>	<u>\$ 78</u>	<u>\$ 19,888</u>

**H. Contingencies**

From time to time, the Company has been involved in various legal proceedings. The Company believes that all current litigation is routine in nature and incidental to the conduct of the Company's business, and that none of this litigation, if determined adversely to the Company, would have a material adverse effect on the Company's financial condition or results of its operations.

**I. Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, *Accounting for Certain Hybrid Instruments* ("SFAS 155"). SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired or issued by the Company beginning in fiscal year 2007. The Company does not expect this statement to have a significant impact on its consolidated financial statements or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – An Amendment of FASB Statement No. 140* (“SFAS 156”). Among other requirements, SFAS 156 provides guidance on the accounting for servicing assets or liabilities when an entity undertakes an obligation to service a financial asset by entering into a service contract. SFAS 156 is effective for the Company at the beginning of fiscal year 2007. The Company does not expect this statement to have a significant impact on its consolidated financial statements or results of operations.

## 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 31, 2005, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2005 Annual Report on Form 10-K, and the unaudited interim financial statements included elsewhere in this report.

### Results of Operations

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

	Quarter Ended	
	April 1, 2006	March 25, 2005
Net sales	100.0%	100.0%
Cost of products sold	57.8%	55.5%
Gross profit	42.2%	44.5%
Operating expenses:		
Selling, general and administrative expenses	30.1%	38.5%
Amortization of intangibles	0.6%	0.7%
Licensing fees	-1.0%	-1.0%
	29.7%	38.2%
Operating income	12.5%	6.3%
Interest expense, net	8.1%	8.0%
Income (loss) before income taxes	4.4%	-1.7%
Income tax expense (benefit)	1.6%	-0.6%
Net income (loss)	2.8%	-1.1%

## Quarter Ended April 1, 2006 as Compared to Quarter Ended March 26, 2005

*Net sales.* The following table presents our net sales and the dollar amount and percentage change by segment for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005.

	<u>2006</u>	<u>2005</u> (in millions)	<u>\$ increase (decrease)</u>	<u>% increase (decrease)</u>
Wholesale bedding segment	\$ 217.0	\$ 189.6	\$ 27.4	14.4%
Retail bedding segment	23.6	19.1	4.5	23.5%
Eliminations	(4.7)	(3.1)	(1.6)	49.3%
Consolidated net sales	<u>\$ 235.9</u>	<u>\$ 205.6</u>	<u>\$ 30.3</u>	<u>14.7%</u>

For the quarter ended April 1, 2006, wholesale bedding segment net sales increased 14.4% compared to the same period a year ago primarily as a result of (i) a 14.6% increase in our conventional bedding unit volume resulting in an estimated increase in wholesale bedding net sales of \$29.1 million and (ii) a 3.1% increase in our conventional bedding average unit selling price (“AUSP”) resulting in an estimated increase of wholesale bedding net sales of \$6.2 million. Our conventional bedding unit volume increase resulted principally from the remerchandising of our product lines with our dealers primarily in the second and third quarters of 2005 to include better product offerings at key retail price points. Our first quarter 2006 unit volume also benefited from successful retail promotions with significant dealers during the quarter. Our improvement in AUSP in the first quarter was primarily attributable to the price increase implemented during the fourth quarter of 2005 to help minimize the impact of rising raw material costs, partially offset by a change in our sales mix.

For the quarters ended April 1, 2006 and March 26, 2005, our wholesale bedding segment net sales reflect a reduction of \$26.9 million and \$16.9 million, respectively, for cash consideration paid to our customers for certain promotional programs, allowances and volume rebates. Our sales reductions increased for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005 principally due to our dealers providing less proof of advertising for the co-op subsidies they receive from us, which resulted in more co-op advertising expenditures being recorded as a sales reduction versus a selling expense. As a percentage of our sales, our overall co-op advertising expenditures, regardless of whether reported as a selling expense or a sales reduction, for the quarter ended April 1, 2006, were 1.2 percentage points higher than the overall co-op advertising expenditures for the quarter ended March 26, 2005. Co-op advertising expenditures increased as a result of our sales mix shifting to dealers and products that receive higher subsidies.

Retail bedding segment net sales increased \$4.5 million, or 23.5%, for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005 as a result of increased same store sales and the net addition of six new retail stores. On a comparable store basis, sales for our retail stores increased 9.5% for the quarter ended April 1, 2006 versus the quarter ended March 26, 2005. Retail segment same store sales have benefited from increased advertising and an improved retail sales environment in Washington and Oregon.

*Gross Margin.* The following table presents our gross profit, gross margin, and the gross margin percentage point change by segment for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005.

	Gross Profit		Gross Margin		Margin % Point Change
	2006	2005	2006	2005	
	(in millions)				
Wholesale bedding segment	\$ 86.9	\$ 81.0	40.0%	42.7%	-2.7%
Retail bedding segment	12.5	10.3	53.0%	53.7%	-0.7%
Eliminations	—	0.1	0.0%	-4.7%	4.7%
Consolidated	<u>\$ 99.4</u>	<u>\$ 91.4</u>	42.2%	44.5%	-2.3%

Our wholesale bedding segment gross margin for the quarter ended April 1, 2006, declined by 2.7 percentage points compared to the quarter ended March 26, 2005, principally due to (i) a 9.2% increase in our conventional bedding material cost per unit due to inflation in raw material costs and (ii) an \$8.1 million increase in our co-op advertising expenditures classified as a reduction of sales (see above “Net Sales” discussion), which reduced our gross margin. Partially offsetting these decreases, our conventional bedding labor and overhead cost per unit decreased 8.5% for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005 as a result of favorable labor and overhead efficiencies driven by increased unit volume.

Our retail bedding segment gross margin decreased 0.7 percentage points principally due to (i) less vendor incentives received during the first quarter of 2006 compared to the first quarter of 2005 and (ii) a shift in sales mix to lower margin products.

*Selling, general and administrative expenses (“SG&A”).* The following table presents our SG&A by dollar amount, as a percentage of net sales and the percentage point change by segment for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005.

	SG&A		As a % of Net Sales		Margin % Point Change
	2006	2005	2006	2005	
	(in millions)				
Wholesale bedding segment	\$ 60.7	\$ 70.7	28.0%	37.3%	-9.3%
Retail bedding segment	10.2	8.5	43.2%	44.4%	-1.2%
Consolidated	<u>\$ 70.9</u>	<u>\$ 79.2</u>	30.1%	38.5%	-8.4%

As a percentage of wholesale bedding segment net sales, our wholesale bedding segment SG&A for the quarter ended April 1, 2006 declined 9.3 percentage points compared to the quarter ended March 26, 2005. SG&A decreased principally due to our cost savings initiatives implemented in the second half of 2005 including:

- Our selling expenses decreased \$2.5 million, or 2.1 percentage points, primarily as a

result of our sales force reorganization; and

- Our distribution expense decreased 0.6 percentage points due primarily to less shipments having been made outside of our planned production network and improved trailer utilization.

Our wholesale bedding segment SG&A for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005 also benefited from the timing or classification of the following expenses:

- Our national advertising expenses decreased \$3.2 million, or 1.9 percentage points, principally due to our 2005 HealthSmart™ national advertising campaign being weighted towards the first quarter of 2005, whereas our 2006 “Bowling Ball” campaign spending is weighted towards the second quarter of 2006;
- Our co-op advertising expenses decreased 1.6 percentage points due to the classification of more expenditures as a reduction of net sales as discussed above under “Net Sales”;
- Our selling support expenses decreased \$2.0 million, or 1.4 percentage points, due to the rollout of new product lines in the first quarter of 2005, whereas no new product lines were rolled out in the first quarter of 2006; and
- Our corporate function expenses decreased \$2.2 million, or 1.2 percentage points, due to our bi-annual national leadership meeting having occurred in the first quarter of 2005.

Our retail segment SG&A decreased primarily due to the growth in same store sales, which resulted in better leveraging of our fixed costs such as salaries, advertising and rent.

*Amortization of Intangibles.* For each of the quarters ended April 1, 2006 and March 26, 2005, amortization of intangibles was \$1.4 million.

*Licensing Fees.* For the quarter ended April 1, 2006, licensing fees increased \$0.2 million to \$2.3 million from \$2.1 million for the quarter ended March 26, 2005.

*Interest Expense, Net.* For the quarter ended April 1, 2006, interest expense increased \$2.8 million to \$19.2 million from \$16.4 million for the quarter ended March 26, 2005. Interest expense increased \$1.9 million due primarily to higher LIBOR base rates on our senior credit facility and senior unsecured term loan, partially offset by lower average outstanding borrowings for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005. Our non-cash interest expense, including accretion of the original issuance discount on our 10% senior discount notes, increased to \$5.6 million for the quarter ended April 1, 2006 from \$4.8 million for the quarter ended March 26, 2005. The increase in non-cash interest expense was due to (i) increased amortization of the original issuance discount on our 10% senior discount notes and (ii) the acceleration in amortization of deferred financing fees resulting from the \$19.9 million prepayment of tranche C term loan during the first quarter of 2006.

*Income Taxes.* The combined federal, state, and foreign effective income tax rate for the quarter ended April 1, 2006 and the quarter ended March 26, 2005 of 37.0% and 38.2%,

respectively, differ from the federal statutory rate of 35.0% primarily due to state income tax expense.

## Liquidity and Capital Resources

Simmons Company is a holding company and, as a result, its primary sources of funds are cash generated from the operating activities of its indirect operating subsidiary, Simmons Bedding, and from borrowings by Simmons Bedding. Restrictive covenants in Simmons Bedding's debt agreements restrict its ability to pay cash dividends and make other distributions to Simmons Company.

Simmons Bedding's principal sources of cash to fund liquidity needs are (i) cash provided by operating activities and (ii) borrowings available under its senior credit facility. Simmons Bedding's primary use of funds consists of payments of funding for working capital increases, principal and interest for Simmons Bedding's debt, capital expenditures, customer supply agreements and acquisitions. Barring any unexpected significant external or internal developments, we expect current cash balances on hand, cash provided by operating activities and borrowings available under Simmons Bedding's senior credit facility to be sufficient to meet Simmons Bedding's short-term and long-term liquidity needs.

Future principal debt payments are expected to be paid out of cash flow from operations, borrowings on Simmons Bedding's revolving credit facility and future refinancing of our debt. Historically, we have paid minimal federal income taxes as a result of net operating loss carryforwards. For 2006, we have net operating loss carryforwards available for federal income tax purposes of \$123.1 million and state net operating loss carryforwards of \$95.8 million. Our federal and state net operating loss carryforwards expire on various dates through 2024 and 2025, respectively. As a result of our net operating losses, we expect to pay minimal federal and state income taxes in 2006.

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

	<u>Quarter Ended</u>	
	<u>April 1, 2006</u>	<u>March 26, 2005</u>
Statement of Cash Flow Data:		
Cash flows provided by (used in):		
Operating activities	\$ 20.4	\$ (1.2)
Investing activities	(3.3)	(1.4)
Financing activities	(20.3)	(3.8)
Change in cash and cash equivalents	(3.2)	(6.4)
Cash and cash equivalents:		
Beginning of period	24.6	24.2
End of period	<u>\$ 21.4</u>	<u>\$ 17.8</u>

### ***Quarter Ended April 1, 2006 as Compared to Quarter Ended March 26, 2005***

*Cash flows (used in) provided by Operating Activities.* Our cash flows from operations increased primarily due to our higher net sales and operating income for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005. Additionally, our working capital as of April 1, 2006 was \$2.8 million lower than our working capital as of March 26, 2005.

*Cash flows used in Investing Activities.* Our cash flows used in investing activities increased due to higher capital expenditures for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005.

*Cash flows used in Financing Activities.* Our cash flows used in financing activities increased as a result of increased payments on our senior credit facility for the quarter ended April 1, 2006 compared to the quarter ended March 26, 2005.

### ***Debt***

The terms of Simmons Bedding's senior credit facility required a mandatory prepayment of \$1.2 million on its tranche C term loan, based upon its Consolidated Excess Cash Flows (as defined in the senior credit facility) for the year ended December 31, 2005. Simmons Bedding made this mandatory prepayment and also voluntarily prepaid an additional \$18.7 million of its tranche C term loan during the first quarter of 2006. These payments result in our next quarterly principal payment on the senior credit facility being in June 2009.

As of April 1, 2006, Simmons Bedding had availability to borrow \$65.1 million under its revolving loan facility after giving effect to \$9.9 million that was reserved for its reimbursement obligations with respect to outstanding letters of credit. The weighted average interest rates per annum in effect as of April 1, 2006 for the tranche C term loan and senior unsecured term loan were 7.35% and 8.50%, respectively.

Simmons Bedding has developed and implemented a policy to utilize extended Eurodollar contracts to minimize the impact of near term Eurodollar rate increases. For \$258 million of the tranche C term loan, Simmons Bedding set the interest rate utilizing twelve month Eurodollar rate loans which fixed the Eurodollar Rate at 4.875% through January 26, 2007. The execution of this debt instrument resulted in Simmons Bedding fixing the interest rate on approximately 52% of its floating rate debt.

Simmons Bedding is in the process of negotiating a re-pricing of its tranche C term loan and an upsize of its tranche C term loan to refinance its senior unsecured term loan. Simmons Bedding might not be able to negotiate a re-pricing on acceptable terms or at all, and the timing of the re-pricing is uncertain.

Simmons Company's and Simmons Bedding's long-term obligations contain various financial tests and covenants. Simmons Company and Simmons Bedding were in compliance with such covenants as of April 1, 2006. However, if Simmons Bedding's operating results fall below current expectations, Simmons Company or Simmons Bedding may not be able to meet such covenants in future periods. If Simmons Company or Simmons Bedding are not in compliance with such covenants in future periods we would be required to obtain a waiver from our lenders to avoid being in default. Simmons Bedding may not be able to obtain such a waiver on a timely basis or at all. The most restrictive covenants apply to Simmons Bedding and relate to ratios of Adjusted EBITDA to interest coverage (interest coverage ratio) and total debt to

Adjusted EBITDA (leverage ratio), all as defined in Simmons Bedding's senior credit facility. The minimum cash interest coverage ratio and maximum leverage ratios are computed based on Simmons Bedding's results for the last twelve months ended, adjusted for any dispositions or acquisitions. The senior credit facility covenants also contain a maximum capital expenditure limitation of \$30.0 million per fiscal year, with the ability to roll forward to future years unused amounts from the previous fiscal year, and also subject to adjustments for certain acquisitions and dispositions. More specifically, Simmons Bedding's financial covenants related to minimum cash interest coverage ratio and maximum leverage ratios, as amended, are as follows:

- A minimum cash interest coverage ratio, with compliance levels ranging from cash interest coverage of no less than 1.85:1.00 from March 31, 2006 through December 31, 2006; 2.00:1.00 as of March 31, 2007; 2.15:1.00 from June 30, 2007 through September 30, 2007; 2.25:1.00 as of December 31, 2007; 2.75:1.00 from March 31, 2008 through December 31, 2008; and 3.00:1.00 from March 31, 2009 through each fiscal quarter thereafter.
- A maximum leverage ratio, with compliance levels ranging from total leverage of no greater than 6.25:1.00 from March 31, 2006 through June 30, 2006; 6.15:1.00 as of September 30, 2006; 5.90:1.00 as of December 31, 2006; 5.60:1.00 as of March 31, 2007; 5.25:1.00 as of June 30, 2007; 5.00:1.00 from September 30, 2007 through December 31, 2007; 4.50:1.00 from March 31, 2008 through December 31, 2008; and 4.00:1.00 from March 31, 2009 through each fiscal quarter ending thereafter .

Adjusted EBITDA (as defined in Simmons Bedding's senior credit facility) differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees; other non-cash items reducing consolidated net income (including, without limitation, non-cash purchase accounting adjustments and debt extinguishment costs); any extraordinary, unusual, or non-recurring gains or losses or charges or credits; and any reasonable expenses or charges related to any issuance of securities, investments permitted, permitted acquisitions, recapitalizations, asset sales permitted or indebtedness permitted to be incurred, less other non-cash items increasing consolidated net income, all of the foregoing as determined on a consolidated basis for Simmons Bedding in conformity with GAAP. Adjusted EBITDA is presented herein because it is a material component of the covenants contained within the aforementioned credit agreements. Non-compliance with such covenants could result in the requirement to immediately repay all amounts outstanding under such agreements, which could have a material adverse effect on our results of operations, financial position and cash flow. While the determination of "unusual and nonrecurring losses" is subject to interpretation and requires judgment, we believe the Adjusted EBITDA presented below is in accordance with the senior credit facility. Adjusted EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs.

The following is a calculation of Simmons Bedding's minimum cash interest coverage and maximum leverage ratios under its senior credit facility as of April 1, 2006 (dollar amounts

in millions, except ratios). The terms and related calculations are defined in Simmons Bedding's senior credit facility.

	<u>April 1, 2006</u>
Calculation of minimum cash interest coverage ratio:	
Simmons Bedding twelve months ended adjusted EBITDA(1)	\$ 132.6
Simmons Bedding consolidated cash interest expense(2)	<u>\$ 52.8</u>
Actual interest coverage ratio(3)	2.51x
Minimum permitted interest coverage ratio	1.85x
Calculation of maximum leverage ratio:	
Simmons Company consolidated indebtedness	\$ 892.3
Less: 10% senior discount notes	<u>187.4</u>
Simmons Bedding consolidated indebtedness	704.9
Less: Simmons Bedding cash and cash equivalents	<u>21.4</u>
Simmons Bedding net debt	<u>\$ 683.5</u>
Simmons Bedding twelve months ended adjusted EBITDA(1)	<u>\$ 132.6</u>
Actual leverage ratio(4)	5.15x
Maximum permitted leverage ratio	6.25x

- (1) Simmons Bedding's Adjusted EBITDA for the twelve months ended April 1, 2006 adds back to net income the following items: income taxes, interest expense, depreciation and amortization, non-cash stock compensation expense, transaction related expenditures, plant opening and closing charges, reorganization costs, management fees, and other non-recurring/non-cash charges as permitted under Simmons Bedding's senior credit facility.
- (2) A calculation of Simmons Bedding's consolidated cash interest expense, as defined in its senior credit facility, for the twelve months ended April 1, 2006, as follows (in millions):

Simmons Company interest expense, net	\$ 73.0
Less: Simmons Company non-cash interest expense	<u>(17.9)</u>
Simmons Bedding interest expense, net	55.1
Simmons Bedding interest income	<u>0.3</u>
Simmons Bedding gross interest expense	55.4
Less: Simmons Bedding non-cash interest expense	<u>(2.6)</u>
	<u>\$ 52.8</u>

- (3) Represents ratio of Adjusted EBITDA to consolidated cash interest expense.
- (4) Represents ratio of consolidated indebtedness less cash and cash equivalents to Adjusted EBITDA.

## Off-Balance Sheet Arrangements

In connection with the sale of Mattress Gallery, we continue to guarantee approximately \$0.7 million of Mattress Gallery's obligations under certain store and warehouse leases that expire over various periods through 2010. We have no liability recorded for this obligation on our condensed consolidated balance sheet as of April 1, 2006.

## Seasonality/Other

Our third quarter sales are typically higher than our other fiscal quarters. We attribute this seasonality principally to retailers' sales promotion related to the 4<sup>th</sup> of July and Labor Day holidays.

## Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 155, *Accounting for Certain Hybrid Instruments* ("SFAS 155"). SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired or issued by us beginning in fiscal year 2007. We do not expect this statement to have a significant impact on our consolidated financial statements or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – An Amendment of FASB Statement No. 140* ("SFAS 156"). Among other requirements, SFAS 156 provides guidance on the accounting for servicing assets or liabilities when an entity undertakes an obligation to service a financial asset by entering into a service contract. SFAS 156 is effective for us at the beginning of fiscal year 2007. We do not expect this statement to have a significant impact on our consolidated financial statements or results of operations.

## Forward Looking Statements

"*Safe Harbor*" statement under the *Private Securities Litigation Reform Act of 1995*. When used in this Quarterly Report on Form 10-Q, the words "believes," "anticipates," "expects," "intends," "projects" and similar expressions are used to identify forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995*. Such forward-looking statements relate to future financial and operating results, including expected benefits from our products. Any forward-looking statements contained in this report represent our management's current expectations, based on present information and current assumptions, and are thus prospective and subject to risks and uncertainties, which could cause actual results to differ materially from those expressed in such forward-looking statements. Actual results could differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to:

- our ability to compete effectively and competitive pricing pressures in the bedding industry;

- legal and regulatory requirements;
- the success of new products;
- our relationships with and viability of our major suppliers;
- fluctuations in costs of raw materials;
- our relationship with significant customers and licensees;
- our ability to increase prices on our products and the effect of these price increases on our unit sales;
- an increase in return rates and warranty claims;
- our labor relations;
- departure of key personnel;
- encroachments on our intellectual property;
- product liability claims;
- our level of indebtedness;
- interest rate risks;
- compliance with covenants in our debt agreements;
- future acquisitions;
- our ability to achieve the expected benefits from any personnel realignments; and
- other risks and factors identified from time to time in the Company's reports filed with the Securities and Exchange Commission ("SEC").

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 as of December 31, 2005 is presented under Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

#### **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 raw material prices and interest rates. We seek to minimize or manage these market risks through normal operating and financing activities and through the use of interest rate cap agreements, where practicable. We do not trade or use instruments with the objective of earning financial gains on the interest rate fluctuations, nor do we use instruments where there are not underlying exposures.

#### **Interest Rate Risk**

We are exposed to market risks from changes in interest rates. Simmons Bedding has developed and implemented a policy to utilize extended Eurodollar contracts to minimize the impact of near term Eurodollar rate increases. For \$258 million of the tranche C term loan, Simmons Bedding set the interest rate utilizing twelve month Eurodollar rate loans which fixed the Eurodollar Rate at 4.875% through January 26, 2007. The execution of this debt instrument resulted in Simmons Bedding fixing the interest rate on approximately 52% of its floating rate debt.

All other factors remaining unchanged, a hypothetical 10% increase or decrease in interest rates in effect on our floating rate debt as of April 1, 2006 would result in an additional \$0.9 million and \$9.7 million of interest expense in 2006 and 2007, respectively.

#### **Commodity Price Risk**

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 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, 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.

### **Item 4. Internal Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our

principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our principal executive and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Note H to the Condensed Consolidated Financial Statements, Part 1, Item 1 included herein.

### **Item 1A. Risk Factors**

There were no material changes to the Company's risk factors outlined in its annual report filed with the Commission on form 10-K on March 14, 2006.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

As permitted pursuant to Frequently Asked Question ("FAQ") No. 1 of the FAQs regarding Current Report on Form 8-K issued by the Division of Corporation Finance of the U.S. Securities and Exchange Commission (dated November 23, 2004), in lieu of filing a separate Form 8-K, Simmons Company is providing the following information in response to Items 1.01 and 3.02 of Form 8-K.

Pursuant to a Restricted Stock Agreement (the "Stock Agreement") dated May 4, 2006, Kimberly A. Samon, Senior Vice President—Human Resources, purchased 10,000 shares of our Class B common stock for a total offering price of \$100.00, or \$0.01 per share. Ms. Samon purchased the stock below its current fair market value as determined by our board of directors. The difference between the current fair market value of the stock and the price paid for the stock was taxable to Ms. Samon.

The Stock Agreement is filed with this report as Exhibit 10.1 and its contents are incorporated by reference into this Item 2.

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

None

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

None

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

None

### **Item 6. Exhibits**

- 10.1 Restricted Stock Agreement for Kimberly A. Samon dated May 4, 2006.
- 31.1 Chief Executive 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 Chief Executive 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)



## RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (this "Agreement") is made as of this 4th day of May, 2006 (the "Effective Date") between Simmons Company, a Delaware corporation (the "Company"), and the undersigned (the "Restricted Shareholder"). Certain capitalized terms used herein are defined in Section 7 hereof.

WHEREAS, the Company believes it to be in the best interests of the Company and its shareholders to take action to promote work-force stability, to reward performance and otherwise align the Restricted Shareholder's interests with those of the Company;

WHEREAS, accordingly, the Company has determined to issue restricted stock to the Restricted Shareholder in accordance with the provisions of this Agreement; and

WHEREAS, the Company desires to be assured that the confidential information and goodwill of the Company will be preserved for the exclusive benefit of the Company.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. PURCHASE AND SALE OF RESTRICTED SHAREHOLDER STOCK.

(a) Upon execution of this Agreement and payment of the Original Purchase Price (as hereinafter defined), the Company will issue to the Restricted Shareholder that number of shares of Class B Common Stock, par value \$0.01 per share, of the Company (the "Class B Common Stock") set forth below such Restricted Shareholder's name on the signature page attached hereto, for a purchase price of \$0.01 per share (the "Original Purchase Price"). All of such shares of Class B Common Stock purchased by the Restricted Shareholder pursuant to this Agreement are referred to herein as "Restricted Shareholder Stock." To secure the Company's rights under the Repurchase Option in Section 3, the Company will retain possession of the certificates representing the Restricted Shareholder Stock and will provide the Restricted Shareholder with copies thereof.

(b) The parties agree that the fair market value of each share of Restricted Stock as of the date hereof is \$1.95. The Restricted Shareholder, in his or her sole discretion, may make an effective election with the Internal Revenue Service (the "IRS") under Section 83(b) of the Code and the regulations promulgated thereunder. The Restricted Shareholder understands that under applicable law such election must be filed with the IRS no later than thirty (30) days after any acquisition of the Restricted Shareholder Stock to be effective. If the Restricted Shareholder files an effective election, the excess of the fair market value of the Restricted Shareholder Stock (which the IRS may assert is different from the fair market value determined by the parties) covered by such election over the amount paid by the Restricted Shareholder for the stock will be treated as ordinary income received by the Restricted Shareholder, and the Company or its subsidiary, Simmons Bedding Company, will withhold from the Restricted

Shareholder's compensation all amounts required under applicable law. If the Restricted Shareholder does not file an effective election, all appreciation on the Restricted Shareholder Stock from the date of issuance will generally be taxable as ordinary income when such stock vests pursuant to this Agreement.

(c) In connection with the acquisition of the Restricted Shareholder Stock, the Restricted Shareholder represents and warrants to the Company that:

(i) the Restricted Shareholder Stock to be acquired by the Restricted Shareholder will be acquired for the Restricted Shareholder's own account, for investment only and not with a view to, or intention of, distribution thereof in violation of the Securities Act, or any applicable state securities laws, and the Restricted Shareholder Stock will not be disposed of in contravention of the Securities Act or any applicable state securities laws or this Agreement or the Securityholders' Agreement;

(ii) the Restricted Shareholder, either alone or acting in conjunction with a Purchaser Representative (as such term is defined in Regulation D of the Securities Act), generally has such knowledge and experience in business and financial matters and with respect to investments in securities of privately held companies so as to enable the Restricted Shareholder to understand and evaluate the risks and benefits of his or her investment in the Restricted Shareholder Stock;

(iii) the Restricted Shareholder has no need for liquidity in his or her investment in the Restricted Shareholder Stock and is able to bear the economic risk of his or her investment in the Restricted Shareholder Stock for an indefinite period of time and understands that the Restricted Shareholder Stock has not been registered or qualified under the Securities Act or any applicable state securities laws, by reason of the issuance of the Restricted Shareholder Stock in a transaction exempt from the registration and qualification requirements of the Securities Act or such state securities laws and, therefore, cannot be sold unless subsequently registered or qualified under the Securities Act or such state securities laws or an exemption from such registration or qualification is available;

(iv) the Restricted Shareholder acknowledges that he or she is aware that the Shares may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the current conditions for use of Rule 144 by certain holders is the availability to the public of current information about the Company. Such information is not now available, and the Company has no current plans to make such information available;

(v) the Restricted Shareholder has had an opportunity to ask questions and receive answers concerning the terms and conditions of the offering of the Restricted Shareholder Stock and has had full access to or been provided with such other information concerning the Company as the Restricted Shareholder has requested; and

(vi) This Agreement constitutes the legal, valid and binding obligation of the Restricted Shareholder, enforceable in accordance with its terms, and the execution, delivery and performance of this Agreement by the Restricted Shareholder does not and will not conflict with, violate or cause a breach of any agreement, contract or instrument to which the Restricted Shareholder is a party or any judgment, order or decree to which the Restricted Shareholder is subject.

(d) As an inducement to the Company to issue the Restricted Shareholder Stock to the Restricted Shareholder and as a condition thereto, the Restricted Shareholder acknowledges and agrees that:

(i) neither the issuance of the Restricted Shareholder Stock to the Restricted Shareholder nor any provision contained herein shall entitle the Restricted Shareholder to remain on the Board of or in the employment of the Company or any of its Subsidiaries, if any, or affect the rights of the Company, its shareholders or any of its Subsidiaries to terminate the Restricted Shareholder's service to or employment with the Company or any of its Subsidiaries at any time for any reason; and

(ii) except as provided in any other agreement between the Company and/or Simmons Bedding Company or any Subsidiary thereof and the Restricted Shareholder, the Company shall have no duty or obligation to disclose to the Restricted Shareholder, and the Restricted Shareholder shall have no right to be advised of, any material information regarding the Company and its Subsidiaries, if any, at any time prior to, upon or in connection with the forfeiture of the Restricted Shareholder Stock upon the termination of the Restricted Shareholder's service to or employment with the Company or a Subsidiary thereof.

(e) In connection with the issuance and sale by the Company to the Restricted Shareholder of the Restricted Shareholder Stock, the Company represents and warrants that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate the assets used in its business, to carry on its business as presently conducted, to enter into this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby;

(ii) the Company has taken all corporate action necessary to authorize its execution and delivery of this Agreement, its performance of its obligations thereunder, and its consummation of the transactions contemplated thereby;

(iii) this Agreement constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms; and

(iv) the Restricted Shareholder Stock has been duly authorized and validly issued, fully paid and nonassessable and will be free of all Encumbrances created

by or through the Company. For purposes of this clause, "Encumbrance" means any security interest, mortgage, lien, pledge, charge, easement, reservation, restriction, or similar right of any third party.

2. VESTING OF RESTRICTED SHAREHOLDER STOCK.

(a) General.

(i) Vesting. The shares of Restricted Shareholder Stock granted hereunder (the "Shares") will be deemed "vested" (the "Vested Shares") as follows: Shares shall become Vested Shares in accordance with this Section 2, based upon the Company's achievement of the Consolidated Adjusted EBITDA targets set forth below (each, the "Target EBITDA") for each of the Company's fiscal years ending December 30, 2006, December 29, 2007, December 27, 2008 and December 26, 2009 (the "Measurement Years").

EBITDA Targets  
(dollars in millions)

<TABLE> <CAPTION> MEASUREMENT YEARS	TARGET EBITDA	CUMULATIVE TARGET EBITDA	90% OF TARGET EBITDA	90% OF CUMULATIVE TARGET EBITDA	ELIGIBLE SHARES
----- <S>	----- <C>	----- <C>	----- <C>	----- <C>	----- <C>
2006					25% of Restricted Shareholder Stock
2007					25% of Restricted Shareholder Stock
2008					25% of Restricted Shareholder Stock
2009					25% of Restricted Shareholder Stock

</TABLE>

The minimum Target EBITDA numbers set forth above shall be equitably adjusted by the Board for acquisitions and dispositions made by the Company (whether by purchase or sale of assets or stock, merger, consolidation or otherwise) and such adjustments may take into account the pro forma annual Consolidated Adjusted EBITDA of any acquired business, as determined by the Board.

(A) Performance Based Vesting. At the end of each Measurement Year, on the Measurement Date, the percentage of Shares set forth above shall be eligible to vest (the "Eligible Shares"). On each Measurement Date, 50% of the Eligible Shares shall become Vested Shares if at least 90% of the Target EBITDA amount was met for the prior Measurement Year. If more than 90% of the Target EBITDA amount was met for the prior Measurement Year, then the Eligible Shares shall become Vested Shares on a straight line basis such that an

additional 5% of Eligible Shares shall become Vested Shares for each 1% that actual Consolidated Adjusted EBITDA exceeds 90% of the Target EBITDA amount.

(ii) Change of Control.

(A) Shares that are not Vested Shares will accelerate as set forth below upon a Change of Control solely if the Company (a) achieves at least 90% of the Target EBITDA for the Measurement Year immediately preceding the year in which the Change of Control occurs, and (b) the actual Consolidated Adjusted EBITDA for the Measurement Year immediately preceding the year in which the Change of Control occurs exceeds the actual Consolidated Adjusted EBITDA for the preceding year. If (x) the conditions set forth in clauses (a) and (b) above are met, and (y) the Company achieves 90% of the Cumulative Target EBITDA above for the Measurement Year completed immediately prior to the Change of Control, then 50% of the Shares that were Eligible Shares but which did not previously become Vested Shares (the "Missed Shares") and 50% of the Shares that are not yet Eligible Shares shall become Vested Shares. If the Company achieves more than 90% of the Cumulative Target EBITDA above for the immediately preceding Measurement Year, then a number of Missed Shares and Shares that are not yet Eligible Shares will become Vested Shares, determined on a straight line basis such that an additional 5% of the Missed Shares and 5% of the Shares that are not yet Eligible Shares will become Vested Shares for each 1% that actual Consolidated Adjusted EBITDA for the immediately preceding Measurement Year exceeds 90% of the Cumulative Target EBITDA set forth above.

(B) Notwithstanding the foregoing paragraph, Shares that are not Vested Shares will accelerate upon a Change of Control which occurs in the Measurement Year ending December 30, 2006 as follows: if the Company achieves 90% of the 2006 Year to Date Target EBITDA (as defined below) for the month completed immediately prior to the Change of Control, then 50% of the Shares that are not yet Eligible Shares shall become Vested Shares. The Target EBITDA for each month in 2006 is set forth below and the 2006 Year to Date Target EBITDA represents the cumulative Target EBITDA for the period commencing January 1, 2006 and ending on the last day of such month (the "Year to Date Target EBITDA"). If the Company achieves more than 90% of the 2006 Year to Date Target EBITDA for the month completed immediately prior to the Change of Control, then a number of Shares that are not yet Eligible Shares will become Vested Shares, determined on a straight line basis such that an additional 5% of the Shares that are not yet Eligible Shares will become Vested Shares for each 1% that actual Consolidated Adjusted EBITDA for the period commencing January 1, 2006 and ending on the last day of the month immediately preceding the Change of Control exceeds 90% of the 2006 Year to Date Target EBITDA.

<TABLE>  
<CAPTION>

MONTH	2006 MONTHLY TARGET EBITDA (DOLLARS IN MILLIONS)	2006 YEAR TO DATE TARGET EBITDA (DOLLARS IN MILLIONS)
<S>	<C>	<C>
January		
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		

(b) In the event the Restricted Shareholder ceases to serve on the Board of, or be employed by the Company or any of its Subsidiaries on a full-time basis for any reason, then (i) all Shares of Restricted Shareholder Stock shall cease vesting effective as of the date upon which the Restricted Shareholder ceases to so serve or be so employed (the "Termination Date") and, (ii) in the event that the Company achieves the Target EBITDA with respect to the Measurement Year in which such termination occurs, then the Eligible Shares with respect to such year multiplied by a fraction, the numerator of which shall equal the number of whole months during such year that the Restricted Shareholder served on the Board or remained employed with the Company and the denominator of which is 12, shall become Vested Shares as of the end of such year.

### 3. REPURCHASE OF SHARES.

(a) In the event that the Restricted Shareholder ceases to serve on the Board of, or be employed by the Company or any of its Subsidiaries on a full-time basis for any reason, then all Shares of Restricted Shareholder Stock (whether held by the Restricted Shareholder or by one or more of the Restricted Shareholder's transferees) which as of the date of termination:

(i) have not vested pursuant to Section 2 hereof, will be subject to repurchase by the Company, at its option (the "Non-Vested Repurchase Option"), for the

lower of the Original Purchase Price of the Restricted Shareholder Stock and Fair Market Value as of the date of repurchase;

(ii) have vested pursuant to Section 2 hereof, will be subject to repurchase by the Company, at its option (the "Vested Repurchase Option"), for Fair Market Value as of the date of repurchase.

(b) In the event of a Change of Control, then all Shares of Restricted Shareholder Stock (whether held by the Restricted Shareholder or by one or more of the Restricted Shareholder's transferees) which, as of the date of such Change of Control, have not become Vested Shares pursuant to Section 2, will be subject to repurchase by the Company, at its option (the "Non-Vested Change of Control Repurchase Option") for the lower of the Original Purchase Price of the Restricted Shareholder Stock and Fair Market Value.

(c) The Non-Vested Change of Control Repurchase Option, together with the Non-Vested Repurchase Option and the Vested Repurchase Option, are referred to collectively as the "Repurchase Options." The Repurchase Options shall be exercised by the Company, or its designee, from time to time, by delivering to the Restricted Shareholder a written notice of exercise and a check in the amount of the Original Purchase Price or Fair Market Value, as determined in accordance with Sections 3(a) and (b) above. Upon delivery of such notice and payment of the purchase price as described above, the Company, or its designee, shall become the legal and beneficial owner of the Shares of Restricted Shareholder Stock being repurchased and all rights and interest therein or related thereto, and the Company, or its designee, shall have the right to transfer to its own name the number of Shares of Restricted Shareholder Stock being repurchased without further action by the Restricted Shareholder or any of his or her transferees. If the Company or its designee elect to exercise the repurchase rights pursuant to this Section 3 and the Restricted Shareholder or his or her transferee fails to deliver the Shares of Restricted Shareholder Stock in accordance with the terms hereof, the Company, or its designee, may, at its option, in addition to all other remedies it may have, deposit the purchase price in an escrow account administered by an independent third party (to be held for the benefit of and payment over to the Restricted Shareholder or his or her transferee in accordance herewith), whereupon the Company shall by written notice to the Restricted Shareholder cancel on its books the certificate(s) representing such Shares of Restricted Shareholder Stock registered in the name of the Restricted Shareholder and all of the Restricted Shareholder's or his or her transferee's right, title, and interest in and to such Shares of Restricted Shareholder Stock shall terminate in all respects.

(d) Notwithstanding the foregoing, if at any time the Company elects to purchase any Class B Common Stock pursuant to this Section 3, the Company shall pay the purchase price for the Class B Common Stock it purchases (i) first, by offsetting indebtedness, if any, owing from such Restricted Shareholder to the Company and (ii) then, by the Company's delivery of cash for the remainder of the purchase price, if any, against delivery of the certificates or other instruments representing the Class B Common Stock so purchased, duly endorsed; provided that, if any such cash payment at the time such payment is required to be made would result (A) in a violation of any law, statute, rule, regulation, policy, order, writ, injunction, decree or judgment promulgated or entered by any federal, state, local or foreign court or governmental

authority applicable to the Company or any of its Subsidiaries or any of its or their property or (B) after giving effect thereto, a Financing Default, or (C) if the Board determines in good faith that immediately prior to such purchase there shall exist a Financing Default which prohibits such purchase, dividend or distribution ((A) through (C) collectively the "Cash Deferral Conditions"), the portion of the cash payment so affected may be made by the Company's delivery of a promissory note or senior preferred shares of the Company with a liquidation preference equal to the balance of the purchase price. The promissory note or senior preferred shares shall accrue interest or yield, as the case may be, annually at the "prime rate" published in The Wall Street Journal on the date of issuance, which interest or yield, as the case may be, shall be payable at maturity or upon payment of distributions by the Company. The value of each such senior preferred share shall as of its issuance be deemed to equal (A) the portion of the cash payment paid by the issuance of such preferred shares divided by (B) the number of senior preferred shares so issued. Any senior preferred shares or the promissory note shall be redeemed or payable when and to the extent the Cash Deferral Condition which prompted their issuance no longer exists.

(e) In the event that Restricted Shareholder Stock is repurchased pursuant to this Section 3, the Restricted Shareholder and his or her successors, assigns or Representatives shall take (at the Company's expense) all steps necessary and desirable to obtain all required third-party, governmental and regulatory consents and approvals and take all other actions necessary and desirable to facilitate consummation of such repurchase in a timely manner.

4. LEGEND.

The certificates representing the Restricted Shareholder Stock will bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO REPURCHASE AND CERTAIN OTHER AGREEMENTS SET FORTH IN A RESTRICTED STOCK AGREEMENT DATED AS OF MAY 4, 2006 BETWEEN THE COMPANY AND THE OTHER SIGNATORY THERETO. A COPY OF SUCH AGREEMENT MAY BE OBTAINED BY THE HOLDER HEREOF AT THE COMPANY'S PRINCIPAL PLACE OF BUSINESS WITHOUT CHARGE.

THE SALE, TRANSFER, ASSIGNMENT, PLEDGE, OR ENCUMBRANCE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE AND THE RIGHTS OF THE HOLDER OF SUCH SECURITIES IN RESPECT OF THE ELECTION OF DIRECTORS ARE SUBJECT TO A SECURITYHOLDERS' AGREEMENT DATED DECEMBER 19, 2003 AMONG THL BEDDING HOLDING COMPANY AND CERTAIN HOLDERS OF ITS OUTSTANDING CAPITAL STOCK. COPIES OF SUCH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THL BEDDING HOLDING COMPANY.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER

THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES OR BLUE SKY LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT OR LAWS."

5. RESTRICTIONS ON TRANSFER, CONVERSION AND VOTING.

(a) The Company and the Restricted Shareholder acknowledge and agree that the Shares of Restricted Shareholder Stock are subject to and restricted by the Securityholders' Agreement and with respect to such Shares of Restricted Shareholder Stock, the Restricted Shareholder shall be an "Employee" or "Senior Manager," as the case may be, and as each such term is used in the Securityholders' Agreement. Notwithstanding anything to the contrary contained in the Securityholders' Agreement, no Shares of Restricted Shareholder Stock that have not become Vested Shares pursuant to Section 2 hereof may be transferred to any Person and no Shares of Restricted Shareholder Stock that are Vested Shares may be transferred to any Person who is not an Affiliate of the Restricted Shareholder. The Vested Shares may be transferred by will or the laws of descent and distribution.

(b) Prior to any Transfer, the transferee shall agree, by execution of a Joinder Agreement, to be bound by this Agreement as holder of Restricted Shareholder Stock and by the Securityholders' Agreement as an "Employee" or "Senior Manager", as the case may be. Any Transfer or attempted Transfer of any Restricted Shareholder Stock in violation of the preceding sentence shall be void, and the Company shall not record such Transfer on its books or treat any purported transferee of such Restricted Shareholder Stock as the owner of such stock for any purpose.

(c) The Restricted Shareholder agrees that so long as the Restricted Shareholder owns Shares of Restricted Shareholder Stock which have not become Vested Shares pursuant to Section 2 hereof, the Restricted Shareholder shall be obligated to vote all of his, her or its Shares of Restricted Shareholder Stock which have not become Vested Shares pursuant to Section 2 hereof in the same manner and proportions as the votes cast by the holders of a majority of the Company's voting capital stock not subject to such repurchase rights. If the Restricted Shareholder fails or refuses to vote his, her or its Shares of Restricted Shareholder Stock which have not become Vested Shares pursuant to Section 2 hereof as required by, or votes his, her or its Shares of Restricted Shareholder Stock which have not become Vested Shares pursuant to Section 2 hereof in contravention of this Section 5(c), then the Restricted Shareholder hereby grants to each of the President and Treasurer of the Company, acting solely in his or her capacity as such, an irrevocable proxy, coupled with an interest, to vote such Shares in accordance with Section 5(c).

6. RESTRICTED ACTIVITIES.

(a) The Restricted Shareholder acknowledges that (1) the Company has separately bargained and paid additional consideration for the restrictive covenants herein; (2) the Company will provide certain benefits to the Restricted Shareholder hereunder in reliance on such covenants in view of the unique and essential nature of the services the Restricted

Shareholder will perform on behalf of the Company and the irreparable injury that would befall the Company should the Restricted Shareholder breach such covenants; and (3) as used in this Section 6 and for all terms defined in Section 7 that are utilized in Section 6, the definition of the "Company" includes the Company and/or its Subsidiaries, Affiliates, and the successors and assigns of each and any such related entities.

(b) The Restricted Shareholder agrees that the Restricted Shareholder's work for the Company has brought and will bring Restricted Shareholder into close contact with many of the Company's Customers, Customer Prospects, Vendors, Trade Secrets, and Confidential Information. The Restricted Shareholder further agrees that the covenants in this Section 6 are reasonable and necessary to protect the Company's legitimate business interests and its Customer, Customer Prospect, and/or Vendor relationships, Trade Secrets, and Confidential Information.

(c) The Restricted Shareholder agrees to faithfully perform the duties assigned to the Restricted Shareholder and will not engage in any other employment or business activity while employed by the Company that might interfere with the Restricted Shareholder's full-time performance of the Restricted Shareholder's duties for the Company or cause a conflict of interest. The Restricted Shareholder agrees to abide by all of the Company's policies and procedures, which may be amended from time-to-time.

(d) The Restricted Shareholder agrees that, due to Restricted Shareholder's position, the Restricted Shareholder's engaging in any activity that may breach this Agreement will cause the Company great, immediate, and irreparable harm.

(e) Duty of Confidentiality. The Restricted Shareholder agrees that during the Restricted Shareholder's employment with the Company and for a period of five (5) years following the termination of such employment for any reason, the Restricted Shareholder shall not directly or indirectly divulge or make use of any Confidential Information outside of the Restricted Shareholder's employment with the Company (so long as the information remains confidential) without the prior written consent of the Company. The Restricted Shareholder shall not directly or indirectly misappropriate, divulge, or make use of Trade Secrets for an indefinite period of time, so long as the information remains a Trade Secret as defined by the DUTSA and/or any other applicable law. The Restricted Shareholder further agrees that if the Restricted Shareholder is questioned about information subject to this Agreement by anyone not authorized to receive such information, the Restricted Shareholder will notify the Company's General Counsel within 24 hours. The Restricted Shareholder acknowledges that applicable law may impose longer duties of non-disclosure, especially for Trade Secrets, and that such longer periods are not shortened by this Agreement.

(f) Return of Confidential Information And Company Property. The Restricted Shareholder agrees to return to the Company all Confidential Information and/or Trade Secrets within three (3) calendar days following the termination of the Restricted Shareholder's employment for any reason. To the extent the Restricted Shareholder maintains Confidential Information and/or Trade Secrets in electronic form on any computers or other electronic devices owned by the Restricted Shareholder, the Restricted Shareholder agrees to irretrievably delete all

such information and to confirm the fact of deletion in writing within three (3) calendar days following termination of employment with the Company for any reason. The Restricted Shareholder also agrees to return all property in the Restricted Shareholder's possession at the time of the termination of the employment with the Company, including but not limited to all documents, records, tapes, and other media of every kind and description relating to the Business of the Company and its Customers, Customer Prospects, and/or Vendors, and any copies, in whole or in part, whether or not prepared by the Restricted Shareholder, all of which shall remain the sole and exclusive property of the Company.

(g) Proprietary Rights. Proprietary Rights shall be promptly and fully disclosed by the Restricted Shareholder to the Company's General Counsel and shall be the exclusive property of the Company as against the Restricted Shareholder and the Restricted Shareholder's successors, heirs, devisees, legatees and assigns. The Restricted Shareholder hereby assigns to the Company Restricted Shareholder's entire right, title, and interest therein and shall promptly deliver to the Company all papers, drawings, models, data, and other material relating to any of the foregoing Proprietary Rights conceived, made, developed, created or reduced to practice by the Restricted Shareholder as aforesaid. All copyrightable Proprietary Rights shall be considered "works made for hire." The Restricted Shareholder shall, upon the Company's request and at its expense, execute any documents necessary or advisable in the opinion of the Company's counsel to assign, and confirm the Company's title in the foregoing Proprietary Rights and to direct issuance of patents or copyrights to the Company with respect to such Proprietary Rights as are the Company's exclusive property as against the Restricted Shareholder and/or the Restricted Shareholder's successors, heirs, devisees, legatees and assigns under this Section 6.(g) or to vest in the Company title to such Proprietary Rights as against the Restricted Shareholder and/or the Restricted Shareholder's successors, heirs, devisees, legatees and assigns, the expense of securing any such patent or copyright, however, to be borne by the Company.

(h) Non-Competition. The Restricted Shareholder covenants and agrees that, during the term of Restricted Shareholder's employment with the Company and for twelve (12) months after the termination thereof, regardless of the reason for the employment termination, the Restricted Shareholder will not, directly or indirectly, anywhere in the Territory, on behalf of any Competitive Business perform the same or substantially the same Job Duties.

(i) Non-Solicitation of Customers, Customer Prospects, and Vendors. The Restricted Shareholder also covenants and agrees that during the term of Restricted Shareholder's employment with the Company and for twelve (12) months after the termination thereof, regardless of the reason for the employment termination, the Restricted Shareholder will not, directly or indirectly, solicit or attempt to solicit any business from any of the Company's Customers, Customer Prospects, or Vendors with whom the Restricted Shareholder had Material Contact during the last two (2) years of the Restricted Shareholder's employment with the Company.

(j) Non-Solicitation of Employees. The Restricted Shareholder also covenants and agrees that during the term of Restricted Shareholder's employment with the Company and for twelve (12) months after the termination thereof, regardless of the reason for the employment termination, the Restricted

Shareholder will not, directly or indirectly, on the Restricted Shareholder's own behalf or on behalf of or in conjunction with any person or legal entity, recruit, solicit, or induce, or attempt to recruit, solicit, or induce, any non-clerical employee of the Company with whom the Restricted Shareholder had personal contact or supervised while performing the Restricted Shareholder's Job Duties, to terminate their employment relationship with the Company.

(k) Ownership of Securities. Notwithstanding the provisions set forth herein, the Restricted Shareholder shall have the right to (a) invest in or acquire any class of securities issued by any firm, partnership, corporation, and/or any other entity and/or person not engaged in any Competitive Business, or (b) acquire as a passive investor (with no involvement in the operations or management of the business) up to 1% of any class securities which is (i) issued by any Competitive Business, and (ii) publicly traded on a national securities exchange or over-the-counter market.

(l) No Disparagement. Each of the parties hereto covenants and agrees that, during the term of the Restricted Shareholder's employment with the Company and for twelve (12) months after the termination thereof, regardless of the reason for the employment termination, such party will not, directly or indirectly, either in writing or by any other medium, make any disparaging, derogatory or negative statement, comment or remark about the other parties hereto, or any of them, or Thomas H. Lee Partners, or any other their respective officers, directors, employees, Affiliates, Subsidiaries, successors and assigns, as the case may be; provided, however, that this Section 6.(l) shall not be construed to require any Person to provide other than truthful testimony when compelled to testify pursuant to an enforceable subpoena or court order.

## 7. DEFINITIONS.

The following terms shall have the meanings ascribed below:

"Affiliate" of any particular Person means any other Person controlling, controlled by or under common control with such particular Person or, with respect to any individual, such individual's spouse and descendants (whether natural or adopted) and any trust, partnership, limited liability company or similar vehicle established and maintained solely for the benefit of (or the sole members or partners of which are) such individual, such individual's spouse and/or such individual's descendants.

"Board" means the Board of Directors of the Company.

"Business of the Company" means the highly competitive business of developing, manufacturing, marketing, distributing, and/or selling sleep products, including mattresses, foundations, changing pads and covers, and bedding components for the same.

"Cause" shall mean any one or more of the following:

- (a) The Restricted Shareholder shall have been convicted of, or shall have pleaded guilty or nolo contendere to, any felony or a crime involving fraud, personal dishonesty or

moral turpitude (whether or not in connection with his employment);

(b) The Restricted Shareholder shall have repeatedly or consistently failed or refused to perform his or her duties or fulfill his or her responsibilities to the Company, after verbal notice and ten (10) days opportunity to cure;

(c) The Restricted Shareholder shall have breached any provision of Section 6 hereof; or

(d) The Restricted Shareholder shall have committed any fraud, embezzlement, misappropriation of funds, breach of fiduciary duty or other act of dishonesty against the Company.

"Change of Control" shall mean the consummation of a transaction, whether in a single transaction or in a series of related transactions that are consummated contemporaneously (or consummated pursuant to contemporaneous agreements), with any other party or parties, other than an Affiliate of THL, on an arm's-length basis, pursuant to which (a) a party or group (as defined under Rule 13d under the Securities Exchange Act of 1934, as amended) who is not a stockholder of the Company on the Effective Date, acquires, directly or indirectly (whether by merger, stock purchase, recapitalization, reorganization, redemption, issuance of capital stock or otherwise), more than 50% of the voting stock of the Company, (b) such party or parties, directly or indirectly, acquire assets constituting all or substantially all of the assets of the Company and its Subsidiaries on a consolidated basis, or (c) prior to an initial public offering of the Company common stock pursuant to an offering registered under the Securities Act, Thomas H. Lee Equity Fund V, L.P., a Delaware limited partnership, and its affiliates cease to have the ability to elect, directly or indirectly, a majority of the Board.

"Class A Common Stock" means the Company's Class A Common Stock, \$0.01 par value per share.

"Class B Common Stock" has the meaning set forth in Section 1(a) hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Competitive Business(es)" include any firm, partnership, joint venture, corporation and/or any other entity and/or person, including but not limited to Sealy Corporation, Serta International, Spring Air Company, Select Comfort Corporation, Tempur-Pedic International, Inc., King Koil Licensing Company, Inc., International Bedding Corp., and/or any licensee of such entity, that develops, manufactures, markets, distributes, and/or sells any of the sleep products described in the definition for the "Business of the Company."

"Confidential Information" means information about the Company and its Customers, Customer Prospects, and/or Vendors that is not generally known outside of the Company, which Restricted Shareholder learned in connection with the Restricted Shareholder's

employment with the Company. Confidential Information may include, without limitation: (1) the terms of this Agreement, except as necessary to inform a subsequent employer of the restrictive covenants contained herein and/or the Restricted Shareholder's attorney, spouse, or professional tax advisor only on the condition that any subsequent disclosure by any such person shall be considered a disclosure by the Restricted Shareholder and a violation of this Agreement; (2) the Company's business policies, finances, and business plans; (3) the Company's financial projections, including but not limited to, annual sales forecasts and targets and any computation(s) of the market share of Customers and/or Customer Prospects; (4) sales information relating to the Company's product roll-outs; (5) customized software, marketing tools, and/or supplies that the Restricted Shareholder was provided access to by the Company and/or created; (6) the identity of the Company's Customers, Customer Prospects, and/or Vendors (including names, addresses, and telephone numbers of Customers, Customer Prospects, and/or Vendors); (7) any list(s) of the Company's Customers, Customer Prospects, and/or Vendors; (8) the account terms and pricing upon which the Company obtains products and services from its Vendors; (9) the account terms and pricing of sales contracts between the Company and its Customers; (10) the proposed account terms and pricing of sales contracts between the Company and its Customer Prospects; (11) the names and addresses of the Company's employees and other business contacts of the Company; and (12) the techniques, methods, and strategies by which the Company develops, manufactures, markets, distributes, and/or sells any of the sleep products described in the definition for the "Business of the Company."

"Consolidated Adjusted EBITDA" has the meaning set forth in the Credit Agreement.

"Credit Agreement" shall mean the 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.

"Customers" means any firm, partnership, corporation and/or any other entity and/or Person that purchased or purchases from the Company any of the sleep products described in the definition for the "Business of the Company."

"Customer Prospects" means any firm, partnership, corporation and/or any other entity and/or Person reasonably expected by the Company to purchase from the Company any of the sleep products described in the definition for the "Business of the Company."

"DUTSA" means Delaware Uniform Trade Secrets Act, 6 DEL. CODE ANN. Sections 2001-2011.

"Fair Market Value" shall be determined by the Board in good faith. Upon such determination, the Company shall promptly provide the Restricted Shareholder with notice of the Fair Market Value so determined (the "Board Notice"). In the event of a determination of Fair Market Value with respect to Class B Common Stock owned by a Senior Manager, such Senior Manager shall have the right to contest such determination in good faith, by delivery of written notice to the Company within ten (10) days of delivery of the Board Notice. If the Senior Manager does not notify the Company of any disagreement therewith, then the Fair Market Value shall be as set forth in the Board Notice. If the Senior Manager does notify the Company of his or her disagreement with the Fair Market Value set forth in the Board Notice within such 10-day time period, then the Company must retain an independent third party appraiser to make such Fair Market Value determination (the "Final Determination"), and such Final Determination shall govern; provided, however, that if the Final Determination of Fair Market Value equals less than 110% of the Fair Market Value set forth in the Board Notice, then the Senior Manager shall pay for all costs and expenses of the third party appraiser.

"Financing Default" means any event of default or breach under (i) the Credit Agreement, (ii) that certain senior unsecured floating rate loan facility by and among THL-SC Bedding Company, certain of its subsidiaries, certain lenders, party thereto and Deutsche Bank, A.G., Cayman Islands Branch, as administrative agent, as amended, modified, restated or refinanced from time to time, (iii) the covenant contained in the Indenture which permits repurchases by the Company of employee stock not exceeding a specified amount in the aggregate, or (iv) any other similar notes or instruments that the Company or its Subsidiaries may issue from time to time.

"Fully Diluted Shares" means, as of any date of determination, the number of shares of Class A Common Stock and Class B Common Stock outstanding, plus (without duplication) shares of Class A Common Stock and Class B Common Stock issuable, whether at such time or upon the passage of time or the occurrence of future events, upon the exercise, conversion or exchange of all then-outstanding rights, warrants, options, convertible securities, or exchangeable securities or indebtedness, or other rights, exercisable for or convertible or exchangeable into, directly or indirectly, Class A Common Stock or Class B Common Stock or securities exercisable for or convertible or exchangeable into Class A Common Stock or Class B Common Stock, as the case may be, whether at the time of issuance or upon the passage of time or the occurrence of some future event.

"Indenture" shall mean that certain Indenture, dated as of December 19, 2003, governing the Company's Senior Subordinated Notes due 2013, as amended, modified, restated or refinanced from time to time.

"Job Duties" for the Restricted Shareholder are those job duties the Restricted Shareholder performed for the twelve (12) months prior to the Effective Date of this Agreement, as well as those duties as may from time-to-time reasonably be prescribed by the Company during the period of the Restricted Shareholder's employment with the Company.

"Material Contact" means personal contact or the supervision of the efforts of those who have direct personal contact with a Customers, Customer Prospects, or Vendors in an

effort to initiate or further a business relationship between the Company and such Customers, Customer Prospects, or Vendors.

"Measurement Date" shall mean the date upon which the Company shall have received its audited financial statements for the prior Measurement Year, beginning with the Measurement Year ending December 30, 2006.

"Person" shall be construed broadly and shall include, without limitation, an individual, a partnership, an investment fund, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"Proprietary Rights" means any and all inventions, discoveries, developments, methods, processes, compositions, works, supplier and customer lists (including information relating to the generation and updating thereof), concepts, and ideas (whether or not patentable or copyrightable) conceived, made, developed, created, or reduced to practice by the Restricted Shareholder (whether at the request or suggestion of the Company or otherwise, whether alone or in conjunction with others, and whether during regular hours of work or otherwise) prior to or during the Restricted Shareholder's employment, which may be directly or indirectly useful in, or related to, the Business of the Company or any business or products contemplated by the Company while the Restricted Shareholder was or is an employee, officer, or director of the Company.

"Representative" means, with respect to the deceased Restricted Shareholder, the duly appointed, qualified and acting personal representative (or personal representatives collectively) of the estate of the deceased Restricted Shareholder (or portion of such estate that includes Restricted Shareholder Stock), whether such personal representative holds the position of executor, administrator or other similar position qualified to act on behalf of such estate.

"Restricted Shareholder Stock" has the meaning set forth in Section 1(a) hereof. The Restricted Shareholder Stock will continue to be Restricted Shareholder Stock in the hands of any holder other than the Restricted Shareholder (except for the Company and except for transferees in a Public Sale) and, except as otherwise provided herein, each such other holder of the Restricted Shareholder Stock will succeed to all rights and obligations attributable to the Restricted Shareholder as a holder of the Restricted Shareholder Stock hereunder. The Restricted Shareholder Stock will also include shares of the Company's capital stock issued with respect to the Restricted Shareholder Stock by way of a stock split, stock dividend or other recapitalization.

"Securities Act" means the Securities Act of 1933, as amended, or any successor federal law then in force.

"Securityholders' Agreement" means the Securityholders' Agreement dated December 19, 2003 between the Company and certain stockholders of the Company, as amended, modified or supplemented from time to time.

"Senior Manager" shall mean each of Charles Roy Eitel, William S. Creekmuir, and Rhonda C. Rousch, and/or any other Persons designated by the Board as Senior Managers (collectively, the "Senior Managers").

"Subsidiary" means any Person of which (i) a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by the Company or (ii) the Company is entitled, directly or indirectly, to appoint a majority of the board of directors or managers or comparable supervisory body of such Person.

"Territory" means the United States and Puerto Rico.

"THL" means Thomas H. Lee Equity Fund V, L.P., a Delaware limited partnership, Thomas H. Lee Parallel Fund V, L.P., Thomas H. Lee Cayman Fund V, L.P., 1997 Thomas H. Lee Nominee Trust, Thomas H. Lee Investors Limited Partnership, Putnam Investments Holdings, LLC, Putnam Investments Employees' Securities Company I LLC, and Putnam Investments Employees' Securities Company II, LLC.

"Trade Secrets" means Confidential Information which meets the additional requirements of the DUTSA and/or under any other applicable law.

"Transfer" means the sale, transfer, assignment, pledge or other disposal (whether with or without consideration and whether voluntarily or involuntarily or by operation of law) of any Restricted Shareholder Stock.

"Vendors" means any individual and/or entity that provided goods and services to the Company.

#### 8. GENERAL PROVISIONS.

(a) Severability. It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

(b) Entire Agreement. This Agreement and the Securityholders' Agreement embody the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way, PROVIDED, HOWEVER, THAT NOTWITHSTANDING THE FOREGOING, IF THE

RESTRICTED SHAREHOLDER IS CURRENTLY A PARTY TO ANY NON-COMPETITION OR NON-SOLICITATION COVENANTS WITH THE COMPANY OR ITS SUBSIDIARIES AND SUCH COVENANTS ARE TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS, SUCH COVENANTS (TOGETHER WITH ANY DEFINITIONS CONTAINED IN SUCH COVENANTS AND ANY EXHIBITS OR SCHEDULES REFERENCED THEREIN) (COLLECTIVELY, THE "PRIOR COVENANTS") SHALL NOT BE SUPERSEDED OR RESTATED BUT INSTEAD SHALL BE INCORPORATED HEREIN BY REFERENCE. THE PRIOR COVENANTS SHALL BE READ TOGETHER WITH THE COVENANTS CONTAINED IN SECTION 6 HEREOF IN SUCH MANNER AS TO MAKE SUCH PRIOR COVENANTS AND THE COVENANTS CONTAINED HEREIN ENFORCEABLE TO THE FULLEST EXTENT PERMISSIBLE UNDER THE LAWS OF THE STATE IN WHICH ENFORCEMENT IS SOUGHT.

(c) Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

(d) Successors and Assigns. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by the Restricted Shareholder, the Company, and their respective successors, assigns, heirs, representative and estate, as the case may be (including subsequent holders of Restricted Shareholder Stock); provided that the rights and obligations of the Restricted Shareholder under this Agreement shall not be assignable except in connection with a permitted transfer of Restricted Shareholder Stock hereunder.

(e) Governing Law and Remedies. The parties acknowledge and agree that they are bound by their arbitration obligations under Exhibit A attached hereto, which the parties also hereby agree to execute contemporaneously and is an integral part of this Agreement. The parties agree and acknowledge that all provisions of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware exclusively and without reference to principles of conflict of laws. The Federal Arbitration Act ("FAA") will supersede state laws to the extent inconsistent. The Arbitrator(s) shall have no authority to apply the law of any other jurisdiction.

\_/S/KAS RESTRICTED SHAREHOLDER'S INITIALS TO ACKNOWLEDGE AGREEMENT TO GOVERNING LAW AND REMEDIES PROVISION IN SECTION 8(e).

(f) Remedies. Each of the parties to this Agreement and any such Person granted rights hereunder whether or not such Person is a signatory hereto shall be entitled to enforce its rights under this Agreement specifically to recover damages and costs (including reasonable attorney's fees) for any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party and any such Person granted rights hereunder whether or not such Person is a signatory hereto may in its sole discretion submit the matter to arbitration for specific performance and/or other injunctive relief (without posting any bond or deposit) in order to enforce or prevent any violations of the provisions of this Agreement.

(g) Amendment and Waiver. The provisions of this Agreement may be amended and waived only with the prior written consent of the Company and the Restricted Shareholder and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall be construed as a waiver of such provisions or affect the validity, binding effect or enforceability of this Agreement or any provision hereof.

(h) Notices. Any notice provided for in this Agreement must be in writing and must be either personally delivered, transmitted via facsimile, mailed by first class mail (postage prepaid and return receipt requested) or sent by reputable overnight courier service (charges prepaid) to the recipient at the address below indicated or at such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party. Notices will be deemed to have been given hereunder and received when delivered personally, when received if transmitted via facsimile, five (5) days after deposit in the U.S. mail and one (1) day after deposit with a reputable overnight courier service.

If to the Company, to:

Simmons Company  
One Concourse Parkway, Suite 800  
Atlanta, GA 30328  
Attention: Chief Financial Officer and General Counsel

With a copy to:

Thomas H. Lee Partners, L.P.  
100 Federal Street, 35th Floor  
Boston, MA 02110  
Attention: Scott A. Schoen  
Todd M. Abbrecht  
George Taylor

If to the Restricted Shareholder, to the address set forth underneath the Restricted Shareholder's name on the signature pages hereto.

(i) Business Days. If any time period for giving notice or taking action hereunder expires on a day which is a Saturday, Sunday or holiday in the state in which the Company's chief executive office is located, the time period for giving notice or taking action shall be automatically extended to the business day immediately following such Saturday, Sunday or holiday.

(j) Survival of Representations, Warranties and Agreements. All representations, warranties and agreements contained herein shall survive the consummation of the transactions contemplated hereby and the termination of this Agreement indefinitely.

(k) Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

(l) Construction. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

(m) WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

(n) Nouns and Pronouns. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

(o) Acknowledgement and Waiver. The Restricted Shareholder hereby represents and warrants that he or she has access to adequate information regarding the terms of this Agreement, the scope and effect of the provisions set forth herein and all other matters encompassed by this Agreement, to make an informed and knowledgeable decision with regard to enter into this Agreement. The Restricted Shareholder further represents and warrants that he or she has not relied on the Company in deciding to enter into this Agreement and has instead made his or her own independent analysis and decision to enter into this Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Agreement as of the date first written above.

SIMMONS COMPANY

By: /s/ William S. Creekmuir

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William S. Creekmuir  
Executive Vice President and  
Chief Financial Officer

RESTRICTED SHAREHOLDER:

Kimberly A. Samon

/s/ Kimberly A. Samon

\_\_\_\_\_  
Signature

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Shares of Restricted Shareholder Stock Purchased: 10000

EXHIBIT A - ARBITRATION CLAUSE

(1) In consideration of the benefits described in the Restricted Stock Agreement executed by KIMBERLY A. SAMON (the "Restricted Shareholder" or "you") and Simmons Company, a Delaware corporation (the "Company"), on the same date hereto and into which this Exhibit A is incorporated, ("Agreement"), the Company and you hereby agree that any controversy or claim arising under federal, state and local statutory or common or contract law between the Company and you involving the construction or application of any of the terms, provisions, or conditions of the Agreement, including, but not limited to, breach of contract, tort, and/or fraud, must be submitted to arbitration on the written request of either party served on the other. Arbitration shall be the exclusive forum for any such controversy. For example, if the Company and you have a dispute concerning the interpretation or enforceability of one or more restrictive covenants, the parties will resolve the dispute exclusively through arbitration. The Arbitrator's decision shall be final and binding on both parties.

(2) If any claim or cause of action at law or in equity is filed by either party in any state or federal court which results in arbitration being compelled and/or the claim or cause of action being dismissed, stayed, and/or removed to arbitration pursuant to this Agreement, the party who instituted the claim or cause of action in state or federal court, either wholly or in substantial part, shall, at the discretion of the Arbitrator(s), reimburse the respondent for its reasonable attorneys' fees, costs, and necessary disbursements to the extent permitted by law, in addition to any other relief to which it may be entitled, related to the state or federal court claim or action.

(3) Excluding the initial filing fee, which shall be borne by the claimant, the cost of arbitration shall be borne by the Company, unless the Arbitrator determines that any claim(s) brought by you was/were wholly frivolous or fraudulent. If an arbitration or any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party, either wholly or in substantial part, shall, at the discretion of the Arbitrator, be entitled to its reasonable attorneys' fees, costs, and necessary disbursements to the extent permitted by law, in addition to any other relief to which it may be entitled.

(4) If the Restricted Shareholder submits any controversy or claim to arbitration, the arbitration will be conducted in Atlanta, Georgia and all claims shall be submitted to and administered by the American Arbitration Association's Southeast Case Management Center in Atlanta, Georgia. If the Company submits any controversy or claim to arbitration, the arbitration shall be conducted at the American Arbitration Association's Local or Regional Office that is geographically closest to the Restricted Shareholder's place of residence and all claims shall be submitted to and administered by the American Arbitration Association's corresponding Case Management Center.

(5) The arbitration shall comply with and be governed by the American Arbitration Association's Commercial Arbitration Rules ("Rules") effective as of the execution date below,

to the extent such Rules are not contrary to the express provisions of this Agreement. The parties also agree that the American Arbitration Association Optional Rules for Emergency Measures of Protection ("Emergency Rules") shall apply to proceedings brought by either party. The above Rules and Emergency Rules can be found at the following page of the American Arbitration Association's website, www.adr.org: <http://www.adr.org/sp.asp?id=22440>. You acknowledge that you should read these Rules and Emergency Rules and that it is your responsibility to be familiar with them prior to signing the Agreement. If you are unable to access the Rules and/or Emergency Rules at the above website, you can request a copy of them from a Company official prior to signing the Agreement.

(6) The parties agree and acknowledge that all provisions of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware exclusively and without reference to principles of conflict of laws. The Federal Arbitration Act ("FAA") will supersede state laws to the extent inconsistent. Any claim(s) involving the construction or application of this Agreement must be submitted to arbitration within the statute of limitations period for such claim(s) under Delaware state law and shall be dismissed if the statute of limitations period is not met. The Arbitrator(s) shall have no authority to apply the law of any other jurisdiction.

(7) The dispute shall be heard and determined by one Arbitrator, unless both parties mutually consent in writing signed by you and an authorized representative of Company to a panel of three (3) Arbitrators. Unless both parties mutually consent otherwise, the parties agree and request that the Arbitrator(s) issue a reasoned award in accordance with Commercial Arbitration Rule R-42(b).

I UNDERSTAND THAT BY SIGNING THIS AGREEMENT I AM GIVING UP MY RIGHT TO A JURY TRIAL.

Executed effective as of this 4th day of May, 2006.

Simmons Company

/s/ Kimberly A. Samon

By: /s/ William S. Creekmuir

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Kimberly A. Samon

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William S. Creekmuir  
Executive Vice President and  
Chief Financial Officer

Social Security #: \_\_\_\_\_

## CERTIFICATIONS

## CHIEF EXECUTIVE OFFICER'S SECTION 302 CERTIFICATION

I, Charles R. Eitel, Chief Executive Officer of Simmons Company, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Simmons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 8, 2006

/s/ Charles R. Eitel

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Name: Charles R. Eitel  
Title: Chief Executive Officer

## CHIEF FINANCIAL OFFICER'S SECTION 302 CERTIFICATION

I, William S. Creekmuir, Chief Financial Officer of Simmons Company, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Simmons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 8, 2006

/s/ William S. Creekmuir

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Name: William S. Creekmuir  
Title: Chief Financial Officer

CERTIFICATION REQUIRED BY 18 U.S.C. SECTION 1350  
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Charles R. Eitel, as Chief Executive Officer of Simmons Company (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended April 1, 2006 (the "Report"), being filed with the U.S. Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2006

/s/ Charles R. Eitel

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Name: Charles R. Eitel  
Title: Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Simmons Company and will be retained by Simmons Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION REQUIRED BY 18 U.S.C. SECTION 1350  
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, William S. Creekmuir, as Chief Financial Officer of Simmons Company (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended April 1, 2006 (the "Report"), being filed with the U.S. Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2006

/s/ William S. Creekmuir

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Name: William S. Creekmuir  
Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Simmons Company and will be retained by Simmons Company and furnished to the Securities and Exchange Commission or its staff upon request.