

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 September 30, 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 November 1, 2006: 4,452,662.05

DOCUMENTS OR PARTS THEREOF INCORPORATED BY REFERENCE: None

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Simmons Company and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
and Comprehensive Income
(Dollars in thousands)

	Quarters Ended		Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Net sales	\$ 259,766	\$ 226,843	\$ 736,835	\$ 640,467
Cost of products sold	142,562	128,926	411,051	360,348
Gross profit	<u>117,204</u>	<u>97,917</u>	<u>325,784</u>	<u>280,119</u>
Operating expenses:				
Selling, general and administrative expenses	84,089	74,023	236,628	226,526
Gain on sale of Sleep Country USA	(43,834)	-	(43,834)	-
Amortization of intangibles	1,386	1,418	4,220	4,276
Licensing revenues	(2,199)	(2,553)	(6,498)	(7,419)
	<u>39,442</u>	<u>72,888</u>	<u>190,516</u>	<u>223,383</u>
Operating income	77,762	25,029	135,268	56,736
Interest expense, net	18,041	18,008	61,932	51,781
Income before income taxes	<u>59,721</u>	<u>7,021</u>	<u>73,336</u>	<u>4,955</u>
Income tax expense	17,799	3,021	22,920	2,088
Net income	<u>41,922</u>	<u>4,000</u>	<u>50,416</u>	<u>2,867</u>
Other comprehensive income:				
Foreign currency translation adjustment	37	5	152	(1)
Comprehensive income	<u>\$ 41,959</u>	<u>\$ 4,005</u>	<u>\$ 50,568</u>	<u>\$ 2,866</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)

	September 30, 2006 (Unaudited)	December 31, 2005*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 101,680	\$ 24,622
Accounts receivable, less allowances for doubtful receivables, discounts and returns of \$5,328 and \$4,032	84,860	74,682
Inventories	24,819	28,579
Deferred income taxes	2,716	2,865
Assets held for sale	-	19,116
Other current assets	17,603	14,093
Total current assets	231,678	163,957
Property, plant and equipment, net	54,230	53,613
Goodwill	481,211	481,280
Intangible assets, net	532,963	536,963
Other assets	34,755	44,964
	\$ 1,334,837	\$ 1,280,777

* Derived from the Company's 2005 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America

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

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

	September 30, 2006 (Unaudited)	December 31, 2005*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 413	\$ 1,602
Accounts payable	45,107	42,713
Liabilities held for sale	-	9,968
Accrued liabilities	64,485	60,509
Total current liabilities	110,005	114,792
Non-current liabilities:		
Long-term debt	891,221	906,148
Deferred income taxes	165,026	144,418
Other	13,536	11,072
Total liabilities	1,179,788	1,176,430
Commitments and contingencies		
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	102,523	102,337
Retained earnings	54,959	4,648
Accumulated other comprehensive income	286	134
Deferred compensation	-	(361)
Treasury stock, at cost, 61,403 and 46,860 shares of class A common stock and 47,867 and 48,411 shares of class B common stock	(2,765)	(2,457)
Total stockholders' equity	155,049	104,347
	\$ 1,334,837	\$ 1,280,777

* Derived from the Company's 2005 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America

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

Simmons Company and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)

	Nine Months Ended	
	September 30, 2006	September 24, 2005
Cash flows from operating activities:		
Net income	\$ 50,416	\$ 2,867
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,885	20,204
Provision for bad debts, net	1,296	(525)
Provision for deferred income taxes	20,955	1,268
Non-cash interest expense	21,979	14,788
Gain on sale of Sleep Country USA	(43,834)	-
Non-cash stock compensation expense	530	2
Net changes in operating assets and liabilities:		
Accounts receivable	(10,334)	5,766
Inventories	3,270	1,772
Other current assets	(2,881)	3,781
Accounts payable	2,943	6,160
Accrued liabilities	4,319	(12,685)
Other, net	(5,684)	(11,504)
Net cash provided by operating activities	<u>64,860</u>	<u>31,894</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,228)	(3,662)
Purchase of certain assets of Simmons Juvenile Products, Inc.	-	(3,337)
Proceeds from sale of Sleep Country USA, net	52,743	-
Other, net	-	7
Net cash provided by (used in) investing activities	<u>43,515</u>	<u>(6,992)</u>
Cash flows from financing activities:		
Borrowings under New Senior Credit Facility, net	480,000	-
Payments of senior credit facility, net	(369,933)	(11,668)
Repayment of senior unsecured term loan	(140,000)	-
Payments of other debt	(160)	(221)
Payments of financing fees	(973)	-
Purchase of treasury stock	(403)	(368)
Net cash used in financing activities	<u>(31,469)</u>	<u>(12,257)</u>
Net effect of exchange rate changes on cash	152	(1)
Change in cash and cash equivalents	77,058	12,644
Cash and cash equivalents, beginning of period	24,622	24,206
Cash and cash equivalents, end of period	<u>\$ 101,680</u>	<u>\$ 36,850</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 Stock Held In Treasury	Total Stockholders' Equity
	Common Shares	Common Stock	Common Shares	Common Stock						
December 31, 2005 (audited)	3,831,447	\$ 39	639,824	\$ 7	102,337	\$ 4,648	\$ 134	\$ (361)	(2,457)\$	104,347
Net income	-	-	-	-	-	50,416	-	-	-	50,416
Other comprehensive income:										
Change in foreign currency translation	-	-	-	-	-	-	152	-	-	152
Comprehensive income						50,416	152	-	-	50,568
Issuance of Class B common stock held in treasury	-	-	103,060	-	12	(105)	-	-	95	2
Non-cash stock compensation expense	-	-	-	-	530	-	-	-	-	530
Adoption of Statement of Financial Standards 123R	-	-	-	-	(361)	-	-	361	-	-
Tax windfall resulting from restricted stock awards	-	-	-	-	5	-	-	-	-	5
Purchase of treasury stock at cost	(14,543)	-	(102,516)	-	-	-	-	-	(403)	(403)
September 30, 2006 (unaudited)	<u>3,816,904</u>	<u>\$ 39</u>	<u>640,368</u>	<u>\$ 7</u>	<u>102,523</u>	<u>\$ 54,959</u>	<u>\$ 286</u>	<u>\$ -</u>	<u>(2,765)\$</u>	<u>155,049</u>

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

Simmons Company and Subsidiaries
Notes to the Unaudited 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 Company and its direct and indirect subsidiaries (collectively "Simmons Bedding"). Simmons Company, together with its subsidiaries (collectively the "Company" or "Simmons Company"), is one of the largest bedding manufacturers in the United States.

On August 29, 2006, the Company sold its subsidiary, Sleep Country USA, LLC, ("SCUSA"), for net cash proceeds of \$52.7 million subject to a final working capital adjustment. This disposition resulted in the Company selling all of its retail bedding segment assets. On September 20, 2006, the Company entered into a definitive agreement to acquire a licensee, Simmons Canada Inc. ("Simmons Canada") from SCI Income Trust ("SCI"), an income trust traded on the Toronto Stock Exchange. For further information on the SCUSA disposition and the pending Simmons Canada acquisition see Note B, "Acquisitions and Disposals".

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 September 30, 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 periods ended September 30, 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. Acquisitions and Disposals

On August 29, 2006, the Company sold its subsidiary, SCUSA, to an affiliate of The Sleep Train, Inc. ("Sleep Train") for net cash proceeds of \$52.7 million subject to a final working capital adjustment. The Company recorded a net gain of \$43.8 million. This disposition resulted in the Company selling all of its retail bedding segment assets.

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

Concurrent with the sale of SCUSA, the Company entered into a multi-year supply agreement with Sleep Train which will result in the Company having a significant ongoing interest in the cash flows of SCUSA. Since the Company has an ongoing interest in the cash flows of SCUSA, the Company did not report the gain on disposition or SCUSA's results of operations as discontinued operations in the accompanying unaudited condensed consolidated statements of operations and comprehensive income. The following tables show SCUSA's net sales and net income for the two months ended August 29, 2006 compared to the quarter ended September 24, 2005 and the eight months ended August 29, 2006 compared to the nine months ended September 24, 2005 (in millions):

	Two Months Ended August 29, 2006	Quarter Ended September 24, 2005	Eight Months Ended August 29, 2006	Nine Months Ended September 24, 2005
Net sales	\$ 15.0	\$ 21.6	\$ 61.5	\$ 59.5
Net income	\$ 0.3	\$ 1.3	\$ 3.1	\$ 3.0

For further information on SCUSA's operating results for the periods presented, see Note H, "Segment Information."

In accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the accompanying condensed consolidated balance sheet as of December 31, 2005 has been reclassified to present the assets and liabilities of SCUSA as held for sale. The components of the assets and liabilities held for sale as of December 31, 2005 are as follows (in thousands):

ASSETS HELD FOR SALE

Accounts receivable, net	\$ 1,349
Inventory	4,471
Other current assets	992
Property, plant and equipment, net	4,747
Goodwill	6,951
Intangible assets, net	327
Other assets	279
Total assets held for sale	<u>\$ 19,116</u>

LIABILITIES HELD FOR SALE

Accounts payable	\$ 2,318
Accrued liabilities	4,630
Other long-term liabilities	3,020
Total liabilities held for sale	<u>\$ 9,968</u>

On September 20, 2006, the Company entered into a definitive purchase agreement to acquire all of the securities of Simmons Canada from SCI for CAD 16.25 per unit, approximately CAD 136.8 million (estimated \$123 million) in cash plus transaction fees. The transaction is subject to the approval of SCI's unitholders on November 14, 2006. The Simmons Canada acquisition is expected to close in the fourth quarter of 2006.

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

Simmons Canada, a licensee of the Company, is one of the leading manufacturers of mattresses in Canada. Simmons Canada supplies its products to a broad range of Canadian retail customers, including national department store chains, specialty sleep stores, furniture buying groups, independent furniture retailers, as well as customers in the hospitality industry. Simmons Canada had net sales of approximately CAD 131 million (estimated \$109 million) in 2005.

The Company plans to finance the acquisition from existing cash, cash flow generated from operations, and availability under its existing revolving loan included in its senior credit facility. To protect against a decrease in the value of the US dollar to the Canadian dollar between signing and closing of the acquisition, the Company entered into an option contract on September 21, 2006 to buy a notional amount of CAD 132.0 million on December 18, 2006 at a fixed exchange rate. The option contract is an effective economic hedge, but does not meet the criteria of a hedge for accounting purposes. Fluctuations in the fair value of the option contract are recorded in selling, general and administrative expense. As of September 30, 2006, the Company recognized a \$0.2 million loss related to the option contract.

C. Inventories

A summary of inventories follows (in thousands):

	September 30, 2006	December 31, 2005
Raw materials	\$ 15,376	\$ 18,541
Work-in-progress	807	1,261
Finished goods	8,636	8,777
	<u>\$ 24,819</u>	<u>\$ 28,579</u>

D. Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2006 are as follows (in thousands):

Balance at beginning of period	\$ 488,230
Sale of SCUSA	(6,951)
Tax benefit allocated to reduce goodwill	(68)
Balance at end of period	<u>\$ 481,211</u>

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

E. Warranties

The conventional bedding products that the Company currently manufactures generally include a ten year non-prorated warranty. The Company records the estimated cost of warranty claims when its products are sold. The Company estimates the cost of warranty claims based on historical sales and warranty returns and the current average costs to settle a warranty claim. The company includes the estimated impact of recoverable salvage value in the calculation of the current average costs to settle a warranty claim.

The following table presents a reconciliation of the Company's warranty accrual for the periods ended September 30, 2006 and September 24, 2005 (in thousands):

	Quarters Ended		Nine Months Ended	
	September 30,	September 24,	September 30,	September 24,
	2006	2005	2006	2005
Balance at beginning of period	\$ 2,943	\$ 3,115	\$ 3,009	\$ 2,715
Additional warranties issued	432	699	1,429	1,713
Warranty settlements	(357)	(423)	(1,241)	(1,373)
Revisions of estimate	(142)	(89)	(321)	247
Balance at end of period	<u>\$ 2,876</u>	<u>\$ 3,302</u>	<u>\$ 2,876</u>	<u>\$ 3,302</u>

As a result of a decrease in warranty returns combined with a lower cost to settle warranty claims, the warranty accrual as of September 30, 2006 was \$0.4 million less than the accrual as of September 24, 2005.

F. Long-Term Debt

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

	September 30,	December 31,
	2006	2005
Senior credit facility:		
Revolving loan	\$ -	\$ -
Tranche C term loan	-	369,933
Tranche D term loan	480,000	-
Total senior credit facility	<u>480,000</u>	<u>369,933</u>
Senior unsecured term loan	-	140,000
7.875% senior subordinated notes due 2014	200,000	200,000
10.0% senior discount notes, due 2014, net of discount of \$72,195 and \$86,172	196,805	182,828
Other, including capital lease obligations	<u>14,829</u>	<u>14,989</u>
	891,634	907,750
Less current portion	<u>(413)</u>	<u>(1,602)</u>
	<u>\$ 891,221</u>	<u>\$ 906,148</u>

On May 25, 2006, Simmons Bedding executed the second amended and restated senior credit and guaranty agreement ("New Senior Credit Facility") with a syndicate of lenders, which amended and restated its existing senior credit facility in its entirety. The New Senior Credit Facility provides for a \$75.0 million revolving credit facility and a \$492.0 million tranche D term loan facility. The proceeds from the New Senior Credit Facility were used to replace Simmons Bedding's \$350.0 million tranche C term loan and \$140.0 million senior unsecured term loan. This exchange of debt instruments is referred to as the "Refinancing". Among other things, the New Senior Credit Facility reduces the applicable Eurodollar and Base interest rate margins for borrowings under the term loan.

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

In connection with the Refinancing, Simmons Bedding paid approximately \$1.9 million in call premiums, agency fees and legal fees (collectively, the "Refinancing Costs"). The Refinancing Costs were recorded in accordance with Emerging Issues Task Force 96-19, *Modification of Debt Instruments with Different Terms* ("EITF 96-19"). Under EITF 96-19, Simmons Bedding compared each syndicated lenders' loan under the tranche D term loan with the syndicated lenders' loan under the tranche C term loan and senior unsecured term loan. For loans under the tranche D term loan that were substantially different than loans under the then existing term loans, Simmons Bedding recorded the exchange of debt instruments as a debt extinguishment, expensed deferred financing fees associated with the extinguished debt, expensed fees paid to lenders, and capitalized third-party costs associated with the New Senior Credit Facility. For loans under the tranche D term loan that were not substantially different, Simmons Bedding recorded the exchange of debt instruments as a modification of the existing term loans, expensed third-party costs associated with the New Senior Credit Facility, and capitalized fees paid to lenders as deferred financing fees. As a result of the Refinancing, Simmons Bedding expensed \$5.0 million of deferred financing fees and \$1.0 million of Refinancing Costs as a component of interest expense, net in the consolidated statements of operations and capitalized \$0.9 million of deferred financing fees as a component of other assets in the consolidated balance sheets.

The revolving loan under the New Senior Credit Facility will expire on the earlier of (a) December 19, 2009 or (b) as revolving credit commitments under the facility terminate. Simmons Bedding incurs a commitment fee of 0.5% per annum on the unused portion of its revolving credit facility. As of September 30, 2006, Simmons Bedding had availability to borrow \$65.0 million under the revolving loan after giving effect to \$10.0 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 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.

Subsequent to the Refinancing, Simmons Bedding voluntarily prepaid \$12.0 million of the tranche D term loan resulting in the next required principal payment of \$0.3 million being scheduled for September 2008. The tranche D term loans have mandatory quarterly principal payments of \$1.2 million from December 31, 2008 through December 31, 2010 and mandatory quarterly principal payments of \$117.2 million from March 31, 2011 through maturity on December 19, 2011. Depending on Simmons Bedding's leverage ratio, it may be required to prepay a portion of the tranche D term loan with up to 50% of its excess cash flows (as defined in the New Senior Credit Facility) from each fiscal year.

The New Senior Credit Facility bears interest at Simmons Bedding's choice of the Eurodollar Rate or Base Rate (both as defined), plus the applicable interest rate margins as follows:

	Eurodollar Rate	Base Rate
Revolving loan	2.25%	1.25%
Tranche D term loan	2.00%	1.00%

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

The revolving loan applicable interest rate margins for both Eurodollar Rate loans and Base Rate loans are reduced based upon Simmons Bedding's leverage ratio. As a result of an upgrade in the Company's debt ratings by Moody's Investor Service on September 21, 2006, the tranche D term loan interest rate margin was reduced 25 basis points to 2.00%. The weighted average interest rate per annum in effect as of September 30, 2006 for the tranche D term loan was 7.18%.

Simmons Bedding has developed and implemented a policy to utilize extended Eurodollar contracts to minimize the impact of near term Eurodollar rate increases. For \$258.0 million of the tranche D 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 the extended Eurodollar contracts resulted in the Company fixing the interest rate on approximately 53% of its floating rate debt as of September 30, 2006.

The New Senior Credit Facility requires Simmons Bedding to maintain certain financial ratios, including cash interest coverage and total leverage ratios. The New Senior Credit Facility also contains other covenants, which among other things, limit capital expenditures, the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, mergers and consolidations, prepayment of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements.

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

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

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

Supplemental Consolidating Condensed Statements of Operations
For the Quarter Ended September 30, 2006
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net sales	\$ -	\$ (18,241)	\$ 275,369	\$ 2,638	\$ -	\$ -	\$ 259,766
Cost of products sold	-	820	139,797	1,945	-	-	142,562
Gross profit	-	(19,061)	135,572	693	-	-	117,204
Operating expenses:							
Selling, general and administrative expenses	7	56,260	27,368	453	-	-	84,089
Gain on sale of Sleep Country USA	-	-	(43,834)	-	-	-	(43,834)
Amortization of intangibles	-	808	578	-	-	-	1,386
Intercompany fees	-	(82,961)	82,714	247	-	-	-
Licensing revenues	-	(278)	(1,715)	(205)	-	-	(2,199)
	7	(26,171)	65,112	495	-	-	39,442
Operating income (loss)	(7)	7,112	70,460	198	-	-	77,762
Interest expense, net	4,934	12,862	197	48	-	-	18,041
Income from subsidiaries	43,924	44,752	-	-	(88,676)	-	-
Income before income taxes	38,983	39,002	70,263	150	(88,676)	-	59,721
Income tax expense (benefit)	(2,939)	(4,925)	25,580	82	-	-	17,799
Net income	\$ 41,922	\$ 43,924	\$ 44,683	\$ 68	\$ (88,676)	\$ -	\$ 41,922

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

Supplemental Consolidating Condensed Statements of Operations
For the Quarter Ended September 24, 2005
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net sales	\$ -	\$ (19,472)	\$ 244,274	\$ 2,041	\$ -	\$ -	\$ 226,843
Cost of products sold	-	480	126,850	1,596	-	-	128,926
Gross profit	-	(19,952)	117,424	445	-	-	97,917
Operating expenses:							
Selling, general and administrative expenses	42	46,192	27,340	449	-	-	74,023
Amortization of intangibles	-	807	611	-	-	-	1,418
Intercompany fees	-	(72,347)	72,155	192	-	-	-
Licensing revenues	-	(296)	(2,066)	(191)	-	-	(2,553)
	42	(25,644)	98,040	450	-	-	72,888
Operating income (loss)	(42)	5,692	19,384	(5)	-	-	25,029
Interest expense, net	4,461	13,293	204	50	-	-	18,008
Income from subsidiaries	7,555	18,826	-	-	(26,381)	-	-
Income (loss) before income taxes	3,052	11,225	19,180	(55)	(26,381)	-	7,021
Income tax expense (benefit)	(948)	3,670	265	34	-	-	3,021
Net income (loss)	\$ 4,000	\$ 7,555	\$ 18,915	\$ (89)	\$ (26,381)	\$ -	\$ 4,000

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

Supplemental Consolidating Condensed Statements of Operations
For the Nine Months Ended September 30, 2006
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$ -	\$ (69,981)	\$ 800,133	\$ 6,683	\$ -	\$ 736,835
Cost of products sold	-	2,497	403,578	4,977	-	411,051
Gross profit	-	(72,478)	396,555	1,706	-	325,784
Operating expenses:						
Selling, general and administrative expenses	74	149,465	85,836	1,253	-	236,628
Gain on sale of Sleep Country USA	-	-	(43,834)	-	-	(43,834)
Amortization of intangibles	-	2,422	1,798	-	-	4,220
Intercompany fees	-	(238,695)	238,060	635	-	-
Licensing revenues	-	(834)	(5,106)	(558)	-	(6,498)
	74	(87,642)	276,754	1,330	-	190,516
Operating income (loss)	(74)	15,164	119,801	376	-	135,268
Interest expense, net	14,159	47,010	627	136	-	61,932
Income from subsidiaries	59,119	82,005	-	-	(141,124)	-
Income before income taxes	44,886	50,159	119,174	240	(141,124)	73,336
Income tax expense (benefit)	(5,530)	(8,960)	37,275	134	-	22,920
Net income	\$ 50,416	\$ 59,119	\$ 81,899	\$ 106	\$ (141,124)	\$ 50,416

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

Supplemental Consolidating Condensed Statements of Operations
For the Nine Months Ended September 24, 2005
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net sales	\$ -	\$ (53,289)	\$ 686,407	\$ 7,349	\$ -	\$ -	\$ 640,467
Cost of products sold	-	1,073	353,767	5,508	-	-	360,348
Gross profit	-	(54,362)	332,640	1,841	-	-	280,119
Operating expenses:							
Selling, general and administrative expenses	202	146,712	78,036	1,576	-	-	226,526
Amortization of intangibles	-	2,422	1,854	-	-	-	4,276
Intercompany fees	-	(215,154)	214,503	651	-	-	-
Licensing revenues	-	(825)	(6,075)	(519)	-	-	(7,419)
	202	(66,845)	288,318	1,708	-	-	223,383
Operating income (loss)	(202)	12,483	44,322	133	-	-	56,736
Interest expense, net	12,842	38,233	604	102	-	-	51,781
Income from subsidiaries	11,717	42,537	-	-	(54,254)	-	-
Income (loss) before income taxes	(1,327)	16,787	43,718	31	(54,254)	-	4,955
Income tax expense (benefit)	(4,194)	5,070	1,304	(92)	-	-	2,088
Net income	\$ 2,867	\$ 11,717	\$ 42,414	\$ 123	\$ (54,254)	\$ -	\$ 2,867

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

Supplemental Consolidating Condensed Balance Sheets
As of September 30, 2006
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 93,565	\$ 5,276	\$ 2,839	\$ -	\$ 101,680
Accounts receivable	-	-	83,803	1,057	-	84,860
Inventories	-	-	24,114	705	-	24,819
Other	-	10,168	9,759	392	-	20,319
Total current assets	-	103,733	122,952	4,993	-	231,678
Property, plant and equipment, net	-	12,625	36,713	4,892	-	54,230
Goodwill and other intangibles, net	-	65,281	948,828	65	-	1,014,174
Other assets	3,241	29,781	1,418	315	-	34,755
Net investment in and advances to (from) affiliates	330,662	854,344	212,424	(1,269)	(1,396,162)	-
	<u>\$ 333,903</u>	<u>\$ 1,065,764</u>	<u>\$ 1,322,336</u>	<u>\$ 8,996</u>	<u>\$ (1,396,162)</u>	<u>\$ 1,334,837</u>
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ -	\$ 200	\$ 213	\$ -	\$ 413
Accounts payable and accrued liabilities	145	48,936	59,333	1,178	-	109,592
Total current liabilities	145	48,936	59,533	1,391	-	110,005
Long-term debt	196,806	680,000	13,098	1,317	-	891,221
Deferred income taxes	(18,097)	(12,806)	195,765	164	-	165,026
Other non-current liabilities	-	9,910	3,418	208	-	13,536
Total liabilities	178,854	726,040	271,814	3,080	-	1,179,788
Stockholders' equity	155,049	339,724	1,050,522	5,916	(1,396,162)	155,049
	<u>\$ 333,903</u>	<u>\$ 1,065,764</u>	<u>\$ 1,322,336</u>	<u>\$ 8,996</u>	<u>\$ (1,396,162)</u>	<u>\$ 1,334,837</u>

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

Supplemental Consolidating Condensed Statements of Cash Flows
For the Nine Months Ended September 30, 2006
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net cash provided by (used in) operating activities	\$ 274	\$ (15,418)	\$ 79,131	\$ 873	\$ -	\$ -	\$ 64,860
Cash flows from investing activities:							
Purchase of property, plant and equipment, net	-	(5,172)	(4,056)	-	-	-	(9,228)
Proceeds from sale of SCUSA	-	-	52,743	-	-	-	52,743
Net cash provided by (used in) investing activities	-	(5,172)	48,687	-	-	-	43,515
Cash flows from financing activities:							
Borrowings under new senior credit facility, net	-	480,000	-	-	-	-	480,000
Payments of senior credit facility, net	-	(369,933)	-	-	-	-	(369,933)
Repayment of senior unsecured term loan	-	(140,000)	-	-	-	-	(140,000)
Payment of other long-term obligations	-	-	-	(160)	-	-	(160)
Purchase of treasury stock	(403)	-	-	-	-	-	(403)
Payment of financing fees	(41)	(932)	-	-	-	-	(973)
Receipt from (distribution to) affiliates	170	125,197	(123,971)	(1,396)	-	-	-
Net cash provided by (used in) financing activities	(274)	94,332	(123,971)	(1,556)	-	-	(31,469)
Net effect of exchange rate changes	-	-	-	152	-	-	152
Change in cash and cash equivalents	-	73,742	3,847	(531)	-	-	77,058
Cash and cash equivalents:							
Beginning of period	-	19,823	1,429	3,370	-	-	24,622
End of period	\$ -	\$ 93,565	\$ 5,276	\$ 2,839	\$ -	\$ -	\$ 101,680

Simmons Company and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statement

Supplemental Consolidating Condensed Statements of Cash Flows
For the Nine Months Ended September 24, 2005
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net cash provided by (used in) operating activities	\$ (384)	\$ 18,694	\$ 13,747	\$ (163)	\$ -	\$ -	\$ 31,894
Cash flows from investing activities:							
Purchase of property, plant and equipment, net	-	(1,662)	(1,979)	(21)	-	-	(3,662)
Purchase of Simmons Juvenile products	-	-	(3,337)	-	-	-	(3,337)
Other	-	-	7	-	-	-	7
Net cash used in investing activities	-	(1,662)	(5,309)	(21)	-	-	(6,992)
Cash flows from financing activities:							
Payments of deferred financing fees	-	-	-	-	-	-	-
Repayment of long-term obligations	-	(11,668)	(47)	(174)	-	-	(11,889)
Purchase of treasury stock	(368)	-	-	-	-	-	(368)
Receipt from (distribution to) affiliates	400	4,356	(6,023)	1,267	-	-	-
Net cash provided by (used in) financing activities	32	(7,312)	(6,070)	1,093	-	-	(12,257)
Net effect of exchange rate changes	-	-	-	(1)	-	-	(1)
Change in cash and cash equivalents	(352)	9,720	2,368	908	-	-	12,644
Cash and cash equivalents:							
Beginning of period	352	15,923	7,333	598	-	-	24,206
End of period	\$ -	\$ 25,643	\$ 9,701	\$ 1,506	\$ -	\$ -	\$ 36,850

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

G. Share-Based Compensation

Under the Simmons Company Equity Incentive Plan ("Incentive Plan"), the Company is authorized to grant options, restricted stock or other awards to the management, directors and consultants of the Company. Under the Incentive Plan, the Company has issued shares of Class B common stock as restricted stock awards. The current restricted stock awards are performance based awards, where the restrictions lapse based upon the achievement of specific measurable performance criteria. As of January 1, 2006, most of the awards vested 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 was subject to the holders continued full-time employment with the Company or continuance as a director of the Company. Unvested shares accelerated upon a change of control of the Company if the Company had met certain performance criteria. Holders of the restricted stock had the right to receive dividends and vote shares, but could 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 at the grant date as the excess of the fair value of the award over the purchase price. 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 Company's enterprise value fluctuates based upon its operating performance, changes in market multiples for comparable publicly traded companies, and changes in transaction multiples paid for companies with similar operations as the Company.

Since vesting of certain restricted stock awards granted under the Incentive Plan was unlikely, 569,136 shares of restricted stock awards were modified by the Company on April 17, 2006. Among other things, the modification resulted in the vesting of 18.75% of restricted stock awards for certain individuals not previously vested; revising of the vesting schedule through 2008; lowering of the Adjusted EBITDA performance targets for 2006 and 2007; and the elimination of cliff vesting. The fair value of the restricted stock awards post-modification was greater than the fair value of the awards prior to modification. As a result, the Company recorded an additional \$1.0 million of deferred compensation, which will be recognized as an expense over the remaining vesting period.

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

The following table presents a rollforward of the number of nonvested shares for the nine months ended September 30, 2006 and the weighted-average grant-date fair value of the restricted stock awards:

	Number of Shares	Weighted Average Fair Value at Grant Date
Nonvested shares as of December 31, 2005	536,652	\$ 0.84
Granted	103,060	\$ 3.05
Vested	(35,040)	\$ 2.39
Forfeited	(95,561)	\$ 0.67
Nonvested shares as of September 30, 2006	<u>509,111</u>	<u>\$ 1.54</u>

Non-cash stock compensation expense was less than \$0.1 million and \$0.5 million for the quarter and nine months ended September 30, 2006, respectively. As of September 30, 2006, there was \$0.8 million of total unrecognized compensation cost related to nonvested restricted stock awards granted under the Incentive Plan which is expected to be recognized as an expense over a weighted average period of 2.5 years.

H. 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.

As a result of the sale of SCUSA (see Note B, "Acquisition and Disposals"), the Company no longer sells products to end consumers, other than the sale of its off-quality products and product returns through its outlet stores. The Company principally manufactures, sells and distributes its premium branded bedding products to domestic retail customers and institutional users of bedding products, such as the hospitality industry. Accordingly, the Company only operates in one segment as of September 30, 2006 and the results of SCUSA are included in the segment data through August 29, 2006.

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.

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

The following tables summarize segment information:

Quarter Ended September 30, 2006
(In thousands)

	Wholesale			Eliminations	Totals
	Bedding	Retail			
Net sales to external customers	\$ 244,798	\$ 14,968	\$ -	\$ 259,766	
Intersegment net sales	3,457	-	(3,457)	-	
Adjusted EBITDA	42,039	1,529	(108)	43,460	
Depreciation and amortization expense	7,603	226	-	7,829	
Expenditures for long-lived assets	3,050	402	-	3,452	
Segment assets	1,334,837	-	-	1,334,837	
Reconciliation of EBITDA and Adjusted					
EBITDA to net income:					
Net income	\$ 9,755	\$ 32,275	\$ (108)	\$ 41,922	
Depreciation and amortization	7,603	226	-	7,829	
Income taxes	5,124	12,675	-	17,799	
Interest expense, net	18,041	-	-	18,041	
Interest income	502	15	-	517	
EBITDA	41,025	45,191	(108)	86,108	
Gain on sale of SCUSA	-	(43,834)	-	(43,834)	
Transaction expenses	386	42	-	428	
Management fees	350	73	-	423	
State taxes in lieu of income taxes	148	57	-	205	
Reorganization costs	65	-	-	65	
Other	52	-	-	52	
Non-cash stock compensation	13	-	-	13	
Adjusted EBITDA	\$ 42,039	\$ 1,529	\$ (108)	\$ 43,460	

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

Quarter Ended September 24, 2005

(In thousands)

	Wholesale			
	Bedding	Retail	Eliminations	Totals
Net sales to external customers	\$ 205,225	\$ 21,618	\$ -	\$ 226,843
Intersegment net sales	5,050	-	(5,050)	-
Adjusted EBITDA	33,298	2,562	(89)	35,771
Depreciation and amortization expense	6,743	338	-	7,081
Expenditures for long-lived assets	606	470	-	1,076
Segment assets	1,279,166	26,549	(2,608)	1,303,107
Reconciliation of EBITDA and Adjusted EBITDA to net income:				
Net income	\$ 2,794	\$ 1,295	\$ (89)	\$ 4,000
Depreciation and amortization	6,743	338	-	7,081
Income taxes	2,296	725	-	3,021
Interest expense, net	18,008	-	-	18,008
Interest income	66	(1)	-	65
EBITDA	29,907	2,357	(89)	32,175
Reorganization costs	2,681	-	-	2,681
Management fees	293	127	-	420
State taxes in lieu of income taxes	134	78	-	212
Plant opening, closing charges	281	-	-	281
Non-cash stock compensation expense	2	-	-	2
Adjusted EBITDA	<u>\$ 33,298</u>	<u>\$ 2,562</u>	<u>\$ (89)</u>	<u>\$ 35,771</u>

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

Nine Months Ended September 30, 2006

(In thousands)

	Wholesale Bedding	Retail	Eliminations	Totals
Net sales to external customers	\$ 675,290	\$ 61,545	\$ -	\$ 736,835
Intersegment net sales	12,581	-	(12,581)	-
Adjusted EBITDA	113,740	6,076	(86)	119,730
Depreciation and amortization expense	21,010	875	-	21,885
Expenditures for long-lived assets	7,449	1,779	-	9,228
Segment assets	1,334,837	-	-	1,334,837
Reconciliation of EBITDA and Adjusted EBITDA to net income:				
Net income	\$ 15,869	\$ 34,633	\$ (86)	\$ 50,416
Depreciation and amortization	21,010	875	-	21,885
Income taxes	9,119	13,801	-	22,920
Interest expense, net	61,928	4	-	61,932
Interest income	737	15	-	752
EBITDA	108,663	49,328	(86)	157,905
Gain on sale of SCUSA	-	(43,834)	-	(43,834)
Reorganization costs	1,519	-	-	1,519
Management fees	957	306	-	1,263
Management severance	867	-	-	867
Transaction expenses	518	42	-	560
State taxes in lieu of income taxes	458	234	-	692
Non-cash stock compensation	530	-	-	530
Other	228	-	-	228
Adjusted EBITDA	<u>\$ 113,740</u>	<u>\$ 6,076</u>	<u>\$ (86)</u>	<u>\$ 119,730</u>

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

Nine Months Ended September 24, 2005

(In thousands)

	Wholesale Bedding	Retail	Eliminations	Totals
Net sales to external customers	\$ 580,959	\$ 59,508	\$ -	\$ 640,467
Intersegment net sales	11,613	-	(11,613)	-
Adjusted EBITDA	76,969	6,354	81	83,404
Depreciation and amortization expense	19,113	1,091	-	20,204
Expenditures for long-lived assets	2,762	900	-	3,662
Segment assets	1,279,166	26,549	(2,608)	1,303,107
Reconciliation of EBITDA and Adjusted EBITDA to net income (loss):				
Net income (loss)	\$ (247)	\$ 3,033	\$ 81	\$ 2,867
Depreciation and amortization	19,113	1,091	-	20,204
Income taxes	398	1,690	-	2,088
Interest expense, net	51,775	6	-	51,781
Interest income	113	-	-	113
EBITDA	71,152	5,820	81	77,053
Reorganization costs	4,026	-	-	4,026
Management fees	856	317	-	1,173
Management severance	105	-	-	105
State taxes in lieu of income taxes	330	217	-	547
Transaction expenses	177	-	-	177
Plant opening, closing charges	321	-	-	321
Non-cash stock compensation expense	2	-	-	2
Adjusted EBITDA	\$ 76,969	\$ 6,354	\$ 81	\$ 83,404

I. 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.

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

J. Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 requires companies to accrue interest on the difference between the tax position recognized under FIN 48 and the amount previously taken or expected to be taken in a company's tax return. FIN 48 will be effective for the Company at the beginning of fiscal year 2007. The Company is in the process of evaluating the impact of this guidance on its consolidated financial statements and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 provides a common definition of fair value to be used throughout GAAP, which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 clarifies the principal that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 will be effective for the Company at the beginning of fiscal year 2007. The Company has not completed its analysis, but does not expect this statement to have a significant impact on its consolidated financial statements and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* ("SFAS 158"). SFAS 158 requires a Company to: (i) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in other comprehensive income. SFAS 158 will be effective for the Company at the beginning of fiscal year 2007. The Company is in the process of evaluating the impact of this guidance on its consolidated financial statements and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Under SAB 108, registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If material to the current year's income statement, correction of existing accumulated balance sheet misstatements (i.e., from immaterial errors in prior years) should be accomplished by correcting the financial statements of affected previous years. However, in such case, previously filed reports would not require amendment; rather, corrections should be made the next time such prior years' statements are filed with the SEC. SAB 108 is effective for the Company's fiscal year ending December 30, 2006. The Company does not expect to change its current practice regarding accounting for misstatements and does not expect the need for restatement of prior periods as a result of SAB 108.

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.

Recent Events

Sale of Retail Segment

On August 29, 2006, we sold our subsidiary, Sleep Country USA, LLC ("SCUSA"), to an affiliate of The Sleep Train, Inc. ("Sleep Train") for net cash proceeds of \$52.7 million subject to a final working capital adjustment. We recorded a net gain of \$43.8 million. This disposition resulted in the selling of all our retail bedding segment operations.

Concurrent with the sale of SCUSA, we entered into a multi-year supply agreement with Sleep Train which will result in us having a significant ongoing interest in the cash flows of SCUSA. Since we have a significant ongoing interest in the cash flows of SCUSA, we did not report the gain on disposition or SCUSA's results of operations as discontinued operations in the accompanying unaudited condensed consolidated statements of operations and comprehensive income.

Purchase of Simmons Canada

On September 20, 2006, we entered into a definitive purchase agreement to acquire all of the securities of Simmons Canada Inc. ("Simmons Canada") from SCI Income Trust ("SCI"), an income trust traded on the Toronto Stock Exchange, for approximately CAD 136.8 million (estimated \$123 million) in cash plus transaction fees. The transaction is subject to the approval of SCI's unitholders on November 14, 2006. The Simmons Canada acquisition is expected to close in the fourth quarter of 2006.

Simmons Canada, a licensee of ours, is one of the leading manufacturers of mattresses in Canada. Simmons Canada supplies its products to a broad range of customers located in Canada, including national department store chains, specialty sleep stores, furniture buying groups, independent furniture retailers as well as to the hospitality industry. Simmons Canada had net sales of approximately CAD 131 million (estimated \$109 million) in 2005.

We plan to finance the acquisition from existing cash (\$101.7 million as of September 30, 2006), cash flow generated from operations, and availability under Simmons Bedding's existing revolving loan from its senior credit facility. To protect against a decrease in the value of the US dollar to the Canadian dollar between signing and closing of the acquisition, we entered into an option contract on September 21, 2006 to buy a notional amount of CAD 132.0 million on December 18, 2006 at a fixed exchange rate. The option contract is an effective economic hedge, but does not meet the criteria of a hedge for accounting purposes. Fluctuations in the fair value of the option contract are recorded in selling, general and administrative expense. As of September 30, 2006, we recognized a \$0.2 million loss related to the option contract.

Appointment of a New President

On November 10, 2006, we announced the appointment of Gary S. Matthews as its President effective December 1, 2006. Mr. Matthews will report to our Chairman and Chief Executive Officer, Charles R. Eitel, and will be responsible for the day-to-day management and operations of our business. Mr. Matthews has served in various corporate and leadership capacities during his 25-year career, including most recently President and Chief Executive Officer of privately-held Sleep Innovations, Inc., a fabricator and marketer of foam bedding, specialty sleep products and accessories.

Results of Operations

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

	Quarters Ended		Nine Months Ended	
	September 30, 2006	September 24, 2005	September 30, 2006	September 24, 2005
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	54.9%	56.8%	55.8%	56.3%
Gross margin	45.1%	43.2%	44.2%	43.7%
Operating expenses:				
Selling, general and administrative expenses	32.4%	32.6%	32.1%	35.4%
Gain on sale of Sleep Country USA	-16.9%	0.0%	-5.9%	0.0%
Amortization of intangibles	0.5%	0.6%	0.6%	0.7%
Licensing revenues	-0.8%	-1.1%	-0.9%	-1.2%
	15.2%	32.1%	25.9%	34.9%
Operating income	29.9%	11.0%	18.4%	8.9%
Interest expense, net	6.9%	7.9%	8.4%	8.1%
Income before income taxes	23.0%	3.1%	10.0%	0.8%
Income tax expense	6.9%	1.3%	3.1%	0.3%
Net income	16.1%	1.8%	6.8%	0.5%

Quarter Ended September 30, 2006 as Compared to the Quarter Ended September 24, 2005

Net Sales. The following table presents our net sales and the dollar amount and percentage change by segment for the quarter ended September 30, 2006 compared to the quarter ended September 24, 2005.

	2006	2005	\$ increase (decrease)	% increase (decrease)
	(in millions)			
Wholesale bedding segment	\$ 248.3	\$ 210.3	\$ 38.0	18.1%
Retail bedding segment prior to disposition of segment on August 29, 2006	15.0	21.6	(6.7)	-30.8%
Eliminations	(3.5)	(5.1)	1.6	
Consolidated net sales	\$ 259.8	\$ 226.8	\$ 32.9	14.5%

For the quarter ended September 30, 2006, wholesale bedding segment net sales increased 18.1% compared to the same period of 2005 primarily as a result of (i) a 9.9% increase in our conventional bedding unit volume resulting in an estimated increase in wholesale bedding net sales of \$22.5 million, (ii) a 4.3% increase in our conventional bedding average unit selling price ("AUSP") resulting in an estimated increase of wholesale bedding net sales of \$10.7 million, and (iii) an \$8.4 million decrease in co-op advertising expenditures classified as a sales reduction due to more of the expenditures meeting the criteria of a selling expense during the third quarter of 2006 compared to the same period of 2005. 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 improved product offerings combined with a more effective sales approach following the sales force reorganization in December 2005. Our improvement in AUSP in the third 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 September 30, 2006 and September 24, 2005, our wholesale bedding segment net sales reflect a reduction of \$16.0 million and \$23.0 million, respectively, for cash consideration paid to our customers for certain promotional programs, allowances and volume rebates. Our sales reductions decreased for the third quarter of 2006 compared to the same period of 2005 principally due to the aforementioned reduction of co-op advertising expenditures classified as a reduction of sales. As a percentage of our sales, our total co-op advertising expenditures, regardless of whether reported as selling expense or a sales reduction, for the quarter ended September 30, 2006, were 0.3 percentage points higher than the total co-op advertising expenditures for the quarter ended September 24, 2005.

Retail bedding segment net sales decreased \$6.7 million, or 30.8%, for the quarter ended September 30, 2006 compared to the quarter ended September 24, 2005 as a result of the sale of SCUSA on August 29, 2006.

Gross Margin. The following table presents our gross profit, gross margin, and the gross margin percentage point change by segment for the quarter ended September 30, 2006 compared to the quarter ended September 24, 2005.

	Gross Profit		Gross Margin		Margin %
	2006	2005	2006	2005	Point Change
	(in millions)				
Wholesale bedding segment	\$ 109.3	\$ 86.1	44.0%	41.0%	3.0%
Retail bedding segment prior to disposition of segment on August 29, 2006	8.0	11.9	53.7%	55.0%	-1.3%
Eliminations	(0.1)	(0.1)			
Consolidated	\$ 117.2	\$ 97.9	45.1%	43.2%	1.9%

Our wholesale bedding segment gross margin for the quarter ended September 30, 2006, increased by 3.0 percentage points compared to the quarter ended September 24, 2005, due to the classification of more co-op advertising as a selling expense for the third quarter of 2006 compared to the same period of 2005 and the increase in our AUSP. Partially offsetting our improvement in wholesale bedding segment gross margin, our conventional bedding cost per unit increased 1.9% for the third quarter of 2006 compared to the same period 2005. The increase in the conventional bedding cost per unit was a result of a 4.3% increase in our material cost per unit, primarily due to inflation in polyurethane foam costs in the fourth quarter of 2005. Partially offsetting the increase in our material cost per unit, our conventional bedding labor and overhead cost per unit decreased 2.8% in the third quarter of 2006 compared to the same period of 2005 as a result of favorable manufacturing efficiencies driven by increased unit volume.

Our retail bedding segment gross margin decreased 1.3 percentage points compared to the third quarter 2005 principally due to 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 September 30, 2006 compared to the quarter ended September 24, 2005.

	SG&A		As a % of Segment Net Sales		Margin %
	2006	2005	2006	2005	Point Change
	(in millions)				
Wholesale bedding segment	\$ 76.8	\$ 64.2	30.9%	30.5%	0.4%
Retail bedding segment prior to disposition of segment on August 29, 2006	7.3	9.8	48.4%	45.3%	3.1%
Consolidated	\$ 84.1	\$ 74.0	32.4%	32.6%	-0.2%

As a percentage of wholesale bedding segment net sales, our wholesale bedding segment SG&A for the quarter ended September 30, 2006 increased 0.4 percentage points compared to the quarter ended September 24, 2005. SG&A increased as a result of the classification of more co-op advertising expenditures as a selling expense in the third quarter of 2006 compared to the same period of 2005 as discussed above in "Net Sales." As a result of this change in classification, our co-op advertising expenditures classified as a selling expense increased \$12.7 million in the third quarter of 2006 compared to the same period of 2005. Partially offsetting the increase in co-op advertising classified as a selling expense, our selling expenses decreased \$1.8 million in the third quarter of 2006 compared to the same period of 2005 as a result of our sales force reorganization in December 2005 and the timing of new product introductions.

Our retail segment SG&A increased 3.1 percentage points for the quarter ended September 30, 2006 compared to the quarter ended September 24, 2005 primarily due to indirect expenses incurred to sell SCUSA.

Amortization of Intangibles. For each of the quarters ended September 30, 2006 and September 24, 2005, amortization of intangibles was \$1.4 million.

Licensing Revenues. For the quarter ended September 30, 2006, licensing fees decreased \$0.4 million to \$2.2 million from \$2.6 million for the quarter ended September 24, 2005. Licensing fees decreased principally as a result of declining sales at one of our licensees that lost a major customer.

Interest Expense, Net. For each of the quarters ended September 30, 2006 and September 24, 2005, interest expense was \$18.0 million. Our non-cash interest expense for the third quarter of 2006 was \$5.3 million, which included \$4.8 million related to the accretion of the original issuance discount on our 10% senior discount notes.

Income Taxes. The combined federal, state and foreign effective income tax rate for the quarter ended September 30, 2006 of 29.8% differs from the federal statutory rate of 35.0% primarily due to the tax gain on the sale of SCUSA being less than the book gain, partially offset by state income tax expense. The combined federal, state and foreign effective income tax rate for the quarter ended September 24, 2005 of 43.0% differs from the federal statutory rate of 35.0% primarily due to state income tax expense, partially offset by an adjustment for federal and state income taxes based on actual year 2004 income tax returns filed in 2005.

Nine Months Ended September 30, 2006 as Compared to the Nine Months Ended September 24, 2005

Net Sales. The following table presents our net sales and the dollar amount and percentage change by segment for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005.

	2006	2005	\$ increase (decrease)	% increase (decrease)
	(in millions)			
Wholesale bedding segment	\$ 687.9	\$ 592.6	\$ 95.3	16.1%
Retail bedding segment prior to disposition of segment on August 29, 2006	61.5	59.5	2.0	3.4%
Eliminations	(12.6)	(11.6)	(1.0)	
Consolidated net sales	<u>\$ 736.8</u>	<u>\$ 640.5</u>	<u>\$ 96.4</u>	15.0%

For the nine months ended September 30, 2006, wholesale bedding segment net sales increased 16.1% compared to the same period of 2005 primarily as a result of (i) a 12.6% increase in our conventional bedding unit volume resulting in an estimated increase in wholesale bedding net sales of \$79.3 million and (ii) a 3.3% increase in our conventional bedding AUSP resulting in an estimated increase of wholesale bedding net sales of \$23.6 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 improved product offerings combined with a more effective sales approach following the sales force reorganization in December 2005. Our improvement in AUSP 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.

Partially offsetting the nine months wholesale bedding segment net sales increase, our sales reductions for cash consideration paid to our customers for certain promotional programs, allowances and volume rebates increased \$5.4 million to \$63.0 million for the nine months ended September 30, 2006 compared to \$57.6 million for the nine months ended September 24, 2005. Our sales reductions increased for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005 principally due to our growth in sales volume. As a percentage of our sales, our total co-op advertising expenditures, regardless of whether reported as a selling expense or a sales reduction, for the nine months ended September 30, 2006, was 0.5 percentage points higher than the total co-op advertising expenditures for the nine months ended September 24, 2005, primarily due to a shift in product mix and customer mix to products/customers that receive more selling support.

Retail bedding segment net sales increased \$2.0 million, or 3.4%, for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005 despite our retail bedding segment only having eight months of operations in 2006 as a result of our sale of SCUSA on August 29, 2006. Our retail bedding segment sales growth was due to the addition of new retail stores and an increase in same store sales for the eight months ended August 29, 2006 compared to the same period of 2005.

Gross Margin. The following table presents our gross profit, gross margin, and the gross margin percentage point change by segment for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005.

	Gross Profit		Gross Margin		Margin % Point Change
	2006	2005	2006	2005	
	(in millions)				
Wholesale bedding segment	\$ 292.9	\$ 247.9	42.6%	41.8%	0.8%
Retail bedding segment prior to disposition of segment on August 29, 2006	33.0	32.1	53.6%	54.0%	-0.4%
Eliminations	(0.1)	0.1			
Consolidated	<u>\$ 325.8</u>	<u>\$ 280.1</u>	44.2%	43.7%	0.5%

Our wholesale bedding segment gross margin for the nine months ended September 30, 2006, increased by 0.8 percentage points compared to the nine months ended September 24, 2005, principally due to an increase in our AUSP. Our conventional bedding cost per unit increased 1.3% for the nine months ended September 30, 2006 compared to the same period of 2005. This unit cost increase resulted from our material costs per unit increasing 5.5% due principally to inflation in polyurethane foam costs beginning in the fourth quarter of 2005. Partially offsetting the higher material costs, our conventional bedding labor and overhead costs per unit have decreased 6.4% for the nine months ended September 30, 2006 compared to the same period of 2005, principally as a result of favorable manufacturing efficiencies due to increased unit volume.

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 nine months ended September 30, 2006 compared to the nine months ended September 24, 2005.

	SG&A		As a % of Segment Net Sales		Margin %
	2006	2005	2006	2005	Point Change
	(in millions)				
Wholesale bedding segment	\$ 208.1	\$ 199.4	30.3%	33.6%	-3.3%
Retail bedding segment prior to disposition of segment on August 29, 2006	28.5	27.1	46.3%	45.6%	0.7%
Consolidated	\$ 236.6	\$ 226.5	32.1%	35.4%	-3.3%

As a percentage of wholesale bedding segment net sales, our wholesale bedding segment SG&A for the nine months ended September 30, 2006 declined 3.3 percentage points compared to the nine months ended September 24, 2005. SG&A decreased principally due to reductions in (i) our selling expenses of \$10.7 million, or 2.9 percentage points, primarily as a result of our sales force reorganization in December 2005 and the timing of new product introductions and (ii) our corporate function expenses of \$2.2 million, or 0.4 percentage points, due to a national leadership meeting having occurred in 2005, whereas no such event occurred in 2006.

Amortization of Intangibles. For each of the nine months ended September 30, 2006 and September 24, 2005, amortization of intangibles was \$4.2 million.

Licensing Revenues. For the nine months ended September 30, 2006, licensing fees decreased \$0.9 million to \$6.5 million from \$7.4 million for the nine months ended September 24, 2005. Licensing fees for the nine months ended September 24, 2005 included additional royalties of \$0.6 million related to an audit of a licensee.

Interest Expense, Net. For the nine months ended September 30, 2006, interest expense increased \$10.2 million to \$61.9 million from \$51.8 million for the nine months ended September 24, 2005. Interest expense increased principally due to the expensing of \$5.0 million of deferred financing fees associated with the repurchasing of our \$140.0 million senior unsecured term loan in connection with the execution of the amended and restated senior credit and guaranty agreement ("New Senior Credit Facility") on May 25, 2006 (this exchange of debt instruments is collectively referred to as the "Refinancing"). Additionally, in connection with the Refinancing, we incurred \$1.0 million of refinancing costs that were recorded as interest expense. Excluding the expenses related to the Refinancing, interest expense for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005 increased \$4.2 million due primarily to (i) higher LIBOR base rates on our senior credit facility, partially offset by lower average outstanding borrowings and reduced interest rate margins for our senior credit facility as a result of the Refinancing and (ii) increased non-cash interest on our 10% senior discount notes. Our non-cash interest expense for the nine months ended September 30, 2006 was \$20.3 million.

Income Taxes. The combined federal, state, and foreign effective income tax rate for the nine months ended September 30, 2006 of 31.3%, differs from the federal statutory rate of 35.0% primarily due to the tax gain on the sale of SCUSA being less than the book gain, partially offset by state income tax expense. The combined federal, state, and foreign effective income tax rate for the nine months ended September 24, 2005 of 42.1% differs from the federal statutory rate of 35.0% primarily due to state income tax expense, partially offset by an adjustment for federal and state income taxes based on actual year 2004 income tax returns filed in 2005.

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 uses of funds consists of payments of funding for working capital increases, principal and interest payments 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.

On May 25, 2006, Simmons Bedding executed the New Senior Credit Facility with a syndicate of lenders, which amends and restates its existing senior credit facility in its entirety. The New Senior Credit Facility provides for a \$75.0 million revolving credit facility and a \$492.0 million tranche D term loan facility. The proceeds from the New Senior Credit Facility were used to replace Simmons Bedding's \$350.0 million tranche C term loan and \$140.0 million senior unsecured term loan. Among other things, the New Senior Credit Facility reduces the applicable Eurodollar and Base interest rate margins for borrowings under the term loan. Subsequent to the Refinancing, Simmons Bedding voluntarily prepaid \$12.0 million of the tranche D term loan resulting in the next required principal payment of \$0.3 million being scheduled for September 2008.

On August 29, 2006, we sold SCUSA to an affiliate of Sleep Train for net cash proceeds of \$52.7 million subject to a final working capital adjustment.

On September 20, 2006, we entered into a definitive purchase agreement to acquire all the securities of Simmons Canada from SCI for approximately CAD 136.8 million (estimated \$123 million) in cash plus transaction fees. This transaction is expected to close in the fourth quarter of 2006. We plan to finance the acquisition from existing cash (\$101.7 million as of September 30, 2006), cash flow generated from operations, and availability under Simmons Bedding's existing revolving loan from its senior credit facility. To protect against a decrease in the value of the US dollar to the Canadian dollar between signing and closing of the acquisition, we entered into an option contract on September 21, 2006 to buy a notional amount of CAD 132.0 million on December 18, 2006 at a fixed exchange rate. The option contract is an effective economic hedge, but does not meet the criteria of a hedge for accounting purposes. Fluctuations in the fair value of the option contract are recorded in selling, general and administrative expense. As of September 30, 2006, we recognized a \$0.2 million loss related to the option contract.

Future principal payments of our debt are expected to be paid out of cash flows from operations, borrowings available under the senior credit facility or proceeds from the sale of assets. Historically, we have paid minimal federal income taxes as a result of net operating loss carryforwards. For 2006, we had net operating loss carryforwards for federal income tax purposes of \$121.7 million and state net operating loss carryforwards of \$95.7 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. For 2007, we believe that our cash payments for federal and state income taxes will increase significantly due to the estimated full utilization of our net operating loss carryforwards.

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

	Nine Months Ended	
	September 30, 2006	September 24, 2005
Statement of Cash Flow Data:		
Cash flows provided by (used in):		
Operating activities	\$ 64.9	\$ 31.9
Investing activities	43.5	(7.0)
Financing activities	(31.5)	(12.3)
Net effect of exchange rates	0.2	-
Increase in cash and cash equivalents	77.1	12.6
Cash and cash equivalents:		
Beginning of period	24.6	24.2
End of period	<u>\$ 101.7</u>	<u>\$ 36.9</u>

Nine Months Ended September 30, 2006 as Compared to Nine Months Ended September 24, 2005

Cash flows provided by Operating Activities. Our cash flows from operating activities increased \$33.0 million for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005 primarily due to our growth in net sales combined with our lower cost structure. Our working capital, exclusive of assets and liabilities held for sale, as a percentage of last twelve months net sales increased to 2.1% as of September 30, 2006 compared to 2.0% as of December 31, 2005.

Cash flows provided by (used in) Investing Activities. Our cash flows provided by investing activities increased \$50.5 million for the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005. We received \$52.7 million of net cash proceeds from the sale of SCUSA during the nine months ended September 30, 2006. We paid \$3.3 million of contingent cash consideration related to the acquisition of certain assets of Simmons Juvenile Products, Inc. ("Juvenile Acquisition") during the nine months ended September 24, 2005. Our expenditures for property, plant and equipment for the nine months ending September 30, 2006 were \$5.6 million more than such expenditures during the same period of 2005 principally due to an ongoing upgrade of our computer systems software.

Cash flows used in Financing Activities. Our cash flows used in financing activities increased \$19.2 million during the nine months ended September 30, 2006 compared to the nine months ended September 24, 2005 principally due to more voluntary payments on our senior credit facility. For the first nine months of 2006, we repaid \$30.0 million of bank debt (net of borrowings) compared to \$11.7 million for the first nine months of 2005.

Debt

The New Senior Credit Facility provides for a \$75.0 million revolving loan and a \$492.0 million tranche D term loan facility. The revolving loan will expire on the earlier of (a) December 19, 2009 or (b) as revolving credit commitments under the facility terminate. Simmons Bedding incurs a commitment fee of 0.5% per annum on the unused portion of its revolving credit facility. As of September 30, 2006, Simmons Bedding had availability to borrow \$65.0 million under the revolving loan after giving effect to \$10.0 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.

Prior to the Refinancing, Simmons Bedding prepaid \$19.9 million of its tranche C term loan. Subsequent to the Refinancing, Simmons Bedding voluntarily prepaid \$12.0 million of the tranche D term loan resulting in the next required principal payment of \$0.3 million being scheduled for September 2008. The tranche D term loans have mandatory quarterly principal payments of \$1.2 million from December 31, 2008 through December 31, 2010 and mandatory quarterly principal payments of \$117.2 million from March 31, 2011 through maturity on December 19, 2011. Depending on Simmons Bedding's leverage ratio, Simmons Bedding may be required to prepay a portion of the tranche D term loan with up to 50% of Simmons Bedding's excess cash flows (as defined in the New Senior Credit Facility) from each fiscal year.

The New Senior Credit Facility bears interest at Simmons Bedding's choice of the Eurodollar Rate or Base Rate (both as defined), plus the applicable interest rate margins as follows:

	<u>Eurodollar Rate</u>	<u>Base Rate</u>
Revolving loan	2.25%	1.25%
Tranche D term loan	2.00%	1.00%

The revolving loan applicable interest rate margins for both Eurodollar Rate loans and Base Rate loans are reduced based upon Simmons Bedding's leverage ratio. As a result of an upgrade in the Company's debt ratings on September 21, 2006, the tranche D term loan interest rate margin was reduced 25 basis points to 2.00%. The weighted average interest rate per annum in effect as of September 30, 2006 for the tranche D term loan was 7.18%.

Simmons Bedding has developed and implemented a policy to utilize extended Eurodollar contracts to minimize the impact of near term Eurodollar rate increases. For \$258.0 million of the tranche D 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 extended Eurodollar contracts resulted in Simmons Bedding fixing the interest rate on approximately 53% of its floating rate debt.

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 September 30, 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 net debt (debt less cash) to Adjusted EBITDA (leverage ratio), all as defined in the New 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 New 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 September 30, 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 6.15:1.00 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 the New 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 New 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 September 30, 2006 (dollar amounts in millions, except ratios). The terms and related calculations are defined in the New Senior Credit Facility.

	September 30, 2006
Calculation of minimum cash interest coverage ratio:	
Simmons Bedding twelve months ended adjusted EBITDA(1)	\$ 143.2
Simmons Bedding cash interest expense(2)	\$ 54.6
Actual interest coverage ratio(3)	2.62x
Minimum permitted interest coverage ratio	1.85x
Calculation of maximum leverage ratio:	
Simmons Company indebtedness	\$ 891.6
Less: 10% senior discount notes	196.8
Simmons Bedding indebtedness	694.8
Less: Simmons Bedding cash and cash equivalents(4)	30.0
Simmons Bedding net debt	\$ 664.8
Simmons Bedding twelve months ended adjusted EBITDA(1)	\$ 143.2
Actual leverage ratio(5)	4.64x
Maximum permitted leverage ratio	6.15x

- (1) Simmons Bedding's Adjusted EBITDA for the twelve months ended September 30, 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, state taxes in lieu of state income taxes and other non-recurring/non-cash charges as permitted under the New Senior Credit Facility. Additionally, Adjusted EBITDA is adjusted to exclude the operating results of SCUSA, which was sold on August 29, 2006, from the beginning of the last twelve month period and exclude the gain on the sale of SCUSA. The following table shows the calculation of Simmons Bedding's pro-forma Adjusted EBITDA to exclude SCUSA for the last twelve months ended September 30, 2006 (in millions):

Simmons Bedding twelve months ended September 30, 2006	\$ 150.8
SCUSA eleven months ended August 29, 2006	8.0
Eliminations eleven months ended August 29, 2006	(0.4)
	<u>\$ 143.2</u>

- (2) A calculation of Simmons Bedding's consolidated cash interest expense, as defined in the New Senior Credit Facility, for the twelve months ended September 30, 2006, as follows (in millions):

Simmons Company interest expense, net	\$ 80.5
Less: Simmons Company non-cash interest expense	(18.9)
Simmons Bedding interest expense, net	61.6
Add: Simmons Bedding interest income	0.9
Less: Call premium included in interest expense	(0.7)
Simmons Bedding gross interest expense	61.8
Less: Simmons Bedding non-cash interest expense	(7.2)
	<u>\$ 54.6</u>

- (3) Represents ratio of Adjusted EBITDA to consolidated cash interest expense.
(4) Our senior credit facility permits a maximum of \$30.0 million of cash to be netted against our debt for purposes of this covenant computation. Actual cash as of September 30, 2006 totaled \$101.7 million.
(5) Represents ratio of consolidated indebtedness less cash and cash equivalents to Adjusted EBITDA.

Off-Balance Sheet Arrangements

In connection with the sale of Gallery Corp. to Pacific Coast Mattress, Inc. ("PCM") on May 1, 2004, we continue to guarantee approximately \$0.5 million of PCM'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 September 30, 2006.

Seasonality/Other

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

Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 requires companies to accrue interest on the difference between the tax position recognized under FIN 48 and the amount previously taken or expected to be taken in a company's tax return. FIN 48 will be effective for us at the beginning of fiscal year 2007. We are in the process of evaluating the impact of this guidance on our consolidated financial statements and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 provides a common definition of fair value to be used throughout GAAP, which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 clarifies the principal that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 will be effective for us at the beginning of fiscal year 2007. We have not completed our analysis, but do not expect this statement to have a significant impact on our consolidated financial statements and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* ("SFAS 158"). SFAS 158 requires a Company to: (i) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in other comprehensive income. SFAS 158 would be effective for us at the beginning of fiscal year 2007. We are in the process of evaluating the impact of this guidance on our consolidated financial statements and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Under SAB 108, registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If material to the current year's income statement, correction of existing accumulated balance sheet misstatements (i.e., from immaterial errors in prior years) should be accomplished by correcting the financial statements of affected previous years. However, in such case, previously filed reports would not require amendment; rather, corrections should be made the next time such prior years' statements are filed with the SEC. SAB 108 is effective for our fiscal year ending December 30, 2006. We do not expect to change our current practice regarding accounting for misstatements and do not expect the need for restatement of prior periods as a result of SAB 108.

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:

- . competitive pricing pressures in the bedding industry;
- . legal and regulatory requirements;
- . the success of our new products;
- . our relationships with and viability of our major suppliers;
- . fluctuations in costs of our 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 our return rates and warranty claims;
- . our labor relations;
- . departure of our key personnel;
- . encroachments on our intellectual property;
- . our product liability claims;
- . our level of indebtedness;
- . interest rate risks;
- . compliance with covenants in our debt agreements;
- . a significant change to the timing of the closing of the Simmons Canada transaction;
- . our ability to successfully integrate Simmons Canada into its operations;
- . our ability to achieve the expected benefits from any personnel realignments; and
- . other risks and factors identified from time to time in our 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 or foreign currency option 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 D 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 53% 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 September 30, 2006 would result in an additional \$0.1 million and \$3.3 million of interest expense in 2006 and 2007, respectively.

Foreign Currency Risk

As more fully discussed in the Recent Events section, we have entered into a definitive purchase agreement to acquire Simmons Canada from SCI in the fourth quarter of 2006 for approximately CAD \$136.8 million (estimated \$123 million). To protect against a decrease in the value of the US dollar to the Canadian dollar between signing and closing of the acquisition, we entered into an option contract on September 21, 2006 to buy a notional amount of CAD 132.0 million on December 18, 2006 at a fixed exchange rate. The option contract is an effective economic hedge, but does not meet the criteria of a hedge for accounting purposes. Fluctuations in the fair value of the option contract are recorded in selling, general and administrative expense. As of September 30, 2006, we recognized a \$0.2 million loss related to the option contract.

Commodity Price Risk

The principal 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. For the first nine months of 2006, the costs of our raw materials have been above historical price averages and we expect prices to remain at current levels. 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 I 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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

(a) On November 10, 2006, the Company issued a press release announcing the Company's third quarter operating results and the appointment of Gary S. Matthews as its President effective December 1, 2006 ("Start Date"). Mr. Matthews will report to our Chairman and Chief Executive Officer, Charles R. Eitel, and will be responsible for the day-to-day management and operations of our business. Prior to joining Simmons, Mr. Matthews served as President and Chief Executive Officer of Sleep Innovations, Inc. from August 2005 to November 2006. From December 2001 to January 2005, Mr. Matthews was employed by Bristol-Myers Squibb Company where he most recently served as President, Worldwide Consumer Medicines and Specialty Pharmaceuticals. From 1999 to 2001, Mr. Matthews served as President and Chief Executive Officer of privately-held Derby Cycle Corporation. From 1996 to 1999, Mr. Matthews was employed by Diageo (Guinness) plc where he served in various roles including Managing Director Guinness, United Kingdom; and President and Chief Executive Officer, The Guinness Import Company, USA. Prior to joining Diageo (Guinness) plc, he served in various positions at PepsiCo, Inc. and McKinsey & Company. Mr. Matthews is also a director of Molson Coors Brewing Co. and Van Wagner, Inc. The press release is filed with this Form 10-Q as Exhibit 99.1, its contents are incorporated by reference into this Item 5.

In connection with Mr. Matthews' appointment as President of the Company, Mr. Matthews signed an employment agreement dated November 10, 2006 (the "Employment Agreement"). Under the terms of the Employment Agreement, Mr. Matthews will receive an annual salary of \$575,000 subject to annual merit increases and will be eligible for an annual bonus based on the Company's performance. Mr. Matthews will also participate in the Simmons Company Equity Incentive Plan, pursuant to which he will be issued 40,000 shares of Class B common stock and options to purchase 30,000 shares of Class B common stock on the Start Date, both of which awards will be subject to vesting and terms and conditions as provided in a restricted stock agreement and stock option agreement, respectively. Mr. Matthews is also required to invest \$250,000 of his personal funds in the Company's Class A common stock on the Start Date based on the then current fair market value of the stock as determined by the Company's Board of Directors. Also under the terms of the Employment Agreement, Mr. Matthews will receive, among other things, a starting bonus of \$600,000 and a relocation package from the Company.

Additionally, the Employment Agreement has an eighteen-month term with evergreen renewal provisions and contains usual and customary restrictive covenants, including eighteen-month non-competition provisions, non-disclosure of proprietary information provisions, provisions relating to non-solicitation of employees or customers and non-disparagement provisions. If Mr. Matthews is terminated without "cause" or departs for "good reason", he will be entitled to eighteen months of severance and a pro-rated bonus. If Mr. Matthews is not appointed Chief Executive Officer ("CEO") upon the departure of the Company's current CEO, Charles R. Eitel, and Mr. Matthews leaves the Company within 90 days of Mr. Eitel's departure, Mr. Matthews will be entitled to one-year severance and relocation expenses.

The Employment Agreement is filed with this Form 10-Q as Exhibit 10.2, its contents are incorporated by reference into this Item 5.

On October 6, 2006, the Company's indirect subsidiary, Simmons Bedding Company ("Simmons Bedding"), entered into the Second Amendment to Lease with Teachers Concourse, LLC (Landlord) (referred to as the "Corporate Lease Amendment"). Under the Corporate Lease Amendment, Simmons Bedding exercised its right to lease an additional 8,946 square feet of space at its corporate headquarters in Atlanta, Georgia through September 2011. The Corporate Lease Amendment is filed with this Form 10-Q as Exhibit 10.1, its contents are incorporated by reference into this Item 5.

(b) None

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: November 13, 2006 /s/ Charles R. Eitel
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: November 13, 2006

/s/ William S. Creekmuir
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 September 30, 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: November 13, 2006

/s/ Charles R. Eitel
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 September 30, 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: November 13, 2006

/s/ William S. Creekmuir
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.

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "Second Amendment"), is made effective as of the 6th day of October, 2006, by **TEACHERS CONCOURSE, LLC**, a Delaware limited liability company, successor in interest to Concourse I, Ltd. (as "Landlord"), and **SIMMONS BEDDING COMPANY**, a Delaware corporation, formerly known as Simmons Company (as "Tenant").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease Agreement, dated as of April 20, 2000, as amended by that certain First Amendment to Lease, dated July 20, 2000 (as amended, the "Lease"), for approximately 37,360 rentable square feet of space known as Suite 800 and approximately 11,685 rentable square feet of space known as Suite 770, for a total of approximately 49,045 rentable square of space (the "Premises") in that certain building known as Concourse Corporate Center I (the "Building"), as such space is more particularly described in the Lease; and

WHEREAS, Landlord and Tenant desire to modify and amend the Lease to exercise Tenant's right of first offer for the First Offer Space (as defined below), thereby expanding the Premises, and for the other purposes herein set forth.

NOW, THEREFORE, for and in consideration of the mutual promises, and for Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, paid by the parties hereto to one another, the receipt and sufficiency of which are acknowledged by the parties hereto, the parties hereto hereby covenant and agree as follows:

1. Defined Terms. All capitalized terms not defined in this Second Amendment shall have the same meaning as set forth in the Lease.

2. Exercise of Right of First Offer. From and after the earlier to occur of (i) the date the Tenant Improvements have been Substantially Complete for the First Offer Space (as hereinafter defined) or the date the Tenant Improvements would have been Substantially Complete in the absence of Tenant Delay, or (ii) the date Tenant occupies the First Offer Space or any portion thereof for the purpose of conducting business therefrom (the "Expansion Date"), the Premises shall be expanded to include an additional 8,946 rentable square feet of space, currently known as Suite 700 (the "First Offer Space") for a total of approximately 57,991 rentable square feet of space, which for all purposes of the Lease, shall constitute the Premises. As of the Expansion Date, Exhibit "A" to the Lease shall be supplemented by Exhibit "A-1" attached hereto.

3. Monthly Rental. As of the Expansion Date, Section 2(a) of the Lease shall be deleted in its entirety and replaced by the following:

"(a) Tenant shall pay to Landlord at the address of Landlord indicated herein, or at such other place Landlord designates without demand, deduction or setoff, "Monthly Rental" in advance the amounts set forth below:

Period	Monthly Rental Per Rentable Square Foot		Monthly Rental
	Annual Rental (Annualized Basis)		
Expansion Date - 9/30/07	\$28.13	\$1,631,286.80	\$135,940.56
10/1/07 - 9/30/08	\$29.42	\$1,706,095.20	\$142,174.60
10/1/08 - 9/30/09	\$30.78	\$1,784,962.90	\$148,746.90
10/1/09 - 9/30/10	\$32.19	\$1,866,730.20	\$155,560.85
10/1/10 - 9/30/11	\$33.67	\$1,952,556.90	\$162,713.07

4. First Offer Allowance. Landlord shall provide Tenant with a First Offer Allowance equal to \$103,362.30 (\$11.55 per rentable square foot in the First Offer Space). Tenant shall apply such First Offer Allowance to the cost of updating the First Offer Space; provided, however, the First Offer Allowance shall not apply to any of the improvement work in the First Offer Space described in Exhibit "C-1" attached hereto ("Landlord's Work"), as Landlord's Work shall be completed at Landlord's sole cost and expense. The provisions to Exhibit "C" to the Lease, as applicable to such update work, shall apply with respect to all improvements in the First Offer Space, except as expressly modified herein. Tenant shall pay Landlord promptly within thirty (30) days of being invoiced for the cost of any such improvements, excluding the cost of Landlord's Work, less the amount of such First Offer Allowance, provided Landlord submits its invoice to Tenant on or before the tenth (10th) day of the month; otherwise, Tenant shall reimburse Landlord no later than fifty (50) calendar days following its receipt of Landlord's invoice.

5. Modifications to Exhibit "C" to Lease.

(i) Definitions. The following definitions in Article I of Exhibit "C" to the Lease shall be modified as follows:

- (a) The term "First Offer Space" shall be substituted for the term "Premises" wherever "Premises" is used in Exhibit "C" to the Lease.
- (b) The defined term "Ceiling Allowance" shall be deleted from Article I of Exhibit "C" to the Lease and throughout Exhibit "C" wherever used.
- (c) The following definition shall be substituted for the definition of "Landlord's Architect" in Article I of Exhibit "C" to the Lease:

"Landlord's Architect shall mean Veenendaal-Cave."
- (d) The following definition shall be substituted for the definition of "Tenant's Architect" in Article I of Exhibit "C" to the Lease:

"Tenant's Architect shall mean Veenendaal Cave."
- (e) The following definition shall be substituted for the definition of "Tenant Improvement Allowance" in Article I of Exhibit "C" to the Lease:

"Tenant Improvement Allowance shall mean Eleven and 55/100 Dollars (\$11.55) multiplied by the rentable square feet in the First Offer Space."

(ii) Construction Schedule For First Offer Space. The following shall be substituted for Subparagraphs 1 - 9 of Section 2.01 of **Exhibit "C"** to the Lease, thereby replacing and superseding Subparagraphs 1 - 7 of Section 6 of the First Amendment:

1. As soon as reasonably possible (but in no event later than ten (10) days following full execution of this Second Amendment) Tenant shall provide to Landlord the Tenant Space Plans.
2. By the end of the fifth (5th) full Working Day after receipt of the Tenant Space Plans, Landlord shall review and provide detailed comments to such Tenant Space Plans.
3. By the end of the third (3rd) full Working Day after receipt of Landlord's comments to the Tenant Space Plans, Tenant's Architect shall resubmit to Landlord the Tenant Space Plans with such changes or information as requested by Landlord.
4. This process described in Section 2.01(2) and (3) shall continue until Landlord has satisfied itself that such proposed Tenant Space Plans are acceptable.
5. Within twenty (20) Working Days after final approval of the Tenant Space Plans, Tenant's Architect shall prepare and deliver to Landlord the prepared Tenant Improvement Construction Documents.
6. By the end of the fifth (5th) full Working Day after receipt of the Tenant Improvement Construction Documents, Landlord shall review and resubmit the same to Tenant's Architect, either with Landlord's consent or comments thereto.
7. By the end of the fifth (5th) full Working Day after receipt of Landlord's comments to the Tenant Improvement Construction Documents, Tenant's Architect shall resubmit to Landlord the Tenant Improvement Construction Documents with such changes or information as requested by Landlord.
8. The process described in Section 2.01(5), (6) and (7) shall continue until final approval by Landlord and Tenant and such documents shall constitute the final Tenant Improvement Construction Documents.
9. Any approval or consent by Landlord of any items submitted by Tenant to and/or reviewed by Landlord pursuant to this Work Letter shall be deemed to be strictly limited to an acknowledgement of approval or consent by Landlord thereto and shall not imply or be deemed to imply any representation or warranty by Landlord that the design is safe or structurally sound or will comply with any legal or governmental requirements. Any deficiency, mistake or error in design (expressly excluding the engineering drawings), although the same has the consent or approval of Landlord, shall be the sole responsibility of Tenant, and Tenant shall be liable for all costs and expenses which may be incurred and all delays suffered in connection with or resulting from any such deficiency, mistake or error in design."

(iii) Tenant's Agent. Bill Smith shall be replaced by Robert Worthen and Richard Gawlik, collectively, as Tenant's authorized representative, as described in Section 6.01 of **Exhibit "C"** to the Lease, for all purposes under **Exhibit "C"** to the Lease.

6. Tenant's Early Termination Right. Landlord and Tenant hereby acknowledge and agree that the Tenant's option to terminate the Lease early, which is set forth in Section 6 of the Special Stipulations, **Exhibit "F"** to the Lease, shall be applicable to the First Offer Space as well as to the original Premises. Furthermore, the parties hereby agree that the termination fee due upon any election by Tenant to terminate Tenant's lease of the First Offer Space pursuant to such option to terminate shall be equal to (i) \$60,073.24 in the event Tenant elects to terminate the Lease on or by September 9, 2008, or (ii) \$42,197.21 in the event Tenant elects to terminate the Lease on or by September 9, 2009, or (iii) \$22,252.59 in the event Tenant elects to terminate the Lease on or by September 9, 2010.

7. Notices and Payment of Rent.

Landlord has as its address for purposes of notice:

Teachers Concourse, LLC
c/o Cousins Properties Services LP
Five Concourse Parkway
Suite 1200
Atlanta, Georgia 30328-6111

Tenant shall pay Rent to Landlord at the following address:

P.O. Box 402852
Atlanta, Georgia 30384-2852

8. Patriot Act. Tenant (which for this purpose includes its partners, members, principal stockholders and any other constituent entities (i) has not been designated as a "specifically designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <http://www.treas.gov/ofac/t11sbn.pdf> or at any replacement website or other replacement official publication of such list; (ii) is currently in compliance with and will at all times during the Term (including any extension thereof) remain in compliance with the regulations of the Office of Foreign Asset Control of the Department of the Treasury and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto; and (iii) has not used and will not use funds from illegal activities for any payment made under the Lease.

9. No Other Modifications. Except as expressly modified herein, the Lease shall remain in full force and effect and, as modified herein, is expressly ratified and confirmed by the parties hereto. In the event of a conflict between the terms of the Lease and the terms of this Second Amendment, the terms of this Second Amendment shall control.

[SIGNATURES ON FOLLOWING PAGE]



IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the day, month and year first above written.

LANDLORD:

TEACHERS CONCOURSE, LLC,
a Delaware limited liability company,
successor in interest to Concourse I, Ltd.

By: /s/ Elizabeth Address
Elizabeth Address
Its: Assistant Secretary

TENANT:

SIMMONS BEDDING COMPANY,
a Delaware corporation,
formerly known as Simmons Company

By: /s/ Kristen K. McGuffey
Kristen K. McGuffey
Its: Senior Vice President and General Counsel

By: /s/ William S. Creekmuir
William S. Creekmuir
Its: Executive Vice President and Chief Financial Officer

Exhibit "A-1"

Space Plan of 8,946 RSF First Offer Space

[Missing Graphic Reference]

Simmons - First Amendment - 8.9.06

Exhibit "C-1"

Landlord's Work

Landlord, at Landlord's cost, will perform the following work in the First Offer Space.

1. Demolition and removal of the existing ceiling tile, HVAC supply/ return grilles, light fixtures, fire alarm components, and other non standard ceiling components.
2. Modify the existing 2'x 4' ceiling grid to the building standard 2'x 2' ceiling grid throughout.
3. Install and connect new building standard parabolic fluorescent light fixtures throughout.
4. Install and connect new HVAC supply/ return grilles throughout.
5. Supply new building standard 2' x 2' ceiling tile delivered to the First Offer Space.
6. Demolition and removal of the preaction fire protection riser and related components in the new IDF room # 715.
7. Demolition and removal of the following items in the new Open Area # 714 (previous tenant's data center).
 - a. Supplemental HVAC equipment.
 - b. UPS equipment.
 - c. Electrical panels, transformer, and electrical wiring serving the previous data center equipment.
 - d. Alarm system.
 - e. Walls, door, telephone backboard, phone/ data wiring, and other equipment comprising the existing data center electrical room.
 - f. Raised floor, glass partition walls, doors, and other related non standard building components.
 - g. All phone and data wiring throughout.
 - h. All non standard fire protection components.

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "Agreement") is made as of the 10th day of November, 2006, among **SIMMONS BEDDING COMPANY**, a Delaware corporation (the "Company"), **SIMMONS COMPANY**, a Delaware corporation ("Holdings"), and **GARY S. MATTHEWS**, an individual resident of the State of Connecticut (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company and Holdings desire that the Executive accept employment as President of the Company as of the Effective Date; and

WHEREAS, the Company, Holdings and the Executive each desire to enter into this Agreement and set forth in writing the terms and conditions of the Executive's employment with the Company;

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

SECTION 1. EMPLOYMENT.

1.1. Agreement. The Company hereby agrees to employ the Executive as of the Effective Date as its President, and the Executive hereby agrees to serve the Company in such capacity, in each case subject to the terms and conditions set forth herein.

1.2. Term. The period of the Executive's employment under this Agreement shall commence on the first actual working day of employment of the Executive (the "Effective Date"), and shall continue thereafter for a continuously (on a daily basis) renewing eighteen (18) month term, without any further action by either the Company or the Executive, unless either the Executive or the Company shall provide written notice to the other parties hereto not to renew such term, specifying in such notice the date of such non-renewal, in which case this Agreement shall expire on the date that is eighteen (18) months after the date specified in such non-renewal notice. Notwithstanding the foregoing, this Agreement may be earlier terminated by the Company or the Executive in accordance with the terms of Section 6 below. The date on which termination or expiration of this Agreement is effective pursuant to the provisions of this Section 1.2 or of Section 6 shall be referred to herein as the "Termination Date". For all purposes of this Agreement, references to the "Term" of the Executive's employment hereunder shall mean the period commencing on the Effective Date and ending on the Termination Date.

SECTION 2. POSITION AND DUTIES. The Executive shall serve as President of the Company. Executive's duties and responsibilities as the President of the Company shall include the day-to-day management and operation of the business, as well as those duties customarily associated with an officer with a similar title, and Executive shall be accountable to, and shall have such additional powers, duties and responsibilities as may from time to time be prescribed by, the Chairman of the Board of Directors of the Company (the "Company Board") and Chief Executive Officer, the Company Board or the Board of Directors of Holdings (the "Holdings Board"). The Executive shall perform and discharge, faithfully, diligently, competently and in good faith, such duties and responsibilities. The Executive (a) shall devote all of his business time and attention and his best efforts and ability to the business and affairs of the Company and its Subsidiaries and (b) shall not engage in other business activities whether or not compensated during the Term without the prior written consent of the Holdings Board (provided, however, that Executive may serve on the Board of Directors of up to two (2) for profit enterprises which are not engaged in a Competitive Business (currently, Molson Coors Brewing Co. and Van Wagner, Inc.), and may devote a reasonable amount of time and attention to the management of his personal affairs and investments or serving as a director or officer of any charitable, religious, civic, educational or trade organizations, so long as such activities, individually or in the aggregate, do not interfere with the performance of the Executive's duties and responsibilities under this Agreement). The services of the Executive shall be based at the offices of the Company in the Metropolitan Area; provided, however, that the Executive acknowledges that substantial travel will be required because the Company conducts operations and maintains facilities throughout the United States and elsewhere around the world.

SECTION 3. COMPENSATION. Subject to all of the terms and conditions hereof and to the performance by the Executive of his duties and obligations to the Company:

3.1. Salary. As compensation for services performed during the Term, the Company shall pay the Executive a salary at a rate of \$575,000 per annum or such other amount as may from time to time be established by the Holdings Board (such annual rate of salary in effect from time to time referred to as the "Salary"), payable at regular intervals in accordance with the Company's normal payroll practices now or hereafter in effect. The Executive shall have an annual review and the Salary may be increased, but not decreased, from time to time. Any and all increases in the Executive's Salary pursuant to this Section 3.1 shall cause the level of the Executive's Salary hereunder to be increased by the amount of each such increase for all purposes of this Agreement, and the increased level of Salary as provided in this Section 3.1 shall become the level of the Executive's Salary for the remainder of the Term unless and until there is a further increase in Salary as provided herein. Except as otherwise provided in this Agreement, the Salary shall be prorated for any period of less than a full fiscal year.

3.2. Annual Bonus. As additional compensation for services hereunder, the Executive shall be eligible for a bonus for each Bonus Year. The amount of any such bonus shall be determined based upon the achievement of specified levels of operating performance by the Company for such Bonus Year measured by the business plan approved by the Board for such fiscal year (the "EBITDA Performance"). The target bonus payable for any Bonus Year with respect to the EBITDA Performance shall equal 70% of the Salary. The actual bonus payable for any Bonus Year with respect to the EBITDA Performance shall be computed as set forth on Exhibit A attached hereto and incorporated herein by this reference; provided, however, that the actual bonus payable, if any, in for the fiscal year of termination shall be determined in accordance with the provisions in Section 7. Any bonus payable under this Section 3.2 is referred to herein as an "Annual Bonus". For the purpose of calculating Executive's Annual Bonus for each fiscal year pursuant to this Section 3.2, the target bonus payable with respect to such fiscal year shall equal 70% of Executive's actual salary earned by the Executive from the Company for such year (excluding any special bonuses paid pursuant to Section 3.4 below).

3.3. Restricted Stock Agreement; Stock Options, Class A Stock. (a) If the Executive makes the investment described in Section 3.3(b) below, the Executive shall be included as a participant in the Simmons Company Equity Incentive Plan, as amended from time to time (the "Plan"), pursuant to which Holdings will issue Executive on the Effective Date (i) 40,000 shares of the Class B Common Stock of Holdings ("Class B Shares"), subject to vesting and terms and conditions as provided in the restricted stock agreement between Holdings and the Executive dated as of the Effective Date (the "Restricted Stock Agreement") and (ii) options to purchase 30,000 shares of the Class B Common Stock of Holdings ("Stock Options"), subject to vesting and terms and conditions as provided in the stock option agreement between Holdings and the Executive dated as of the date of issuance (the "Stock Option Agreement"). The Class B Shares will be subject to the securityholders agreement between Holdings and Executive dated as of the same date ("Securityholders Agreement") and the registration rights agreement between Holdings and Executive dated as of the same date ("Registration Rights Agreement"). Executive will pay \$0.01 per Class B Share as well as the taxes due on the difference between the then current Fair Market Value (as defined in the Restricted Stock Agreement) as of the date of issuance and the \$0.01 per share paid. The Stock Options will have a strike price equal to the Fair Market Value (as defined in the Stock Option Agreement) as

of the Effective Date.

(b) The Executive will invest \$250,000 of his personal funds in Class A Common Stock of Holdings (“Class A Shares”) as of the Effective Date. The Class A Shares will be held pursuant to the terms of the Securityholders Agreement and the Registration Rights Agreement. Executive will pay Fair Market Value (as defined in the Securityholders Agreement) as of the Effective Date.

3.4 Signing Bonus. The Company will pay Executive a one-time bonus in an amount of \$600,000 on the Effective Date.

3.5. Business Expenses. During the Term, the Executive shall be entitled to receive prompt reimbursement by the Company for all reasonable business expenses incurred by him on behalf of the Company or any of its Subsidiaries or Affiliates in performing services hereunder; provided, however, that the Executive shall properly account therefor in accordance with requirements for federal income tax deductibility and the Company’s and/or Company Board’s policies and procedures. The Company shall pay the Executive’s legal expenses incurred in connection with the preparation, negotiation and execution of this Agreement and the related Agreements referenced herein, up to a maximum of \$25,000.

3.6. Fringe Benefits. At the election of the Executive and during the Term, the Executive shall be entitled to participate in or receive benefits under any life insurance, health and accident plans, retirement plans and other similar fringe benefit arrangements made generally available by the Company to its executives and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. These benefits include an annual executive physical, financial planning, an additional long term disability insurance policy provided at no cost to Executive, and a \$1.0 million term life insurance policy, convertible to whole life, which can be assumed by the Executive. Notwithstanding any other arrangements that the Company may make available from time to time to its other executives or key management employees, the Salary, the bonuses payable under this Agreement and participation in the Plan as provided in Section 3.3 of this Agreement shall be in lieu of the Executive’s participation in any other bonus, equity incentive or equity-type incentive plans established by the Company, except that the Executive shall be entitled to participate in any supplemental executive retirement plans, “401(k) plans” and profit sharing plans.

3.7. Vacations. During the Term, the Executive shall be entitled to four (4) weeks paid vacation in each year and shall also be entitled to all paid holidays given by the Company to its employees. The paid vacation days shall be prorated for any period of service hereunder less than a full year. The Executive shall not be entitled to cash compensation for any vacation time not taken during the Term and shall not be entitled to accrue unused vacation.

3.8. Transportation Stipend. During the Term, the Executive shall be entitled to a stipend of \$1,000.00 each month to cover expenses associated with transportation, including leasing or owning an automobile; provided, however, that the Executive shall properly account therefor on his federal and applicable state tax returns and related documentation in accordance with the requirements for federal income tax deductibility and the Company’s policies and procedures.

3.9. Relocation and Interim Housing. The Executive shall be entitled to participate in the Company’s Level 1 Relocation Package, eligibility for which shall continue for eighteen (18) months following the Effective Date. In addition, the Company will reimburse the Executive for interim housing and weekend travel expenses between the Metropolitan Area and Executive’s current residence, to a maximum amount of \$5,000.00 per month, until such time as the Executive has relocated to the Metropolitan Area; provided, however, that reimbursement is subject to the Executive submitting documentation substantiating such expenditures. The Executive agrees that he shall establish his primary residence in the Metropolitan Area within eighteen (18) months of the Effective Date. Payments pursuant to this Section 3.9 shall be net of any tax or other amounts required to be withheld by the Company under any applicable law or legal requirement.

SECTION 4. OFFICES; SUBSIDIARIES AND AFFILIATES; INDEMNIFICATION.

4.1. Generally. The Executive agrees to serve during the Term, if elected or appointed thereto, in one or more positions as an officer or director of the Company or any of its Subsidiaries or Affiliates, or as an officer, trustee, director or other fiduciary of any pension or other employee benefit plan of the Company or any of its Subsidiaries or Affiliates. Service in such additional positions will be without additional compensation except for reimbursement of reasonably related business expenses on the same terms as provided elsewhere in this Agreement.

4.2. Indemnification. The Company agrees that in connection with the Executive’s service in additional positions as provided under Section 4.1, the Executive shall be entitled to the benefit of any indemnification provisions in the charter and by-laws of the Company and any of its Subsidiaries and Affiliates for which the Executive serves in such an additional position and any director and officer liability insurance coverage carried by the Company and any of its Subsidiaries and Affiliates for which the Executive serves as an officer or director; provided, however, that this Section 4.2 shall not impose on the Company or any of its Subsidiaries or Affiliates any obligation to include any such indemnification provisions in its charter or by-laws or to maintain any such insurance coverage.

SECTION 5. RESTRICTED ACTIVITIES.

(A) Executive acknowledges that (1) the Company has separately bargained and paid additional consideration for the restrictive covenants herein; and (2) the Company will provide certain benefits to Executive hereunder in reliance on such covenants in view of the unique and essential nature of the services Executive will perform on behalf of the Company and its Subsidiaries and Affiliates and the great, immediate and irreparable injury that would befall the Company, its Subsidiaries and Affiliates should Executive breach such covenants.

(B) Executive further acknowledges that his services are of a special, unique and extraordinary character and that his position with the Company will place him in a position of confidence and trust with employees of the Company and its Subsidiaries and Affiliates and with the Company’s other constituencies and will bring him into close contact with many of the Company’s, its Subsidiaries’ and Affiliates’ Customers, Customer Prospects, Vendors, Trade Secrets, and Confidential Information.

(C) Executive further acknowledges that the type and periods of restrictions imposed by the covenants in this Section 5 are fair, 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 and that such restrictions will not prevent Executive from earning a livelihood.

(D) Having acknowledged the foregoing, Executive covenants and agrees with Company as follows:

5.1. Duty of Confidentiality. Executive agrees that during his employment with the Company and for a period of five (5) years following the termination of such employment for any reason, Executive shall not directly or indirectly divulge or make use of any Confidential Information outside of his employment with the Company (so long as the information remains confidential) without the prior written consent of the Company. Executive 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. Executive further agrees that if he is questioned about information subject to this agreement by anyone not authorized to receive such information, Executive will notify the Company’s General Counsel within 24

hours. Executive 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.

5.2. Return of Confidential Information And Company Property. Executive agrees to return all Confidential Information and/or Trade Secrets within three (3) calendar days following the termination of his employment for any reason. To the extent Executive maintains Confidential Information and/or Trade Secrets in electronic form on any computers or other electronic devices owned by him, Executive 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. Executive also agrees to return all property in his possession at the time of the termination of his 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 Executive, all of which shall remain the sole and exclusive property of the Company.

5.3. Proprietary Rights. Proprietary Rights shall be promptly and fully disclosed by Executive to the Company's General Counsel and shall be the exclusive property of the Company as against Executive and Executive's successors, heirs, devisees, legatees and assigns. Executive hereby assigns to the Company his 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 Executive as aforesaid. All copyrightable Proprietary Rights shall be considered "works made for hire." Executive 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 Executive and Executive's successors, heirs, devisees, legatees and assigns under this Section 5.3, or to vest in the Company title to such Proprietary Rights as against Executive and Executive's successors, heirs, devisees, legatees and assigns, the expense of securing any such patent or copyright, however, to be borne by the Company.

5.4. Non-Competition. Executive covenants and agrees that, during the term of his employment with the Company and for eighteen (18) months after the termination thereof, regardless of the reason for the employment termination, Executive will not, directly or indirectly, anywhere in the Continental United States or Canada, on behalf of any Competitive Business serve in a senior executive or similar capacity, whether as owner, partner, investor, consultant, agent, employee or co-venturer, or undertake any planning for any Competitive Business.

5.5. Non-Solicitation of Customers, Customer Prospects, and Vendors. Executive also covenants and agrees that during the term of his employment with the Company and for eighteen (18) months after the termination thereof, regardless of the reason for the employment termination, Executive will not, directly or indirectly, solicit or attempt to solicit any business from any of the Company's Customers, Customer Prospects, and/or Vendors with whom he had business related contact during the last two (2) years of his employment with the Company.

5.6. Non-Solicitation of Employees. Executive also covenants and agrees that during the term of his employment with the Company and for eighteen (18) months after the termination thereof, regardless of the reason for the employment termination, Executive will not, directly or indirectly, on his 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 Executive had personal contact or supervised while performing his Job Duties, to terminate their employment relationship with the Company.

5.7. No Disparagement. (a) Executive will not make any negative, disparaging or defamatory statement, comment, or remark, directly or indirectly, either in writing or any other medium, regarding the Company, Thomas H. Lee Partners, or any of their respective officers, directors, employees, affiliates, subsidiaries, successors and assigns, compelled truthful testimony under oath being expressly excepted from this Section 5.7 and permitted.

(b) Following the termination of the Executive's employment for any reason, none of the Company, Holdings or the executive leadership team and General Counsel of the Company or Holdings will make any negative, disparaging or defamatory statement, comment, or remark, directly or indirectly, either in writing or any other medium, about the Executive externally, compelled truthful testimony under oath being expressly excepted from this Section 5.7 and permitted.

5.8. False Claims Representations, Cooperation and Promises. Executive also agrees to disclose to the Company any information he learns concerning any conduct involving the Company that he has any reason to believe may be unlawful. Executive promises to cooperate fully with the Company during and after his employment with the Company in any investigation the Company undertakes into matters occurring during his employment with Company. Executive agrees that, as and when requested by the Company whether during or after his employment with the Company, he will fully cooperate with Company in effecting a smooth transition of his responsibilities to others. If requested by the Company, Executive will promptly and fully respond to all inquiries from the Company and its representatives relating to any claims or lawsuits which relate to matters which occurred during his employment with the Company. If Executive is contacted as a potential witness to any claim or in any litigation at any time, he will notify Company of any such contact or request as promptly as practicable (but in no event more than five (5) business days) after learning of it and will permit the Company to take all steps it deems to be appropriate, if any, to prevent his involvement, or to be present during any such discussions. This Section does not prohibit Executive's participation as a witness to the extent otherwise legally required but does require that Executive provide Company with notice and the opportunity to object and/or participate.

5.9. Outside Activities. The Executive agrees that, during his employment with the Company, he will not undertake any outside activity (except as explicitly allowed pursuant to Section 2), whether or not competitive with the business of the Company or any of its Subsidiaries or Affiliates, that could reasonably give rise to a conflict of interest with his duties and obligations to the Company or any of its Subsidiaries or Affiliates.

5.10. Ownership of Securities. Notwithstanding the provisions set forth herein, the Executive shall have the right to (a) invest in or acquire any class of securities issued by any Person not engaged in a 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 of securities which is (i) issued by any Person engaged in a Competitive Business, and (ii) publicly traded on a national securities exchange or over-the-counter market.

SECTION 6. TERMINATION. Subject to the respective continuing obligations of the parties hereto, including those set forth in Section 5, the Executive's employment by the Company hereunder may be terminated prior to the expiration of the Term as follows:

6.1. Death. The Executive's employment hereunder shall terminate upon his death.

6.2. Incapacity. If the Executive shall have been unable to perform his duties hereunder by reason of any physical or mental illness, injury or other incapacity (a) for any period of sixty (60) consecutive days or (b) for a total of one hundred twenty (120) days in any period of twelve (12) consecutive calendar months, in the reasonable judgment of the Holdings Board, after consultation with such experts, if any, as the Holdings Board may deem necessary or advisable, the Company may terminate the Executive's employment hereunder by written notice to the Executive.

6.3. Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon written notice to the Executive. For purposes of this

Agreement, the Company shall have “Cause” to terminate the Executive’s employment hereunder upon: (a) the Executive’s breach of any of his material obligations set forth in this Agreement, which breach, if capable of being cured, is not cured within fifteen (15) days after receipt by the Executive of written notice from the Holdings Board of such breach; (b) the Executive’s breach of his fiduciary duties involving a matter of material consequence as an officer or director of the Company or any of its Subsidiaries or Affiliates, or as an officer, trustee, director or other fiduciary of any pension or employee benefit plan of the Company or any of its Subsidiaries or Affiliates, which breach, if capable of being cured, is not cured within fifteen (15) days after receipt by the Executive of written notice from the Holdings Board of such breach; or (c) the Executive’s commission of a felony involving fraud, personal dishonesty or moral turpitude (whether or not in connection with his employment).

6.4. Other than for Cause. The Company may terminate the Executive’s employment hereunder other than for Cause at any time upon written notice to the Executive.

6.5. Good Reason. The Executive may terminate the Executive’s employment hereunder for Good Reason at any time upon sixty (60) days’ prior written notice to the Company. In the event of termination of the Executive pursuant to this Section 6.5, the Holdings Board or the Company Board may elect to waive the period of notice or any portion thereof. For the purposes of this Agreement, the Executive shall have “Good Reason” to terminate the Executive’s employment hereunder upon: (a) material diminution in the nature or scope of Executive’s responsibilities, duties or authority, in each case except in the event of termination of the Executive’s employment pursuant to Section 6.1, 6.2, 6.3 or 6.6; provided, however, that the Company’s failure to continue Executive’s appointment or election as a director or officer of any of its Affiliates and any diminution of the business of the Company or any of its Affiliates, including without limitation the sale or transfer of any or all of the assets of the Company or any of its Affiliates, shall not constitute “Good Reason”, (b) material failure of the Company to provide Executive the Salary and benefits in accordance with the terms of Section 3 hereof, or (c) failure of the Company to indemnify the Executive (or advance expenses in connection with indemnification) in connection with the Executive’s services hereunder as required by the Company under law or pursuant to its charter, by-laws or other contractual arrangements with the Executive then in effect, which failure shall not have been cured within fifteen (15) days after receipt by the Company of written notice from the Executive of such breach.

6.6. Other than for Good Reason or Justifiable Cause. The Executive may terminate his employment hereunder at any time upon sixty (60) days prior written notice to the Company. In the event of termination of the Executive pursuant to this Section 6.6, the Holdings Board may elect to waive the period of notice, or any portion thereof.

6.7 Justifiable Cause. The Executive may terminate his employment for “Justifiable Cause” upon sixty (60) days prior written notice to the Company at any time within ninety (90) days after the failure of the Company to appoint the Executive as Chief Executive Officer of the Company promptly after the termination, for any reason, of Charles Eitel as Chief Executive Officer of the Company.

SECTION 7. COMPENSATION UPON TERMINATION.

7.1. Death. In the event of the Executive’s death during the Term, the Company shall pay or transfer, as the case may be, to the Executive’s designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate, (1) his Salary that is earned and unpaid at the date of death and (2) on the earlier of (i) the date of the release of the audited financial statements of the Company for the Bonus Year during which death occurs or (ii) the date which is one hundred twenty (120) days after the end of such Bonus Year, an amount equal to the product of (x) the Annual Bonus that the Executive would otherwise have earned for such Bonus Year if death had not occurred, multiplied by (y) a fraction, the numerator of which is the number of days from the beginning of such Bonus Year until the date of death and the denominator of which is 365.

7.2. Incapacity. If the Executive’s employment shall be terminated by reason of his incapacity pursuant to Section 6.2, then the Company shall (1) continue to pay the Executive his Salary, and the Executive shall continue to participate in the employee benefit, retirement, compensation plans and other perquisites as provided in Section 3, through the Termination Date, and (2) pay the Executive on the earlier of (i) the date of the release of the audited financial statements of the Company for the Bonus Year during which termination pursuant to Section 6.2 occurs or (ii) the date which is one hundred twenty (120) days after the end of such Bonus Year, an amount equal to the product of (x) the Annual Bonus that the Executive would otherwise have earned for such Bonus Year if termination pursuant to Section 6.2 had not occurred, multiplied by (y) a fraction, the numerator of which is the number of days from the beginning of such Bonus Year until the date of termination pursuant to Section 6.2 and the denominator of which is 365.

7.3 Cause or Without Good Reason. If the Company shall terminate the Executive’s employment hereunder for Cause pursuant to Section 6.3, or the Executive shall terminate the Executive’s employment hereunder without Good Reason pursuant to Section 6.6, the Company shall have no further obligations to the Executive under this Agreement other than the payment of his Salary through the Termination Date.

7.4. Other than for Cause; Good Reason.

(a) If the Company shall terminate the Executive’s employment hereunder without Cause pursuant to Section 6.4 or the Executive shall terminate his employment hereunder for Good Reason pursuant to Section 6.5, then:

(1) the Company shall pay to the Executive:

(A) as soon as reasonably practicable after the Termination Date, his Salary through the Termination Date;

(B) as soon as reasonably practicable following the last day of the month in which the Termination Date occurs, his Annual Bonus as described in Section 3.2, subject to the following sentence. For purposes of computing the percentage of Targeted EBITDA which has been achieved pursuant to Exhibit A (the “Applicable Percentage”), the Company shall compare (i) the actual EBITDA achieved from the beginning of the fiscal year in which the Termination Date occurs through the last day of the month in which the Termination Date occurs to (ii) the budgeted EBITDA from the beginning of the fiscal year in which the Termination Date occurs through the last day of the month in which the Termination Date occurs. The amount of the Annual Bonus payable to the Executive under this Section 7.4(a)(1)(B) shall be equal to (x) the applicable percentage of Salary set forth opposite the Applicable Percentage on Exhibit A, multiplied by (y) the Executive’s Salary paid or payable from the beginning of the fiscal year in which the Termination Date occurs through the Termination Date; and

(C) for a period of eighteen (18) months after the Termination Date, severance at a rate equal to 100% of his Salary in effect at the time notice of termination is given;

(2) until the earlier to occur of (A) the passage of eighteen (18) months after the Termination Date or (B) the date on which the Executive commences other employment in connection with which the Executive is eligible to receive medical and dental benefits (including self-employment or engaging in an enterprise as a sole proprietor or partner) (the “Benefits Termination Date”), if the Executive was participating in any Company medical, vision and dental plans pursuant to Section 3.6 and subject to any employee contribution applicable to Executive as of the Termination Date, the Company shall contribute to the premium cost of Executive’s coverage and that of Executive’s qualified dependents under its medical, vision, and dental plans at the same rate that it contributes to the premium cost for its active executives and their qualified dependents.

(b) The obligations of the Company to the Executive under this Section 7.4 (other than Section 7.4(a)(1)(A)) are conditioned upon the Executive's signing a release of claims in the form of Exhibit B (the "Release") within twenty-eight (28) days of the date on which notice of termination is given and upon such Release remaining in full force and effect thereafter. All severance payments under this Section 7.4 will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company and will begin at the Company's next regular payroll period following the effective date of the Release, but shall be retroactive to the Termination Date.

7.5 Justifiable Cause. If the Executive shall terminate the Executive's employment hereunder for Justifiable Cause pursuant to Section 6.7, then (a) as soon as reasonably practicable after the Termination Date, the Company shall pay his Salary through the Termination Date, (b) the Company shall pay to the Executive for a period of twelve (12) months after the Termination Date, severance at a rate equal to 100% of his Salary in effect at the time notice of termination is given, and (c) the Executive shall be entitled to participate in the Company's Level 1 Relocation Package with respect to the Executive's relocation from the Metropolitan Area to another location in the United States. The obligations of the Company to the Executive under this Section 7.5 (other than Section 7.5(a)) are conditioned upon the Executive's signing the Release within twenty-eight (28) days of the date on which notice of termination is given and upon such Release remaining in full force and effect thereafter. All severance payments under this Section 7.5 will be in the form of salary continuation, payable in accordance with the normal payroll practices of the Company and will begin at the Company's next regular payroll period following the effective date of the Release, but shall be retroactive to the Termination Date.

7.6 Early Termination of Severance Benefits. If the Executive's employment hereunder is terminated by the Company without Cause pursuant to Section 6.4 or the Executive shall terminate his employment hereunder for Good Reason pursuant to Section 6.5 or the Executive shall terminate his employment hereunder for Justifiable Cause, and Executive subsequently engages in the activities prohibited by Section 5, then the Company may thereafter immediately terminate and shall not be required to continue on behalf of the Executive or his dependents and beneficiaries any compensation provided for in Section 7.4 or Section 7.5, as the case may be, other than those benefits that the Company may be required to maintain for the Executive under applicable law.

7.7 Continuation of Health Care Benefits. If Executive was enrolled in the Company's medical, vision, and/or dental plans as of the Termination Date, then upon the expiration of the Company's obligations pursuant to this Section 7 with respect to such medical, vision and/or dental benefits, the Executive may elect to continue Executive's participation and that of Executive's qualified dependents in those plans for the remainder of the COBRA period, if any, by paying the full premium cost plus an administrative fee, without regard to any provision of this Agreement.

7.8 Post-Termination Obligations Generally. Except as expressly set forth in this Section 7, and in the Restricted Stock Agreement, Stock Option Agreement, the Securityholders Agreement and Registration Rights Agreement, the Company and Holdings shall have no further obligations to the Executive following expiration of the Term, and performance by the Company and/or Holdings of any obligation specifically provided in this Section 7 shall constitute full settlement of any claim that the Executive may have on account of such termination against the Company and/or Holdings or their respective Subsidiaries and Affiliates and all of their respective past and present officers, directors, stockholders, controlling Persons, employees, agents, representatives, successors and assigns and all other others connected with any of them, both individually and in their official capacities.

7.9 Payments after Death. Should the Executive die after the termination of his employment with the Company while any amounts are payable to him hereunder, this Agreement shall inure to the benefit of and be enforceable by Executive's executors, administrators, heirs, distributees, devisees and legatees, and all amounts payable hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there is no such designee, to his estate.

7.10 Stock Repurchases. Upon termination of the Executive for any reason, Holdings shall have the right to repurchase the Executive's vested and unvested Class B Shares and Class A Shares pursuant to the terms of the Restricted Stock Agreement, Stock Option Agreement, Securityholders Agreement and Registration Rights Agreement (collectively, the "Related Agreements"). For purposes of each of the Related Agreements, the Executive shall be considered a "Senior Manager" as used and defined in such Related Agreement. For purposes of Section 3.5 of the Securityholders Agreement, a termination by the Executive for Justifiable Cause shall have the same consequences as a termination for "good reason" thereunder.

SECTION 8. CONFLICTING AGREEMENTS. The Executive hereby represents and warrants that the execution of this Agreement and the performance of the Executive's obligations hereunder will not breach or be in conflict with any other agreement to which the Executive is a party or by which the Executive is bound and that the Executive is not now subject to any covenants against competition, non-solicitation or similar covenants that would affect the performance of the Executive's obligations hereunder or would restrict the Company in its operations, including hiring any additional executives. The Executive will not disclose to or use on behalf of Holdings or the Company any confidential or proprietary information or trade secrets of a third party without such party's consent.

SECTION 9. WITHHOLDING. Except as otherwise expressly provided, all payments made by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under any applicable law or legal requirement.

SECTION 10. NOTICES. All notices, requests and demands to or upon the parties hereto to be effective shall be in writing, by facsimile, by overnight courier or by registered or certified mail, postage prepaid and return receipt requested, and shall be deemed to have been duly given or made upon: (a) delivery by hand, (b) two business days after being sent by nationally recognized overnight courier; or (c) in the case of transmission by facsimile, one business day after when confirmation of receipt is obtained. Such communications shall be addressed and directed to the parties as follows (or to such other address as either party shall designate by giving like notice of such change to the other party):

If to the Executive:

Gary S. Matthews
130 Lower Cross Road
Greenwich, CT 06831

with a copy to:

Schiff Hardin LLP
6600 Sears Tower
Chicago, IL 60606
Attention: John F. Adams
Facsimile: (312) 258-5600

If to the Company:

Simmons Bedding Company
One Concourse Parkway, Suite 800
Atlanta, Georgia, 30328
Attention: Chief Executive Officer, General Counsel
and Senior Vice President - Human Resources
Facsimile: (770) 206-2669

with copies to:

Thomas H. Lee Partners, L.P.
100 Federal Street, 35th Floor
Boston, MA 02109
Attention: Scott A. Schoen
Todd M. Abbrecht
George Taylor
Facsimile: (617) 227-3514

and

Weil, Gotshal & Manges, LLP

100 Federal Street, 34th Floor

Boston, Massachusetts 02110

Attention: Marilyn French

Facsimile: (617) 772-8333

SECTION 11. DEFINITIONS; CERTAIN RULES OF CONSTRUCTION. Certain capitalized terms are used in this Agreement with the specific meanings defined below in this Section 11. Except as otherwise explicitly specified to the contrary or unless the context clearly requires otherwise, (a) the capitalized term "Section" refers to sections of this Agreement, (b) the capitalized term "Exhibit" refers to exhibits to this Agreement, (c) references to a particular Section include all subsections thereof, (d) the word "including" shall be construed as "including, without limitation", and (e) references to "\$" mean United States dollars.

11.1. "Affiliate" shall mean (a) any Person directly or indirectly controlling, controlled by or under direct or indirect common control with the Company (or other specified Person), (b) any other Person which, together with its Affiliates (as defined in clause (a) above), shall, directly or indirectly, own beneficially or control the voting of at least 10% of the ownership interest in the Company (or other specified Person) and (c) any other Person of which the Company (or other specified Person) and its Affiliates (as defined in clauses (a) and (b) above) shall, directly or indirectly, own beneficially or control the voting of at least 10% of any class of outstanding capital stock or other evidence of beneficial interest or of any interest as a general partner or joint venturer.

11.2. "Agreement" is defined in the Preamble to this Agreement.

11.3. "Annual Bonus" is defined in Section 3.2.

11.4. "Benefits Termination Date" is defined in Section 7.4(a)(3).

11.5. "Bonus Year" means fiscal year of the Company, provided, however, that in the event the fiscal year of the Company is changed, any calculations made under Section 3.2 and Exhibit A hereto shall be proportionately adjusted as the Board, in its sole and absolute discretion, shall deem appropriate.

11.6. "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.

11.7. "Cause" is defined in Section 6.3.

11.8. "Common Stock" means the common stock, \$.01 par value, of Holdings.

11.9. "Class A Shares" is defined in Section 3.3

11.10 "Class B Shares" is defined in Section 3.3

11.11. "Company" is defined in the preamble to this Agreement.

11.12. "Company Board" is defined in Section 2.

11.13. "Competitive Business" means 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., and/or any licensee of such entity, that develops, manufactures, markets, distributes, and/or sells any of the sleep products described in Section 11.6.

11.14. "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 you will learn of in connection with your 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 your attorney, spouse, or professional tax advisor and, even as to such a person, only if the person agrees to honor this confidentiality requirement; (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 you may be provided access to by the Company and/or may create; (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 Section 11.6.

11.15. "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 Section 11.6.

11.16. "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 Section 11.6.

11.17. "\$" is defined in the introductory paragraph to this Section 11.

11.18. "EBITDA Performance" is defined in Section 3.2.

11.19. "Effective Date" is defined in the preamble.

11.20. "Executive" is defined in the preamble.

11.21. "Exhibit" is defined in the introductory paragraph to this Section 11.

11.22. "Good Reason" is defined in Section 6.5.

11.23. "including" is defined in the introductory paragraph to this Section 11.

11.24. "Holdings" means Simmons Company, a Delaware corporation.

11.25. "Holdings Board" is defined in Section 2.

11.26. "Justifiable Cause" is defined in Section 6.7.

11.27. "Metropolitan Area" means the Atlanta, Georgia metropolitan area.

11.28. "Person" means any individual, partnership, corporation, association, trust, joint venture, limited liability company, unincorporated organization or entity, and any government, governmental department or agency or political subdivision thereof.

11.29. "Plan" is defined in Section 3.3.

11.30. "Products" means all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its Subsidiaries or Affiliates, together with all services provided or planned by the Company or any of its Subsidiaries or Affiliates, during the Executive's employment.

11.31. "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 Executive (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 Executive's, 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 Executive was or is an employee, officer, or director of the Company.

11.32. "Related Agreements" is defined in Section 7.10.

11.33. "Release" is defined in Section 7.4(b).

11.34. "Registration Rights Agreement" is defined in Section 3.3.

11.35. "Restricted Stock Agreement" is defined in Section 3.3.

11.36. "Salary" is defined in Section 3.1.

11.37. "Section" is defined in the introductory paragraph to this Section 11.

11.38. "Securityholders Agreement" is defined in Section 3.3.

11.39. "Stock Options" are defined in Section 3.3.

11.40. "Stock Option Agreement" is defined in Section 3.3.

11.41. "Subsidiary" means any Person of which the Company (or other specified Person) shall, directly or indirectly, own beneficially or control the voting of at least a majority of the outstanding capital stock (or other shares of beneficial interest) entitled to vote generally or at least a majority of the partnership, joint venture or similar interests, or in which the Company (or other specified Person) or a Subsidiary thereof shall be a general partner or joint venturer without limited liability.

11.42. "Term" is defined in Section 1.2.

11.43. "Termination Date" is defined in Section 1.2.

11.44. "Trade Secret" means Confidential Information which meets the additional requirements of the Delaware Uniform Trade Secrets Act ("DUTSA"), 6 Del. Code Ann. §§ 2001-2011, and/or under any other applicable law.

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

SECTION 12. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is approved by the Board and agreed to in writing by the Executive and such officer as may be specifically authorized by the Board in connection with such approval. No waiver by either party hereto at any time of compliance with or of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

SECTION 13. GOVERNING LAW AND REMEDIES. In addition to any other remedies at law or in equity it may have, each party shall be entitled to seek equitable relief, including injunctive relief and specific performance, in connection with a breach of the provisions of this Agreement. The Company and Executive acknowledge and agree that they are bound by their arbitration obligations under Exhibit C attached hereto, which the Company and Executive also hereby agree to execute contemporaneously and is an integral part of this Agreement. The Company and Executive 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; provided, however, 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/GSM Your initials to acknowledge agreement to Governing Law and Remedies provision in Section 13.

SECTION 14. SEVERABILITY. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. COUNTERPARTS. This Agreement may be executed in any one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. Executed counterparts may be delivered by facsimile transmission.

SECTION 16. ENTIRE AGREEMENT. This Agreement, the Plan, the Restricted Stock Agreement, Securityholders Agreement and Registration Rights Agreement constitute the entire agreement between the parties hereto, and supersede any and all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of the Executive's employment with the Company.

SECTION 17. ASSIGNMENT. This Agreement shall inure to the benefit of and be binding upon (a) the Executive, his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees and (b) the Company, Holdings and their respective successors (including by means of reorganization, merger, consolidation or liquidation) and permitted assigns. The Company or Holdings may assign this Agreement to any of its Subsidiaries or to any successor of the Company or Holdings by reorganization, merger, consolidation or liquidation and any transferee of all or substantially all of the business or assets of the Company or Holdings or of any division or line of business of the Company or Holdings with which the Executive is at any time associated. The Company requires the personal services of the Executive hereunder and the Executive may not assign this Agreement.

[Signatures next page]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement, or caused this Agreement to be executed and delivered by its duly authorized officer, as the case may be, all as of the date first above written.

SIMMONS BEDDING COMPANY

By: /s/Charles R. Eitel
Name: Charles R. Eitel
Its: Chairman and CEO

SIMMONS COMPANY

By: /s/Charles R. Eitel
Name: Charles R. Eitel
Its: Chairman and CEO

/s/Gary S. Matthews
GARY S. MATTHEWS

Exhibit A

COMPUTATION OF EBITDA PERFORMANCE

<u>% of Budgeted EBITDA Target</u>	<u>% of Annual Bonus</u>	<u>% of Salary</u>
<90 ²	0	0
90	9.09	6.363
91	18.18	12.726
92	27.27	19.089
93	36.36	25.452
94	45.45	31.815
95	54.55	38.185
96	63.64	44.548
97	72.73	50.911
98	81.82	57.274
99	90.91	63.637
100	100	70

¹ The budgeted EBITDA target will be reset each year. The Board will approve the budgeted EBITDA target for any fiscal year on or prior to the later of (a) the date which is 45 days after the end of such fiscal year or (b) the date which is 15 days after the date of release of the audited financial statements of the Company for the immediately preceding fiscal year.

² Upon attaining 100% of budgeted EBITDA target, the amount of the Annual Bonus will be increased thereafter by 4% of Salary for each 1% increase in EBITDA in excess of 100% of the Target. The Annual Bonus is not capped.

EXHIBIT B - RELEASE OF CLAIMS

FOR AND IN CONSIDERATION OF the special payments and benefits to be provided in connection with the termination of my employment in accordance with the terms of the Employment Agreement dated as of [REDACTED] 2006 (as amended and in effect from time to time, the "Employment Agreement") among SIMMONS COMPANY, a Delaware corporation ("Holdings"), and SIMMONS BEDDING COMPANY, a Delaware corporation, along with its subsidiaries, parents, joint ventures, affiliated entities, and includes its successors and assigns or any such related entities (the "Company"), and me, I, on my own behalf and on behalf of my personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees and all others connected with me, hereby release and forever discharge the Company and their respective Affiliates (as defined in the Employment Agreement) and all of their respective past and present officers, directors, stockholders, controlling persons, employees, agents, representatives, successors and assigns and all others connected with any of them (all collectively, the "Released"), both individually and in their official capacities, from any and all rights, liabilities, claims, demands and causes of action of any type (collectively, "Claims") which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, in any way resulting from, arising out of or connected with my employment or its termination or pursuant to any federal, state, foreign or local employment law, regulation or other requirement (including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the fair employment practices laws of the state or states in which I have been employed by the Company, each as amended from time to time); provided, however, that the foregoing release shall not apply to (a) any right explicitly set forth in the Employment Agreement to special payments and benefits to be provided in connection with the termination of my employment, (b) any right to indemnification set forth in Section 4.2 of the Employment Agreement or (c) any rights as a participant in any retirement, profit sharing or other employment benefit plan in accordance with the terms of such plans.

In signing this Release of Claims, I acknowledge that I have had at least 21 days from the date of notice of termination of my employment to consider the terms of this Release of Claims and that such time has been sufficient; that I have been advised in writing by the Company to seek the advice of an attorney prior to signing this Release of Claims; and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

I understand that I may revoke this Release of Claims at any time within seven days of the date of my signing by written notice to the Company and that this Release of Claims will take effect only upon the expiration of such seven-day revocation period and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release of Claims under seal as of the ____ day of _____, _____.

GARY S. MATTHEWS

EXHIBIT C - ARBITRATION CLAUSE

(1) In consideration of the benefits described in the Employment Agreement executed by GARY S. MATTHEWS (the "Employee" or "you") and SIMMONS COMPANY, a Delaware corporation ("Holdings"), and SIMMONS BEDDING COMPANY, a Delaware corporation, along with its subsidiaries, parents, joint ventures, affiliated entities, and includes its successors and assigns or any such related entities (the "Company") on the same date hereto and into which this Exhibit C is incorporated ("Agreement"), the parties hereby agree that any controversy or claim arising under federal, state and local statutory or common or contract law between the Company and/or Holdings 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 the parties served on the other. Arbitration shall be the exclusive forum for any such controversy. For example, if the Company and you disagree as to whether the Company had Cause, as defined by the Agreement, to terminate your employment or 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 the parties.

(2) If any claim or cause of action at law or in equity is filed by a 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) The parties hereby agree that all claims must be submitted to arbitration administered by the American Arbitration Association's Southeast Case Management Center in Atlanta, Georgia and the arbitration will be conducted in Atlanta, Georgia.

(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 under this Agreement. 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; provided, however, 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. 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 the parties mutually consent in writing signed by you and an authorized representative of Company and/or Holdings to a panel of three (3) Arbitrators. Unless the 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 this 10th day of November, 2006.

(day) (month)

GARY S. MATTHEWS

SIMMONS BEDDING COMPANY
SIMMONS COMPANY

/s/Gary S. Matthews

By: /s/Charles R. Eitel

Name: /s/Charles R. Eitel

Social Security #: _____

Title: Chariman and CEO _____

Contacts: Alan H. Oshiki
Broadgate Consultants, Inc.
(212) 232-2222

William S. Creekmuir
Simmons Company
(770) 673-2625

FOR IMMEDIATE RELEASE

Simmons Company Reports Record Third Quarter Results

- **Double-Digit Growth in Volume Drives Record Sales**
- **Operational Improvements Deliver Increased Operating Margins**
- **Substantial Improvements in EBITDA and EBITDA Margin**
- **Gary Matthews Appointed President**

ATLANTA, November 10, 2006 - Simmons Company ("Company" or "Simmons"), the ultimate parent of Simmons Bedding Company ("Simmons Bedding"), a leading manufacturer of premium-branded bedding products, today released operating results for the quarter and nine months ended September 30, 2006.

"We are very pleased with our third quarter results, which represented new quarterly highs in terms of net sales and Adjusted EBITDA. Our 14.5% increase in our top line and 21.5% increase in Adjusted EBITDA for the quarter versus a year ago were driven by improved sales execution and marketing. Additionally, our lean manufacturing principles are taking hold and helping us manage costs and improve service," said Charlie Eitel Simmons' Chairman and Chief Executive Officer. "During the quarter we completed the sale of Sleep Country USA and announced the acquisition of Simmons Canada. As a result of these strategic transactions, Simmons is well positioned for the future growth of our brands in North America."

Mr. Eitel continued, "Despite some softening in retail home furnishing sales, we remain optimistic about our prospects for the balance of 2006 based upon the momentum with which we entered the fourth quarter. We remain encouraged by the response of our dealers to our new product lines which we introduced in July, especially our Beautyrest Black™ luxury bedding line, the sales of which have exceeded all expectations. Furthermore, we are excited about the prospects of finalizing our acquisition of Simmons Canada, which we anticipate will close in the near future."

Results for the Quarter Ended September 30, 2006

For the third quarter of 2006, net sales rose 14.5% to \$259.8 million compared to \$226.8 million for the same period last year. For the third quarter of 2006, Simmons' wholesale bedding segment net sales increased 18.1%, compared to the same period last year. Conventional bedding unit volume grew 9.9% for the third quarter of 2006 compared to the same period last year. Gross profit for the third quarter of 2006 increased \$19.3 million to \$117.2 million, or 45.1% of net sales, from \$97.9 million, or 43.2% of net sales, for the same period last year.

For the third quarter of 2006, operating income was \$77.8 million, or 29.9% of net sales, compared to \$25.0 million, or 11.0% of net sales, for the same period last year. Exclusive of the \$43.8 million pre-tax gain on the sale of Sleep Country USA, operating income was \$33.9 million, or 13.1% of net sales, for the third quarter of 2006. Net income was \$41.9 million for the third quarter of 2006 compared to \$4.0 million for the same period of the prior year. For the third quarter of 2006, Adjusted EBITDA (see the Supplemental Information to this press release) increased 21.5% to a quarterly record \$43.5 million, or 16.7% of net sales, compared to \$35.8 million, or 15.8% of net sales, during the same period of 2005.

Results for the Nine Months Ended September 30, 2006

For the first nine months of 2006, net sales rose 15.0% to \$736.8 million compared to \$640.5 million for the same period last year. For the first nine months of 2006, Simmons' wholesale bedding segment net sales increased 16.1% compared to the same period last year. Conventional bedding unit volume grew 12.6%. Gross profit for the first nine months of 2006 was \$325.8 million, or 44.2% of net sales, compared to \$280.1 million, or 43.7% of net sales, for the same period last year.

For the first nine months of 2006, operating income was \$135.3 million, or 18.4% of net sales, compared to \$56.7 million, or 8.9% of net sales, for the same period last year. Exclusive of the pre-tax gain on the sale of Sleep Country USA, operating income was \$91.4 million, or 12.4% of net sales, for the first nine months of 2006. Net income was \$50.4 million for the first nine months of 2006 compared to \$2.9 million for the same period of the prior year. Adjusted EBITDA for the first nine months of 2006 increased 43.6% to \$119.7 million, or 16.2% of net sales, compared to \$83.4 million, or 13.0% of net sales, for the same period of 2005.

As of September 30, 2006, Simmons' working capital (see the Supplemental Information to this press release) as a percentage of net sales for the trailing twelve months was 2.1%, compared to 2.0% at the beginning of the year. During the third quarter Simmons' debt, net of \$101.7 million of cash on hand at quarter end, declined \$68.0 million. Simmons intends to use this cash for the acquisition of Simmons Canada.

The Company will webcast its third quarter and first nine months of 2006 financial results via a conference call on Monday, November 13, 2006, beginning at 11:00 a.m. Eastern Time. The webcast will be available at the Company's website www.simmons.com and will also be available for replay through November 27, 2006.

Simmons Appoints New President

Separately, Simmons today also announced the appointment of Gary S. Matthews as President of both Simmons Company and its operating subsidiary, Simmons Bedding

Company, effective December 1, 2006. Mr. Matthews will report to Simmons' Chairman and Chief Executive Officer Charlie Eitel. "We are excited to have Gary join the Simmons team," said Mr. Eitel. "He has a track record of outstanding success in building and marketing brands and product lines in various industries. Gary will play a very important role in executing Simmons' long-term growth plan."

Mr. Matthews has served in various corporate and leadership capacities during his 25-year career. He joins Simmons from privately-held Sleep Innovations, Inc., a fabricator and marketer of foam bedding, specialty sleep products and accessories, where he served as President and Chief Executive Officer. Prior to joining Sleep Innovations, he served as President, Worldwide Consumer Medicines and Specialty Pharmaceuticals division at Bristol-Myers Squibb Company. Previously, he served as President and Chief Executive Officer of Derby Cycle Corporation; Managing Director, Guinness UK; and President and Chief Executive Officer of the Guinness Import Company, Inc.

Mr. Matthews said, "I am looking forward to joining a company with such a strong leadership position in the bedding industry and adding to the existing strengths of a world-class team. I believe I can use my experience to enhance the value of Simmons to its customers. My priorities will include a strategic plan to build upon and leverage the strengths of Simmons to create new opportunities for the Company, including future offerings in the specialty sleep arena."

Mr. Matthews received his Master's of Business Administration from the Harvard Business School and his undergraduate degree from Princeton University.

About Simmons Company

Atlanta-based Simmons Company, through its indirect subsidiary Simmons Bedding, is one of the world's largest mattress manufacturers, manufacturing and marketing a broad range of products including Beautyrest®, Beautyrest Black™, BackCare®, Natural Care™ Latex, BackCare Kids®, and Deep Sleep®. Simmons Bedding operates 17 conventional bedding manufacturing facilities and two juvenile bedding manufacturing facilities across the United States and Puerto Rico. Simmons is committed to developing superior mattresses and promoting a higher quality sleep for consumers around the world. For more information, visit the Company's website at www.simmons.com.

“Safe Harbor” Statement under Private Securities Litigation Reform Act of 1995:

This press release includes forward-looking statements that reflect Simmons' current views about future events and financial performance. Words such as “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “forecasts” and variations of such words or similar expressions that predict or indicate future events, results or trends, or that do not relate to historical matters, identify forward-looking statements. The forward-looking statements in this press release speak only as of the date of this release. These forward-looking statements are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that the events, results or trends identified in these forward-looking statements will occur or be achieved. Investors should not rely on forward-looking statements because they are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from Simmons' expectations. These factors include, but are not limited to: (i) competitive pricing pressures in the bedding industry; (ii) legal and regulatory requirements; (iii) the success of our new products; (iv) our relationships with and viability of our major suppliers; (v) fluctuations in costs of our raw materials; (vi) our relationship with significant customers and licensees; (vii) our ability to increase prices on our products and the effect of these price increases on our unit sales; (viii) an increase in our return rates and warranty claims; (ix) our labor relations; (x) departure of our key personnel; (xi) encroachments on our intellectual property; (xii) our product liability claims; (xiii) our level of indebtedness; (xiv) interest rate risks; (xv) compliance with covenants in our debt agreements; (xvi) our future acquisitions; (xvii) a significant change to the timing of the closing of the Simmons Canada transaction; (xviii) our ability to successfully integrate Simmons Canada into our operations; (xix) our ability to achieve the expected benefits from any personnel realignments; and (xx) other risks and factors identified from time to time in our reports filed with the Securities and Exchange Commission (“SEC”). We undertake no obligation to update or revise any forward-looking statements, either to reflect new developments or for any other reason.

- table follows -

Simmons Company and Subsidiaries
Condensed Historical Consolidated Statements of Operations
(in thousands)
(Unaudited)

	Quarters Ended		Nine Months Ended	
	September 30,	September 24,	September 30,	September 24,
	2006	2005	2006	2005
Wholesale net sales	\$ 248,255	\$ 210,276	\$ 687,871	\$ 592,572
Retail net sales	14,968	21,617	61,545	59,508
Eliminations	(3,457)	(5,050)	(12,581)	(11,613)
Net sales	259,766	226,843	736,835	640,467
Cost of products sold	142,562	128,926	411,051	360,348
Gross profit	117,204	97,917	325,784	280,119
Operating expenses:				
Selling, general and administrative expenses	84,089	74,023	236,628	226,526
Gain on sale of Sleep Country USA	(43,834)	-	(43,834)	-
Amortization of intangibles	1,386	1,418	4,220	4,276
Licensing revenues	(2,199)	(2,553)	(6,498)	(7,419)
	39,442	72,888	190,516	223,383
Operating income	77,762	25,029	135,268	56,736
Interest expense, net	18,041	18,008	61,932	51,781
Income before income taxes	59,721	7,021	73,336	4,955
Income tax expense	17,799	3,021	22,920	2,088
Net income	\$ 41,922	\$ 4,000	\$ 50,416	\$ 2,867
Adjusted EBITDA (a)	\$ 43,460	\$ 35,771	\$ 119,730	\$ 83,404

See Notes to Condensed Historical Financial Data.

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

	September 30, 2006 (Unaudited)	December 31, 2005*
Assets		
Current assets:		
Cash and cash equivalents	\$ 101,680	\$ 24,622
Accounts receivable, net	84,860	74,682
Inventories	24,819	28,579
Assets held for sale	-	19,116
Other current assets	20,319	16,958
Total current assets	231,678	163,957
Property, plant and equipment, net	54,230	53,613
Goodwill, net	481,211	481,280
Intangible assets, net	532,963	536,963
Other assets	34,755	44,964
	\$ 1,334,837	\$ 1,280,777
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 413	\$ 1,602
Accounts payable and accrued liabilities	109,592	103,222
Liabilities held for sale	-	9,968
Total current liabilities	110,005	114,792
Long-term debt	891,221	906,148
Deferred income taxes	165,026	144,418
Other non-current liabilities	13,536	11,072
Total liabilities	1,179,788	1,176,430
Stockholders' equity	155,049	104,347
	\$ 1,334,837	\$ 1,280,777

See Notes to Condensed Historical Financial Data.

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

Simmons Company and Subsidiaries
(Notes to Condensed Historical Financial Data)

- a) 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 and 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, reorganization expense, and other unusual or non-recurring charges or credits. Adjusted EBITDA is presented because it is a material component of the covenants contained within Simmons Bedding's credit agreements and is a measure used by management to determine operating performance. EBITDA does not represent net income or cash flows from operations as those terms are defined by accounting principles generally accepted in the United States and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Below is a reconciliation of net income to adjusted EBITDA:

	Quarters Ended		Nine Months Ended	
	September 30,	September 24,	September 30,	September 24,
	2006	2005	2006	2005
Adjusted EBITDA:				
Net income	\$ 41,922	\$ 4,000	\$ 50,416	\$ 2,867
Depreciation and amortization	7,829	7,081	21,885	20,204
Income tax expense	17,799	3,021	22,920	2,088
Interest expense	18,558	18,073	62,684	51,894
EBITDA	86,108	32,175	157,905	77,053
Gain on sale of Sleep Country USA	(43,834)	-	(43,834)	-
Reorganization expense	65	2,681	1,519	4,026
Non-cash stock compensation	13	2	530	2
Management fees	423	420	1,263	1,173
State taxes in lieu of income taxes	205	212	692	547
Transaction expenses	428	-	560	177
Management severance	(60)	-	867	105
Plant opening, closing charges	-	281	-	321
Other, net	112	-	228	-
Adjusted EBITDA	\$ 43,460	\$ 35,771	\$ 119,730	\$ 83,404

- b) Working capital computation (current assets less current liabilities as defined in our senior credit facility and excluding assets and liabilities held for sale):

	September 30,	December 31,
	2006	2005
Current assets	\$ 231,678	\$ 163,957
Less:		
Cash and cash equivalents	(101,680)	(24,622)
Assets held for sale	-	(19,116)
	129,998	120,219
Current liabilities	110,005	114,792
Less:		
Current maturities of long-term debt	(413)	(1,602)
Liabilities held for sale	-	(9,968)
	109,592	103,222
Working capital	\$ 20,406	\$ 16,997