TEMPUR PEDIC INTERNATIONAL INC
Form S-1/A
December 04, 2003
Table of Contents

As filed with the Securities and Exchange Commission on December 3, 2003

Registration No. 333-109798

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Tempur-Pedic International Inc.

(f/k/a TWI Holdings, Inc.)

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**2510** **(Primary Standard Industrial Classification Code Number)**	**33-1022198** **(I.R.S. Employer Identification Number)**

1713 Jaggie Fox Way

Lexington, Kentucky 40511

800-878-8889

(Address, including zip code, and telephone number, including

area code, of the registrant s principal executive offices)

Robert B. Trussell, Jr., President and Chief Executive Officer

Tempur World, Inc.

1713 Jaggie Fox Way

Lexington, Kentucky 40511

800-878-8889

(Name, address, including zip code, and telephone number, including

area code, of agent for service)

Copies to:

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Bingham McCutchen LLP	**Weil, Gotshal & Manges LLP**
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Boston, MA 02110	**New York, NY 10153**
617-951-8000	**212-310-8000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value $0.01 per share	$345,000,000	$27,910.50(3)

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(2) Calculated pursuant to Rule 457(a) based on an estimate of the proposed maximum aggregate offering price.
(3) $24,270 was previously paid to the Commission in connection with the initial filing of this Registration Statement on October 17, 2003. An additional $3,640.50 was paid in connection with the filing of Amendment No. 1 to this Registration Statement on November 20, 2003.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Table of Contents

Subject to Completion, dated December 3, 2003

PROSPECTUS

18,750,000 Shares

Common Stock

This is our initial public offering of common stock. We are offering 6,250,000 shares and the selling stockholders identified in this prospectus are offering 12,500,000 shares. No public market currently exists for our shares. We will not receive any proceeds from the sale of the shares offered by the selling stockholders.

We have applied to have our common stock listed on the New York Stock Exchange under the symbol TPX. We currently estimate that the initial public offering price will be between $15 and $17 per share.

Investing in the shares involves risks. Risk Factors begin on page 9.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to Tempur-Pedic International Inc. (before expenses)	$	$
Proceeds to selling stockholders	$	$

The selling stockholders have granted the underwriters a 30-day option to purchase up to an aggregate of 2,812,500 additional shares of common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about , 2003.

LEHMAN BROTHERS **GOLDMAN, SACHS & CO.**

UBS INVESTMENT BANK **CITIGROUP**

CIBC WORLD MARKETS **U.S. BANCORP PIPER JAFFRAY**

, 2003

Table of Contents

Table of Contents

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospectus may have changed since that date.

Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights all material information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in shares of our common stock. We encourage you to read this entire prospectus carefully, including Risk Factors beginning on page 9 and our consolidated financial statements and the notes to those financial statements beginning on page F-1, before making an investment decision. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for Tempur-Pedic International Inc. (f/k/a TWI Holdings, Inc.) or its predecessors. As used in this prospectus, the term Tempur-Pedic International refers to Tempur-Pedic International Inc. only and the terms we, our, ours and us refer to Tempur-Pedic International and its consolidated subsidiaries. Unless otherwise noted in this prospectus, all references to dollars are to United States dollars.

Tempur-Pedic International Inc.

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In April 2003, *Consumers Digest* named one of our products among the eight best buys of the mattress industry in the applicable price range because of the strong value our products provide to consumers. Consumer surveys commissioned on our behalf over the last several years have indicated that our products achieve satisfaction ratings generally ranging from 80% to 92%. In the three years ended December 31, 2002, our total net sales grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 million.

We sell our products through four distribution channels: retail (furniture and specialty stores, as well as department stores internationally); direct (direct response and internet); healthcare (chiropractors, medical retailers, hospitals and other healthcare channels); and third party distributors. In the United States, we sell a majority of our mattresses and pillows through furniture and specialty retailers. International sales account for approximately 41.7% of our total net sales.

The International Sleep Products Association (ISPA) estimates that the United States wholesale market for mattresses and foundations in 2002 was approximately $4.8 billion. We believe the international mattress market is generally the same size as the domestic mattress market. According to ISPA, from 1991 to 2002, mattress unit sales grew in the United States at an average of approximately 500,000 units annually, with approximately 21.5 million mattress units sold in the United States in 2002, although sales decreased during the 2000 to 2002 period. We believe a similar number of mattress units were sold outside the United States in 2002. ISPA further estimates that approximately 20% of those mattress units were sold at retail price points greater than $1,000, which is the premium segment of the market we target. Based on information derived from an ISPA report, we believe that the premium segment of the market grew in the United States at an annual rate of 32% in 2002, and is the fastest-growing segment of this market.

Most standard mattresses are made using innersprings and most innerspring mattresses are sold for under $1,000. Alternatives to standard and premium innerspring mattresses include visco-elastic and other foam mattresses, as well as airbeds and waterbeds. Four large manufacturers (Sealy Corporation, Serta, Inc., Simmons Company and The Spring Air Company) dominate the standard innerspring mattress market in the United States. The balance of the United States wholesale mattress market is fragmented, with a large number of other manufacturers, many of which operate primarily on a regional basis. Standard innerspring mattresses represent approximately 80% of the overall mattress market in the United States.

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The medical community is also a large consumer of mattresses to furnish hospitals and nursing homes. In the United States, there are over 15,400 nursing homes with a total bed count in excess of 1.7 million. Medical facilities typically purchase twin mattresses with standard operating functions such as adjustable height and mechanisms to turn patients to prevent pressure ulcers (or bedsores). We believe demographic trends suggest that as the population ages, the healthcare market for mattresses will continue to grow.

Based on our market research, we estimate that the United States retail market for pillows is approximately $1.1 billion. The United States pillow market has a traditional and specialty segment. Specialty pillows include all alternatives to traditional pillows, including visco-elastic and other foam, sponge rubber and down. We believe the international pillow market is generally the same size as the domestic pillow market.

We believe we are the leading global manufacturer, marketer and distributor of visco-elastic foam mattresses and pillows, and we estimate we had an approximate 70% market share in 2002 in both the United States and internationally. We believe consumer demand for our premium products in the United States is being driven primarily by increased housing and home furnishing purchases by the baby boom generation, significant growth in our core demographic market as the baby boom generation ages, increased awareness of the health benefits of a better quality mattress, and shifting consumer preference from firmness to comfort. As consumers continue to prefer alternatives to standard innerspring mattresses, our products become more widely available and our brand gains broader consumer recognition, we expect that our premium products will continue to attract sales away from the standard mattress market.

Our principal executive office is located at 1713 Jaggie Fox Way, Lexington, Kentucky 40511 and our telephone number is (800) 878-8889. We were incorporated under the laws of the State of Delaware in September 2002.

Competitive Strengths

We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

Superior Product Offering. Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and provide better spinal alignment, reduced pressure points, greater relief of lower back and neck pain, and better quality sleep than traditional bedding products. In addition, we continue to leverage our unique and proprietary manufacturing process to develop new products and refine existing products to meet the changing demands and preferences of consumers. Our innovative products distinguish us from the major manufacturers of standard innerspring mattresses and traditional pillows in the United States, which we believe offer generally similar products and must compete primarily on price.

Increasing Global Brand Awareness. We believe consumers in the United States and internationally increasingly associate our brand name with premium quality products that enable better overall sleep. We believe our Tempur brand s global recognition is reinforced by our high level of customer satisfaction. Furthermore, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand.

Diversified Product Offerings Sold Globally Through Multiple Distribution Channels. Our diversified product offerings include mattresses, pillows and other products, primarily adjustable beds, which we sell through multiple distribution channels including retail, direct, healthcare and third party distributor channels. For the nine months ended September 30, 2003, mattress, pillow and other product sales, primarily adjustable beds, represented 52.9%, 27.8% and 19.3%, respectively, of our net sales. For the nine months ended September 30, 2003, our retail channel represented 63.5% of our net sales, with our direct, healthcare and third party distributor channels representing 18.6%, 9.3% and 8.6%, respectively.

Table of Contents

Strong Financial Performance. Over the last several years, our diversified, well-balanced business model has enabled us to achieve rapidly growing revenues and strong gross and operating margins, with low maintenance capital expenditure and working capital requirements. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which we believe is more than 1.5 times the average for three of the major bedding manufacturers in the United States. Our strong financial performance gives us the flexibility to invest in our manufacturing operations, enhance our sales force and marketing, invest in information systems and recruit talented management and other personnel.

Significant Growth Opportunities. We believe we have significant growth opportunities because we have penetrated only a small percentage of our addressable market. Furthermore, we have recently begun to expand our direct response business in our European markets, based on our similar, successful initiatives in the United States and in the United Kingdom, to reach a greater number of consumers and increase our brand awareness. In addition, we currently supply only a small percentage of the approximately 15,400 nursing homes and 5,000 hospitals in the United States (with a collective bed count in excess of 2.7 million). As this healthcare market expands over time, we expect our growth potential in this market will also increase.

Management Team with Proven Track Record. Since launching our United States operations in 1992, Robert Trussell, Jr., has helped grow our company into a global business with approximately $342.4 million in total net sales for the nine months ended September 30, 2003. Furthermore, Mr. Trussell has assembled a highly experienced management team with significant sales, marketing, consumer products, manufacturing, accounting and treasury expertise.

The management team and certain key employees currently own approximately 13% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options (11.9% after this offering).

Business Strategy

Our goal is to become the leading global manufacturer, marketer and distributor of premium mattresses and pillows by pursuing the following key initiatives:

Maintain Focus on Core Products. We utilize a vertically-integrated, proprietary process to manufacture a comfortable, durable and high quality visco-elastic foam. Although this foam could be used in a number of different products, we are currently committed to maintaining our focus primarily on premium mattresses and pillows. We believe our focused sales, marketing and product strategies will enable us to increase market share in the premium market, while maintaining our margins and our ability to generate free cash flow.

Continue to Build Global Brand Awareness. We plan to continue to invest in increasing our global brand awareness through targeted marketing and advertising campaigns that further associate our brand name with better overall sleep and premium quality products. We estimate that our current advertising campaign yields 2.7 billion consumer impressions per month via television, radio, magazines and newspapers.

Further Penetrate U.S. Retail Channel. In the United States, the retail sales division is our largest sales division. We plan to build and maintain our base of furniture retailers and specialty retailers. In order to continue to penetrate this channel, we have increased our salesforce and have increased the number of personnel who train retail salespersons to sell our products more effectively. We believe we are able to more effectively attract and retain retailers because our premium products provide retailers with higher per unit profits than standard innerspring products.

Continue to Expand Internationally. We plan to increase international sales growth by further penetrating each of our existing distribution channels.

Increase Growth Capacity. We intend to continue to invest in our operating infrastructure to meet the requirements of our rapidly growing business. Currently, we manufacture our products in two highly automated, vertically-integrated facilities located in Aarup, Denmark and Duffield, Virginia. Over the past three years, we have invested more than $50.0 million to upgrade and expand these facilities. To accommodate our anticipated growth, we plan to invest an additional $75.0 to $100.0 million to increase productivity and expand manufacturing capacity during the next several years, including the development and construction of an additional manufacturing facility in Albuquerque, New Mexico. We also plan to continue to enhance our internal information technology systems and our product distribution network, as well as augment our personnel in management, sales, marketing and customer service.

TA Associates, Inc. and Friedman Fleischer & Lowe

TA Associates, Inc. (TA) manages $5.0 billion of capital for buyouts and private equity investments in profitable growth companies in the consumer, technology, financial services, business services and healthcare industries. Founded in 1968, TA has a staff of over 40 investment professionals operating from offices in Boston, Massachusetts, Menlo Park, California, and London, and has invested in approximately 350 companies over its 35 year history.

Friedman Fleischer & Lowe, LLC (FFL) is a San Francisco-based private equity firm specializing in value-added investing. FFL s principals have invested approximately $2.0 billion in more than 50 companies over the past 20 years across many industry sectors. The principals have over 90 years of combined experience as investors, senior operating executives and advisors.

The Acquisition of Our Business

In November 2002, TA and FFL formed Tempur-Pedic International to purchase Tempur World, Inc. for approximately $268.0 million plus the refinancing of approximately $88.8 million of existing debt obligations and a deferred earn-out payment of approximately $40.0 million. Tempur-Pedic International funded that purchase and related transaction fees and expenses using $150.0 million of senior bank financing, $50.0 million in mezzanine debt financing, net of cash on hand, and approximately $160.0 million in cash contributions and non-cash equity contributions from our owners. Collectively, TA and FFL currently own 79.7% of our fully diluted common stock, after giving effect to the vesting of all outstanding options (63.4% after this offering), and our management and employees and certain third party investors own the balance. We refer to this acquisition of Tempur World as the Tempur acquisition.

Table of Contents

The Recapitalization

In August 2003, we completed a recapitalization consisting of the following transactions:

- Tempur-Pedic International and certain of our domestic and foreign subsidiaries entered into amended and restated senior credit facilities providing for borrowings in an aggregate principal amount of up to $270.0 million, including term loan A facilities of $95.0 million, a term loan B facility of $135.0 million and revolving credit facilities providing for borrowings of up to $40.0 million. We refer to these facilities in this prospectus as the amended senior credit facilities.

- Tempur-Pedic, Inc. and Tempur Production USA, Inc., indirect wholly-owned subsidiaries of TWI, issued $150.0 million aggregate principal amount of 10¼% Senior Subordinated Notes due 2010. We refer to these notes in this prospectus as the senior subordinated notes.

- We repaid all of the outstanding borrowings under our then existing mezzanine debt facility and terminated that facility.

- We paid approximately $40.0 million in satisfaction in full of the earn-out payment payable in connection with the Tempur acquisition.

- Tempur-Pedic International distributed approximately $160.0 million as a return of capital to its equityholders.

Our Structure

Tempur-Pedic, Inc. and Tempur Production USA, Inc. are indirect wholly-owned subsidiaries of Tempur-Pedic International that, directly or through subsidiaries, operate all of our business in the United States and certain portions of our business in Canada and Mexico. All of our business operations in the rest of the world are conducted by foreign subsidiaries owned by Tempur World Holdings S.L., an indirect wholly-owned subsidiary of Tempur-Pedic International. Set forth below is a chart showing our structure:

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(1) Tempur-Pedic International owns a 1% interest in one foreign subsidiary and a 10% interest in another foreign subsidiary. Tempur World Holdings, Inc. owns directly or indirectly all other capital stock in the foreign subsidiaries.

Table of Contents

The Offering

Common stock offered by Tempur-Pedic International in this offering	6,250,000 shares
Common stock offered by selling stockholders in this offering	12,500,000 shares
Common stock to be outstanding after this offering	97,266,520 shares
Use of proceeds	We intend to use the proceeds we receive from this offering to repay outstanding debt. We will not receive any proceeds from the sale of shares by the selling stockholders. See Use of Proceeds.
Proposed New York Stock Exchange symbol	TPX

The number of shares of our common stock that will be outstanding after this offering is based on the number of shares outstanding as of November 15, 2003, and unless otherwise indicated herein, assumes the conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all our outstanding warrants into common stock on a one-for-one basis, and excludes:

6,533,720 shares of our common stock issuable upon the exercise of stock options outstanding as of November 15, 2003 at a weighted average exercise price of $1.87 per share, none of which options were then exercisable; and

8,000,000 shares of our common stock reserved for future grant under our 2003 Equity Incentive Plan.

Unless specifically stated otherwise, the information in this prospectus:

assumes no exercise of the underwriters over-allotment option;

assumes an initial public offering price of $16.00 per share, the midpoint of the initial public offering price range indicated on the cover of this prospectus;

reflects the automatic conversion of all shares of our convertible preferred stock and outstanding classes of our common stock and the mandatory exercise of our outstanding warrants for a total of 91,016,520 shares of our common stock upon the completion of this offering;

gives effect to a 525-for-one stock split of our common stock, in the form of a stock dividend, which will occur immediately prior to the closing of the offering; and

reflects the filing, prior to the completion of this offering, of our restated certificate of incorporation, referred to in this prospectus as our certificate of incorporation, and the adoption of our amended and restated by-laws, referred to in this prospectus as our by-laws, implementing the provisions described under Description of Capital Stock.

Tempur®, Tempur-Pedic®, Tempur-Med®, Swedish Sleep System®, Airflow System and Dual Airflow System are our trademarks, trade names and service marks. All other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

Table of Contents

Unaudited Summary and Historical Pro Forma As Adjusted Condensed Consolidated Financial

and Operating Data

Our predecessor company for the period from January 1, 2000 to October 31, 2002 is Tempur World, Inc. We completed the Tempur acquisition (which was accounted for using the purchase method of accounting) as of November 1, 2002. As a result of adjustments to the carrying value of assets and liabilities pursuant to the Tempur acquisition, the financial position and results of operations for periods subsequent to the Tempur acquisition are not comparable to those of our predecessor company.

The following table sets forth our summary historical and unaudited pro forma as adjusted condensed consolidated financial and operating data for the periods indicated. We have derived the statement of operations and balance sheet data as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002 from the audited financial statements of our predecessor company. We have derived our statements of operations and balance sheet data as of and for the two months ended December 31, 2002 from our audited financial statements. We have derived the statement of operations data for the nine months ended September 30, 2002 from our predecessor company s unaudited condensed consolidated interim financial statements. We have derived the statement of operations and balance sheet data as of and for the nine month period ended September 30, 2003 from our unaudited condensed consolidated interim financial statements. In the opinion of management, such unaudited condensed consolidated interim financial statements have been prepared on a basis consistent with our audited financial statements for the two months ended December 31, 2002 and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim period. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Our predecessor company s financial statements as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002, its unaudited condensed consolidated interim statements of operations and cash flows for the nine months ended September 30, 2002 and our financial statements for the two months ended December 31, 2002 and our unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2003 are included elsewhere in this prospectus.

The summary unaudited pro forma as adjusted financial data for the nine months ended September 30, 2003 has been prepared to give pro forma effect to the Tempur acquisition, the recapitalization and the offering as if they had occurred on January 1, 2003. Because the balance sheet as of September 30, 2003 includes the effects of the recapitalization, no pro forma balance sheet data information with respect to the Tempur acquisition and the recapitalization is presented. The summary unaudited pro forma as adjusted financial data is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Tempur acquisition, the recapitalization or the offering actually been consummated on the date indicated and do not purport to indicate balance sheet data or results of operations for any future period. The following data should be read in conjunction with Unaudited Pro Forma As Adjusted Financial Information, Selected Historical Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our predecessor company s financial statements and related notes thereto included elsewhere in this prospectus.

Table of Contents

($ in thousands except per share data)	Predecessor Year ended December 31, 2000	Predecessor Year ended December 31, 2001	Predecessor Period from January 1, 2002 to October 31, 2002	Tempur-Pedic International Period from November 1, 2002 to December 31, 2002	Predecessor Nine Months ended September 30, 2002 (unaudited)	Tempur-Pedic International Nine Months ended September 30, 2003 (unaudited)	Tempur-Pedic International Pro forma As Adjusted Nine Months ended September 30, 2003(1) (unaudited)
Statement of Operations Data:							
Net sales	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 205,944	$ 342,359	$ 342,359
Cost of sales(2)	89,450	107,569	110,228	37,811	95,822	158,804	158,804
Gross profit	72,519	113,945	127,086	22,833	110,122	183,555	183,555
Operating expenses(3)	50,081	83,574	86,693	23,816	77,627	125,015	125,015
Operating income/(loss)	22,438	30,371	40,393	(983)	32,495	58,540	58,540
Net interest expense	2,225	6,555	6,292	2,955	5,713	13,741	18,180
Other (income)/expense	947	316	1,724	(1,330)	(652)	1,478	1,478
Income/(loss) before income taxes	19,266	23,500	32,377	(2,608)	27,434	43,321	38,882
Income taxes	6,688	11,643	12,436	640	12,493	17,332	15,601
Net income/(loss)	12,578	11,857	19,941	(3,248)	14,941	25,989	23,281
Preferred stock dividend		345	1,238	1,958	1,109	8,764	
Net income/(loss) available to common stockholders	$ 12,578	$ 11,512	$ 18,703	$ (5,206)	$ 13,832	$ 17,225	$ 23,281
Earnings per share(4)							
Basic				$ (.67)		$ 2.13	$ .24
Diluted				$ (.67)		$ .28	$ .23
Weighted average shares (in thousands)							
Basic				7,815		8,091	95,689
Diluted				7,815		93,143	100,907
Balance Sheet Data (at end of period):							
Cash and cash equivalents	$ 10,572	$ 7,538	$ 6,380	$ 12,654	$ 5,518	$ 12,512	
Total assets	144,305	176,841	199,641	448,593	193,432	535,183	
Total debt	71,164	106,023	89,050	198,352	91,454	382,532	
Redeemable preferred stock		11,715	15,331		15,199		
Total stockholders equity	38,237	16,694	39,895	151,606	34,746	25,523	
Other Financial and Operating Data (GAAP):							
Depreciation and amortization	$ 6,002	$ 10,051	$ 10,383	$ 3,306	$ 10,066	$ 14,437	$ 14,437
Net cash provided by operating activities	1,125	19,716	22,706	12,385	15,091	41,770	43,054
Net cash used in investing activities	(27,014)	(34,862)	(4,646)	(1,859)	(3,534)	(16,545)	(16,545)
Net cash (used in)/provided by financing activities	34,314	12,593	(19,702)	(4,221)	(13,330)	(24,808)	(10,928)
Capital expenditures	27,418	35,241	9,175	1,961	7,660	17,266	17,266
Other Financial and Operating Data (non-GAAP):							
Number of pillows sold(5)	1,717,476	1,819,993	1,528,608	407,476	1,354,331	2,199,223	2,199,223
Number of mattresses sold(5)	173,338	212,695	218,656	50,564	194,085	283,078	283,078

(1) The summary unaudited pro forma as adjusted financial data give effect to the recapitalization, the Tempur acquisition and the offering.
(2) Includes $9.8 million in non-cash charges for the two months ended December 31, 2002 relating to the step-up in inventory as of November 1, 2002 relating to the Tempur acquisition.
(3) Includes $19.3 million in non-cash charges for the nine months ended September 30, 2003 comprised of $13.6 million relating to the non-recurring write-off of deferred financing fees in connection with the recapitalization, $3.8 million in amortization of definite-lived intangibles and $1.9 million in non-cash stock-based compensation expense relating to stock option grants and acceleration.
(4) Predecessor company earnings per share has been omitted as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur acquisition.
(5) Number of units sold is before consideration of returned mattresses and pillows.

Table of Contents

RISK FACTORS

You should carefully consider the risks described below, as well as other information and data included in this prospectus, before deciding whether to invest in shares of our common stock. Any of the following risks could materially adversely affect our business, financial condition or results of operations, which may result in your loss of all or part of your original investment.

Risks Related to Our Business

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

Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance. Our premium mattresses compete with a number of different types of mattress alternatives, including standard innerspring mattresses, other foam mattresses, waterbeds, futons, air beds and other air-supported mattresses. These alternative products are sold through a variety of channels, including furniture stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs.

Many of our competitors have greater financial, marketing and manufacturing resources and better brand name recognition than our brand, and sell their products through broader and more established distribution channels. In addition, we believe that a number of our significant competitors now offer foam mattress products similar to our visco-elastic foam mattresses and pillows. These competitors or other mattress manufacturers may aggressively pursue the visco-elastic foam mattress market. Any such competition by established manufacturers or new entrants into the market could have a material adverse effect on our business, financial condition and operating results by causing our products to lose market share. In addition, should any of our competitors reduce prices on premium mattress products, we may be required to implement price reductions in order to remain competitive, which could significantly impair our liquidity and profitability. The pillow industry is characterized by a large number of competitors, none of which is dominant, but many of which have greater resources than us and greater brand name recognition for their products than us.

We may be unable to effectively manage our growth, which could adversely affect our liquidity and profitability.

We have grown rapidly, with our net sales increasing from approximately $162.0 million in 2000 to approximately $342.4 million for the nine months ended September 30, 2003. Our growth has placed, and will continue to place, a strain on our management, production, product distribution network, information systems and other resources. Our growth may strain these resources to the point where they are no longer adequate to support our operations, which would require us to make significant expenditures in these areas. To manage growth effectively, we must:

- significantly increase the volume of products manufactured at our manufacturing facilities;
- continue to enhance our operational, financial and management systems, including our database management, tracking of inquiries, inventory control and product distribution network; and

expand, train and manage our employee base.

We may not be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could significantly harm our business, financial condition and operating results.

Our senior management team has not worked together as a group for a significant period of time, and may not be able to effectively manage our business.

Several members of our senior management team have been hired since 2001. As a result, our senior management team has not worked together as a group for a significant period of time. Our senior management team s lack of shared experience could have an adverse effect on its ability to quickly and efficiently respond to problems and effectively manage our business.

Table of Contents

We may be unable to sustain growth or profitability, which could impair our ability to service our indebtedness and make investments in our business.

Our ability to service our increased level of indebtedness depends to a significant extent on our ability to grow our business while maintaining profitability. We may not be able to sustain growth or profitability on a quarterly or annual basis in future periods. There is a limit to the extent to which we can effectively grow in our current business model and we do not know whether we are at or near that limit. Further, our future growth and profitability will depend upon a number of factors, including without limitation:

- the level of competition in the mattress and pillow industry;
- our ability to continue to successfully execute our strategic initiatives and growth strategy;
- our ability to effectively sell our products through our distribution channels in volumes sufficient to drive growth and leverage our cost structure and advertising spending;
- our ability to continuously improve our products to offer new and enhanced consumer benefits, better quality and reduced costs;
- our ability to maintain efficient, timely and cost-effective production and delivery of our products;
- the efficiency and effectiveness of our advertising campaign and other marketing programs in building product and brand awareness, driving traffic to our distribution channels and increasing sales;
- our ability to successfully identify and respond to emerging trends in the mattress and pillow industry;
- our ability to maintain public association of our brand with premium products, including overcoming any impact on our brand caused by some of our customers seeking to sell our products at a discount to our recommended price;
- the level of consumer acceptance of our products; and
- general economic conditions and consumer confidence, which affect discretionary spending levels for premium items such as our products.

We may not be successful in executing our growth strategy and even if we achieve our strategic plan, we may not be able to sustain profitability. Failure to successfully execute any material part of our strategic plan or growth strategy could significantly impair our ability to service our indebtedness and make investments in our business.

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

Part of our domestic marketing and advertising strategy in certain domestic channels focuses on providing a 90-day money back guarantee under which customers may return their mattress and obtain a refund of the purchase price. For the nine months ended September 30, 2003, in the United States we had approximately $19.4 million in returns for a return rate of approximately 9.6% of our total net sales in the United States. As we expand our sales, our return rates may not remain within our historical levels. An increase in return rates could significantly impair our liquidity and profitability. We also currently provide our customers with a limited 20-year warranty on mattresses sold in the United States and a limited 15-year warranty on mattresses sold outside of the United States. However, as we have only been selling mattresses in significant quantities since 1992, and have released new products in recent years, many are fairly early in their product life cycles. Because our products have not been in use by our customers for the full warranty period, we rely on the combination of historical experience and product testing for the development of our estimate for warranty claims. However, our actual level of warranty claims could prove to be greater than the level of warranty claims we estimated based on our products performance during product testing. If our warranty reserves are not adequate to cover future warranty claims, their inadequacy could have a material adverse effect on our liquidity and profitability if our warranty costs exceed our reserves.

Table of Contents

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

We face an inherent business risk of exposure to product liability claims if the use of any of our products results in personal injury or property damage. In the event that any of our products prove to be defective, we may be required to recall or redesign those products. We maintain insurance against product liability claims, but such coverage may not continue to be available on terms acceptable to us or be adequate for liabilities actually incurred. A successful claim brought against us in excess of available insurance coverage could impair our liquidity and profitability, and any claim or product recall that results in significant adverse publicity against us, could result in consumers purchasing fewer of our products, which would also impair our liquidity and profitability.

Regulatory requirements may require costly expenditures and expose us to liability.

Our products and our marketing and advertising programs are and will continue to be subject to regulation in the United States by various federal, state and local regulatory authorities, including the Federal Trade Commission and the U.S. Food and Drug Administration. In addition, other governments and agencies in other jurisdictions regulate the sale and distribution of our products. Compliance with these regulations may have an adverse effect on our business. For example, compliance with anticipated changes in fire resistance laws may be costly and could have an adverse impact on the performance of our products. The U.S. Consumer Product Safety Commission and various state regulatory agencies are considering new rules relating to fire retardancy standards for the mattress and pillow industry. The State of California plans to adopt, proposed to be effective in 2005, new fire retardancy standards that have yet to be fully defined. If adopted, such new rules may adversely affect our costs, manufacturing processes and materials. We are developing product solutions that are intended to enable us to meet the new standards. Because the new standards have not been finally determined, however, our solutions may prove inadequate in enabling us to meet the new standards. We expect that any required product modifications will add cost to our product. Many foreign jurisdictions also regulate fire retardancy standards, and changes to these standards and changes in our products that require compliance with additional standards would raise similar risks.

Our marketing and advertising practices could also become the subject of proceedings before regulatory authorities or the subject of claims by other parties. In addition, we are subject to federal, state and local laws and regulations relating to pollution, environmental protection and occupational health and safety. We may not be in complete compliance with all such requirements at all times. We have made and will continue to make capital and other expenditures to comply with environmental and health and safety requirements. If a release of hazardous substances occurs on or from our properties or any associated offsite disposal location, or if contamination from prior activities is discovered at any of our properties, we may be held liable and the amount of such liability could be material.

Allegations of the possibility of price fixing in the mattress industry could increase our costs or otherwise adversely affect our operations.

Our retail pricing policies are subject to antitrust regulations. If federal or state regulators initiate investigations into our pricing policies, our efforts to respond could force us to divert management resources and incur significant unanticipated costs. If the investigation resulted in a charge that our pricing practices or policies were in violation of applicable antitrust regulations, we could be subject to significant additional costs of defending such charges in a variety of venues and, ultimately, if there were an adjudication that we were in violation of federal, state or other antitrust laws, there could be an imposition of damages for persons injured, as well as injunctive relief. Any requirement that we pay fines or damages could decrease our liquidity and profitability, and any investigation that requires significant management attention or causes us to change our business practices could disrupt our operations, also resulting in a decrease in our liquidity and profitability.

Table of Contents

Our product development and enhancements may not be successful, which could adversely affect our ability to compete and our revenues and profitability.

Our business focuses on mattresses and pillows made with our visco-elastic foam, and we are vulnerable to shifting consumer tastes and demands. Our growth and future success will depend, in part, upon our ability to enhance our existing products and to develop and market new products on a timely basis that respond to customer needs and achieve market acceptance. We may not be successful in developing or marketing enhanced or new products, and such products may not be accepted by the market.

We are subject to risks arising from our international operations, such as increased costs and the potential absence of intellectual property protection, which could impair our ability to compete and our profitability.

We currently conduct international operations in 15 countries directly and in 39 additional countries through distributors, and we may pursue additional international opportunities. We generated approximately 41.7% of our net sales from non-U.S. operations during the first nine months of 2003, and international suppliers provided a significant portion of our manufacturing material during this period. Our international operations are subject to the customary risks of operating in an international environment, including the potential imposition of trade or foreign exchange restrictions, tariff and other tax increases, fluctuations in exchange rates, inflation and unstable political situations, the potential unavailability of intellectual property protection and labor issues.

Because we depend on our significant customers, a decrease or interruption in their business with us would adversely affect our sales and profitability.

Our top five customers, collectively, accounted for 22.4% of our net sales for the nine months ended September 30, 2003. During this period, our largest customer, Brookstone Company, Inc., accounted for 7.9% of our net sales. Many of our customer arrangements, including the one with Brookstone, are by purchase order or are terminable at will at the option of either party. A substantial decrease or interruption in business from our significant customers could result in write-offs or in the loss of future business and could have a material adverse effect on our liquidity and profitability.

In the future, retailers may consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could decrease the number of stores that carry our products or increase the ownership concentration in the retail industry. Some of these retailers may decide to carry only a limited number of brands of mattress products, which could affect our ability to sell our products to them on favorable terms, if at all. Our loss of significant customers would impair our sales and profitability and have a material adverse effect on our business, financial condition and results of operations.

We are subject to the possible loss of our third party distributor arrangements and disruption in product distribution in markets outside the range of our wholly-owned subsidiaries, which would adversely affect our sales and profitability.

We have third party distributor arrangements in the Asia/Pacific, Middle East, Eastern Europe, Central and South America, Canada and Mexico markets not reached by our wholly-owned subsidiaries. Most of these arrangements provide for exclusive rights for such distributors in a designated territory. If our third party distributors were to cease distributing our products, sales of our products may be adversely affected, because we may not be able to find replacement third party distributors or negotiate arrangements with such replacement third party distributors that are as favorable to us. In addition, under the laws of the applicable countries, we could have difficulty terminating these third party distributor arrangements if we choose to do so.

Our advertising expenditures may not result in increased sales or generate the levels of product and brand name awareness we desire and we may not be able to manage our advertising expenditures on a cost-effective basis.

A significant component of our marketing strategy involves the use of direct marketing to generate sales. Future growth and profitability will depend in part on the effectiveness and efficiency of our advertising expenditures, including our ability to:

- create greater awareness of our products and brand name;

determine the appropriate creative message and media mix for future advertising expenditures;

effectively manage advertising costs, including creative and media, to maintain acceptable costs per inquiry, costs per order and operating margins; and

convert inquiries into actual orders.

Our advertising expenditures may not result in increased sales or generate sufficient levels of product and brand name awareness and we may not be able to manage such advertising expenditures on a cost effective basis.

If we are not able to protect our trade secrets or maintain our trademarks, patents and other intellectual property, we may not be able to prevent competitors from developing similar products or from marketing in a manner that capitalizes on our trademarks, and this loss of a competitive advantage could decrease our profitability and liquidity.

We rely on trade secrets to protect the design, technology and function of our visco-elastic foam and our products. To date, we have not sought United States or international patent protection for our principal product formula and manufacturing processes. Accordingly, we may not be able to prevent others from developing visco-elastic foam and products that are similar to or competitive with our products. Our ability to compete effectively with other companies also depends, to a significant extent, on our ability to maintain the proprietary nature of our owned and licensed intellectual property. We own several patents on aspects of our products and have patent applications pending on aspects of our manufacturing processes. However, the principal product formula and manufacturing processes for our visco-elastic foam and our products are not patented. We own eight United States patents, and we have 10 United States patent applications pending. Further, we own approximately thirty-two foreign patents, and we have approximately fifteen foreign patent applications pending. In addition, we hold approximately 86 trademark registrations worldwide. We own United States and foreign registered trade names and service marks and have applications for the registration of trade names and service marks pending domestically and abroad. We also license certain intellectual property rights from third parties.

Although our trademarks are currently registered in the United States and registered or pending in thirty foreign countries, they could be circumvented, or violate the proprietary rights of others, or we could be prevented from using them if challenged. A challenge to our use of our trademarks could result in a negative ruling regarding our use of our trademarks, their validity or their enforceability, or could prove expensive and time consuming in terms of legal costs and time spent defending against it. Any loss of trademark protection could result in a decrease in sales or cause us to spend additional amounts on marketing, either of which could decrease our liquidity and profitability. In addition, if we incur significant costs defending our trademarks that could also decrease our liquidity and profitability. In addition, we may not have the financial resources necessary to enforce or defend our trademarks. Furthermore, our patents may not provide meaningful protection and patents may never be issued for our pending patent applications. It is also possible that others could bring claims of infringement against us, as our principal product formula and manufacturing processes are not patented, and that any licenses protecting our intellectual property could be terminated. If we were unable to maintain the proprietary nature of our intellectual property and our significant current or proposed products, this loss of a competitive advantage could result in decreased sales or increased operating costs, either of which would decrease our liquidity and profitability.

In addition, the laws of certain foreign countries may not protect our intellectual property rights and confidential information to the same extent as the laws of the United States or the European Union. Third parties, including competitors, may assert intellectual property infringement or invalidity claims against us that could be upheld. Intellectual property litigation, which could result in substantial cost to and diversion of effort by us, may be necessary to protect our trade secrets or proprietary technology or for us to defend against claimed infringement of the rights of others and to determine the scope and validity of others proprietary rights. We may not prevail in any such litigation, and if we are unsuccessful, we may not be able to obtain any necessary licenses on reasonable terms or at all.

Table of Contents

We are subject to fluctuations in the cost of raw materials, and increases in these costs would adversely affect our liquidity and profitability.

The major raw materials that we purchase for production are polyol, an industrial commodity based on petroleum, and proprietary additives. The price and availability of these raw materials are subject to market conditions affecting supply and demand. Our financial condition or results of operations may be materially and adversely affected by increases in raw material costs to the extent we are unable to pass those higher costs to our customers.

Loss of suppliers and disruptions in the supply of our raw materials could increase our costs of production and reduce our ability to compete effectively.

We currently obtain all of the materials used to produce our visco-elastic foam from outside sources. We currently acquire almost all of our polyol from one supplier. If we were unable to obtain polyol from this supplier, we would have to find a replacement supplier. Any substitute arrangements for polyol might not be on terms as favorable to us as our current terms. In addition, we purchase proprietary additives from a number of vendors, including one from whom we are obligated to purchase minimum quantities. We may not be able to prevent an interruption of production if any supplier were to discontinue supplying us for any reason. We maintain relatively small supplies of our raw materials on-site, and any disruption in the on-going shipment of supplies to us could interrupt production of our products, which could result in a decrease of our sales, or could cause an increase in our cost of sales, and either of these results could decrease our liquidity and profitability. In addition, we outsource much of the sewing and cutting of our mattress and pillow covers to Poland and the Ukraine. If we were no longer able to outsource this labor, we could be forced to source it elsewhere at a higher cost. To the extent we were unable to pass those higher costs to our customers, those costs could reduce our gross profit margin, which could result in a decrease in our liquidity and profitability.

We may be adversely affected by fluctuations in exchange rates, which could affect the costs of our products and our ability to sell our products in foreign markets.

Approximately 41.7% of our net sales were received or denominated in foreign currency for the nine months ended September 30, 2003. As a result, we are exposed to foreign currency exchange rate risk, primarily with respect to changes in value of certain foreign currency denominated assets and liabilities of our Denmark manufacturing operations. Although we have in the past entered into hedging transactions to manage this risk and expect that we will continue to do so in the future, the hedging transactions may not succeed in managing our foreign currency exchange rate risk. See Management s Discussion and Analysis of Financial Condition and Results of Operations Foreign Currency Exposures.

For the purposes of financial reporting, any change in the value of foreign currency against the United States Dollar during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any United States Dollar-denominated debt into such foreign currency. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position debt could fluctuate materially as a result of foreign exchange gains or losses. See Management s Discussion and Analysis of Financial Condition and Results of Operations Foreign Currency Exposures.

We produce all of our products in two manufacturing facilities, and unexpected equipment failures, delays in deliveries or catastrophic loss may lead to production curtailments or shutdowns.

We manufacture all of our products at our two facilities in Aarup, Denmark and Duffield, Virginia. An interruption in production capabilities at these plants as a result of equipment failure could result in our inability to produce our products, which would reduce our sales and earnings for the affected period. In addition, we generally deliver our products only after receiving the order from the customer or the retailer and thus do not hold large inventories. In the event of a stoppage in production at either of our manufacturing facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times could

Table of Contents

be severely affected. For example, our third party carrier could potentially be unable to deliver our products within acceptable time periods due to a labor strike or other disturbance in its business. Any significant delay in deliveries to our customers could lead to increased returns or cancellations and cause us to lose future sales. Any increase in freight charges could increase our costs of doing business and harm our profitability. We have introduced new distribution programs to increase our ability to deliver products on a timely basis, but if we fail to deliver products on a timely basis, we may lose sales which could decrease our liquidity and profitability. Our manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. We may in the future experience material plant shutdowns or periods of reduced production as a result of equipment failure, delays in deliveries or catastrophic loss.

If we are unable to expand our manufacturing capacity on a timely basis, we may not be able to meet the anticipated demand for our products, and if the cost of building these expansions exceeds our estimates, it may have a material adverse effect on our liquidity. In March 2003, we began construction of a $20.0 million addition to our United States manufacturing facility. Total expected capital expenditures related to this expansion will be $18.0 million for 2003, of which we spent $10.1 million through September 30, 2003. Additionally, we plan to begin expanding mattress production capacity in our Denmark manufacturing facility in the fourth quarter of 2004. We expect our total capital expenditures related to that expansion to be $20.0 million in 2004. In May 2003, we engaged a site selection firm to assist us in selecting a location for our third manufacturing facility, which will be located in Albuquerque, New Mexico. This facility is currently expected to require capital expenditures of approximately $45.0 million and to be completed by the fourth quarter of 2006. If our expansion is delayed, we may not have the manufacturing capacity necessary to meet anticipated future demand for our products. In addition, if our capital expenditures exceed our estimates, our liquidity and profitability could be impaired.

A deterioration in labor relations could disrupt our business operations and increase our costs, which could decrease our liquidity and profitability.

As of September 30, 2003, we had approximately 1,000 full-time employees, with approximately 400 in the United States, 300 in Denmark and 300 in the rest of the world. The employees in Denmark are under a government labor union contract but those in the United States are not. Any significant increase in our labor costs could decrease our liquidity and profitability, and any deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, employee turnover or otherwise, could result in a decrease in our net sales or an increase in our costs, either of which could decrease our liquidity and profitability.

The loss of the services of any members of our senior management team could adversely affect our ability to execute our business strategy and as a result, adversely affect our sales and profitability.

We depend on the continued services of our senior management team. The loss of such key personnel could have a material adverse effect on our ability to execute our business strategy and on our financial condition and results of operations. We do not maintain key-person insurance for members of our senior management team other than Robert B. Trussell, Jr. We may have difficulty replacing members of our senior management team who leave and, therefore, the loss of the services of any of these individuals could harm our business.

Our leverage limits our flexibility and increases our risk of default.

As of September 30, 2003, the book value of our long-term debt was $382.5 million, and our stockholders equity was $25.5 million and as of September 30, 2003 on a pro forma basis after giving effect to this offering, the book value of our long-term debt would be $296.4 million and our stockholders equity would be $111.6 million. Our high degree of leverage could have important consequences to you, such as:

limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete and increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to obtain in the future additional financing we may need to fund future working capital, capital expenditures, product development, acquisitions or other corporate requirements;

- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, which will reduce the availability of cash flow to fund working capital, capital expenditures, product development, acquisitions and other corporate requirements; and

- placing us at a competitive disadvantage compared to competitors who are less leveraged and have greater financial and other resources.

In addition, the instruments governing our debt contain financial and other restrictive covenants, which limit our operating flexibility and could prevent us from taking advantage of business opportunities. In addition, our failure to comply with these covenants may result in an event of default. If such event of default is not cured or waived, we may suffer adverse effects on our operations, business or financial condition, including acceleration of our debt.

Our ability to meet our debt obligations and to reduce our indebtedness will depend on our future performance, which depends partly on general economic conditions and financial, business, political and other factors that are beyond our control. We may not be able to continue to generate cash flow from operations at or above current levels and meet our cash interest payments on all of our debt and other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on the senior subordinated notes or our other debt, we may have to sell assets, seek additional capital or restructure or refinance our debt. We may not be able to pay or refinance our debt on acceptable terms or at all. Our ability to refinance all or a portion of our debt or to obtain additional financing is substantially limited under the terms of the indenture governing the senior subordinated notes and the amended senior credit facilities. Under the terms of our debt instruments, we and our subsidiaries may be able to incur substantial additional indebtedness in the future, which would exacerbate the risks associated with our substantial leverage.

If our business plans change or if general economic, financial or political conditions in any of our markets or competitive practices in our industry change materially from those currently prevailing or from those now anticipated, or if other presently unexpected circumstances arise that have a material effect on the cash flow or profitability of our business, the anticipated cash needs of our business as well as the conclusions as to the adequacy of the available sources could change significantly. Any of these events or circumstances could involve significant additional funding needs in excess of the identified currently available sources, and could require us to raise additional capital to meet those needs. However, our ability to raise additional capital, if necessary, is subject to a variety of additional factors, including the commercial success of our operations, the volatility and demand of the capital and lending markets and the future market prices of our securities.

We are vulnerable to interest rate risk with respect to our debt, which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with our issuance of variable rate debt under our amended senior credit facilities. Interest rate changes could increase the amount of our interest payments and thus, negatively impact our future earnings and cash flows. We estimate that our annual interest expense on the unhedged portion of our floating rate indebtedness would increase by $1.7 million for each 1% increase in interest rates. See Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Risk.

Table of Contents

Risks Related to this Offering

There may not be an active, liquid trading market for our common stock.

Prior to this offering, there has been no public market for our common stock. An active, liquid trading market for our common stock may not develop or be maintained following this offering. As a result, you may not be able to sell your shares of our common stock quickly or at the market price. The initial public offering price of our common stock was determined by negotiation between us and representatives of the underwriters based upon a number of factors and may not be indicative of prices that will prevail following the completion of this offering. The market price of our common stock may decline below the initial public offering price, and you may not be able to resell your shares of our common stock at or above the initial offering price.

Our stock price will likely be volatile, your investment could decline in value, and we may incur significant costs from class action litigation.

The trading price of our common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- actual or anticipated variations in our quarterly operating results, including those resulting from seasonal variations in our business;
- introductions or announcements of technological innovations or new products by us or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters, and our ability to patent our products and technologies;
- changes in our financial estimates by securities analysts;
- conditions or trends in the specialty bedding industry;
- additions or departures of key personnel;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- regulatory developments in the United States and abroad; and
- economic and political factors.

In addition, the stock market in general has experienced significant price and volume fluctuations that have often been unrelated or disproportionate to operating performance. These broad market factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in potential liabilities, substantial costs, and the diversion of our management s attention and resources, regardless of the outcome.

Future sales of our common stock may depress our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the closing of this offering, or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock. There will be 97,266,520 shares of our common stock outstanding immediately after this offering, based on the number of shares of our common stock outstanding as of November 15, 2003. All of the shares of our common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act of 1933, except for any shares of our common stock purchased by our executive officers, directors, principal stockholders, and some related parties. For more information, see Shares Eligible for Future Sale.

Although substantially all our stockholders have agreed with our underwriters to be bound by a 180-day lock-up agreement that prohibits these holders from selling or transferring their stock, except in limited circumstances, the underwriters, at their discretion, can waive the restrictions of the lock-up agreement at an earlier time without prior notice or announcement and allow our stockholders to sell their shares of our common stock. If the restrictions of the lock-up agreement are waived, shares of our common stock will be available for sale into the market, subject only to applicable securities rules and regulations, which would likely reduce the market price for shares of our common stock.

After this offering, we intend to register 15,033,720 shares of our common stock that are reserved for issuance upon the exercise of options granted or reserved for grant under our 2002 Stock Option Plan, our 2003 Equity Incentive Plan and our 2003 Employee Stock Purchase Plan. Once we register these shares of our common stock, stockholders can sell them in the public market upon issuance, subject to restrictions under the securities laws and any applicable lock-up agreements. In addition, some of our existing stockholders will be entitled to register their shares of our common stock after this offering.

You will experience immediate and substantial dilution as a result of this offering and may experience additional dilution in the future.

If you purchase common stock in this offering, you will pay more for your shares than the amounts paid by existing stockholders for their shares. As a result, you will incur immediate and substantial dilution of $17.84 per share, representing the difference between our pro forma net tangible book value per share after giving effect to this offering and the initial public offering price. In addition, after giving effect to the $160.0 million return of capital paid to our equityholders in August 2003 as part of the recapitalization, purchasers of shares of our common stock in this offering will have contributed approximately 88.2% of the aggregate price paid by all purchasers of our stock, but will own only approximately 6.4% of the shares of our common stock outstanding after the offering based on the number of shares of our common stock and common stock equivalents outstanding as of November 15, 2003. In addition, if the holders of outstanding options and warrants exercise those options at prices below the initial public offering price, you will incur further dilution. We may also acquire other companies or technologies or finance strategic alliances by issuing equity, which may result in additional dilution to you.

Our current principal stockholders own a large percentage of our common stock and could limit you from influencing corporate decisions.

Immediately after this offering, our executive officers, directors, current principal stockholders, and their respective affiliates will beneficially own, in the aggregate, approximately 73.6% of our outstanding common stock. These stockholders, as a group, would be able to control substantially all matters requiring approval by our stockholders, including mergers, sales of assets, the election of all directors, and approval of other significant corporate transactions, in a manner with which you may not agree or that may not be in your best interest.

Provisions of Delaware law and our charter documents could delay or prevent an acquisition of us, even if the acquisition would be beneficial to you.

Provisions of Delaware law and our certificate of incorporation and by-laws could hamper a third party s acquisition of us, or discourage a third party from attempting to acquire control of us. You may not have the opportunity to participate in these transactions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

These provisions include:

our ability to issue preferred stock with rights senior to those of the common stock without any further vote or action by the holders of our common stock;

the requirements that our stockholders provide advance notice when nominating our directors; and

the inability of our stockholders to convene a stockholders meeting without the chairperson of the board, the president, or a majority of the board of directors first calling the meeting.

Table of Contents

Our management will have broad discretion in the use of net proceeds from this offering and may not use those proceeds in ways that will enhance our market value.

As of the date of this prospectus, we cannot specify with certainty the amounts we will spend on particular uses from the net proceeds we will receive from this offering. Our management will have broad discretion in the application of the net proceeds but currently intends to use the net proceeds as described in Use of Proceeds. If our management does not apply these funds effectively, we could lose significant business opportunities. Furthermore, our stock price could decline if the market does not view favorably our use of the proceeds from the offering.

We do not anticipate paying dividends on our capital stock in the foreseeable future.

In August 2003, in connection with the recapitalization, we paid approximately $160.0 million to our equityholders as a return of capital and we do not anticipate paying any dividends in the foreseeable future. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of the instruments governing our existing debt and any future debt or credit facility may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

You may be unable to pursue claims against Arthur Andersen, the independent auditors who audited financial statements of our predecessor company.

Arthur Andersen LLP, independent auditors, have audited the consolidated financial statements of our predecessor company at December 31, 2001 and 2000, and for each of the two years in the period ended December 31, 2001, as set forth in their report. We have included these consolidated financial statements of our predecessor company in this prospectus and elsewhere in the registration statement in reliance on Arthur Andersen LLP s report, given on their authority as experts in accounting and auditing.

In June 2002, Arthur Andersen LLP was convicted of federal obstruction of justice charges. As a result of its conviction, Arthur Andersen has ceased operations and is no longer in a position to reissue its audit reports or to provide consent to include financial statements reported on by it in this prospectus. Because Arthur Andersen has not reissued its reports and because we are not able to obtain a consent from Arthur Andersen, you will be unable to sue Arthur Andersen for material misstatements or omissions, if any, in this prospectus, including the financial statements covered by its previously issued reports. Even if you have a basis for asserting a remedy against, or seeking recovery from, Arthur Andersen, we believe that it is unlikely that you would be able to recover damages from Arthur Andersen.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which include information concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, and other information that is not historical information. Many of these statements appear, in particular, under the headings Prospectus Summary, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. When used in this prospectus, the words estimates, expects, anticipates, projects, plans, intends believes and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this prospectus. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this prospectus, including under the heading Risk Factors. As described herein, such risks, uncertainties and other important factors include, among others:

- the level of competition in the mattress and pillow industries;
- our ability to effectively manage and sustain our growth;
- risks arising from having a new senior management team;
- our ability to maintain our return rates and warranty reserves;
- liability relating to our products;
- changes in, or failure to comply with, federal, state and/or local governmental regulations;
- our involvement in any government investigation and associated litigation or proceedings relating to any allegations of the possibility of price fixing in the mattress industry;
- our ability to enhance our existing products and to develop and market new products on a timely basis;
- risks arising from our international operations;
- our dependence on our significant customers;
- our ability to maintain our third party distributor arrangements;

the efficiency and effectiveness of our advertising campaign and other marketing programs in building product and brand awareness and increasing sales;

our ability to protect our patents and other intellectual property, as well as successfully defend against claims brought by our competitors under their patents and intellectual property;

our ability to comply with environmental, health and safety requirements;

fluctuations in the cost of raw materials, the possible loss of suppliers and disruptions in the supply of our raw materials;

fluctuations in exchange rates;

unexpected equipment failures, delays in deliveries or catastrophic loss at our manufacturing facilities;

potential conflicts of interest between you and our controlling stockholders;

our ability to maintain our labor relations;

our ability to rely on the services of our senior management team;

risks arising from our degree of leverage; and

increase in interest expense.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements included in this prospectus. 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.

USE OF PROCEEDS

We estimate that the net proceeds from this offering with respect to the shares to be sold by us will be $91.5 million, based on an assumed initial public offering price of $16.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds of this offering to repay a portion of our outstanding indebtedness.

Our amended senior credit facilities consist of term loan A facilities, a term loan B facility and revolving credit facilities. The revolving credit facilities and the term loan A facilities will mature in 2008, and the term loan B facility will mature in 2009. Borrowings under our amended senior credit facilities bear interest, at the option of the borrower subsidiaries, at either a base rate, plus an applicable margin for the term loan facilities and revolving credit facilities, respectively, or a Eurodollar rate on deposits for one, two, three or six-month periods, plus an applicable margin for the term loan facilities and revolving credit facilities, respectively. Borrowings under our amended senior credit facilities as of September 30, 2003 had a blended annual interest rate of 4.65%. Our senior subordinated notes bear interest at an annual rate of 10.25% and mature on August 15, 2010. Borrowings under the amended senior credit facilities and the net proceeds from the senior subordinated notes were used to fund the recapitalization in August 2003, refinance amounts borrowed to fund the acquisition of Tempur in 2002 and for working capital purposes.

The foregoing use of the net proceeds from this offering represents our current intentions based upon our present plans and business condition. We retain broad discretion in the allocation and use of the net proceeds of this offering, and a change in our plans or business condition could result in the application of the net proceeds from this offering in a manner other than as described in this prospectus. Pending the uses described above, we intend to invest the net proceeds from this offering in short-term, investment grade, interest-bearing securities.

DIVIDEND POLICY

In connection with the recapitalization, in August 2003 we distributed approximately $160.0 million to our equityholders as a return of capital. We currently intend to retain our future earnings, if any, to support the growth and development of our business, and we do not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, and other factors that our board of directors may deem relevant.

21

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2003, on an actual basis and on an as adjusted basis to give effect to the offering.

	As of September 30, 2003	
	Actual	As Adjusted
($ in millions)		
Cash and cash equivalents	$ 12.5	$ 12.5
Long-term debt (including current portion):		
Amended senior credit facilities(1)	$ 229.9	$ 196.3
Senior Subordinated Notes due 2010	150.0	97.5
Mortgage payable	2.1	2.1
Capital leases and other	0.5	0.5
Total long-term debt	382.5	296.4
Stockholders equity:		
Series A convertible preferred stock	157.2	
Class A common stock		
Class B-1 common stock		
Common stock		1.0
Additional paid in capital	20.8	270.8
Class B-1 common stock warrants	2.3	
Deferred stock compensation, net of amortization	(0.1)	(0.1)
Unearned stock-based compensation	(11.3)	(11.3)
Retained earnings(2)	(148.0)	(153.4)
Accumulated other comprehensive income	4.6	4.6
Total stockholders equity	25.5	111.6
Total capitalization	$ 408.0	$ 408.0

(1) Does not include outstanding revolving credit borrowings of approximately $11.5 million under our amended senior credit facilities as of November 30, 2003.

(2) In connection with our proposed redemption of our senior subordinated notes, we will be required to pay approximately $5.4 million in prepayment penalty to the holders of the senior subordinated notes.

Shares of common stock to be outstanding after the offering do not include 6,533,720 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of $1.87 per share as of September 30, 2003. None of these outstanding options were vested and exercisable as of September 30, 2003.

Table of Contents

DILUTION

The historical net tangible book value of our common stock as of September 30, 2003 was a deficit of $(264.9) million, or $(2.91) per share. The historical net tangible book value per share of our common stock is the difference between our tangible assets and our liabilities, divided by the number of common shares outstanding. The pro forma net tangible book value of our common stock as of September 30, 2003 was a deficit of $(178.8) million, or $(1.84) per share. The pro forma net tangible book value per share of our common stock is the difference between our tangible assets and our liabilities, divided by the number of shares of our common stock outstanding as of September 30, 2003, after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all of our outstanding warrants into 91,016,520 shares of our common stock upon the completion of this offering. For new investors in our common stock, dilution is the per share difference between the initial public offering price of our common stock and the pro forma net tangible book value of our common stock immediately after completing this offering. Dilution in this case results from the fact that the per share offering price of our common stock is substantially in excess of the per share price paid by our current stockholders.

As of September 30, 2003, after giving effect to the sale of the shares of our common stock offered by us under this prospectus at an assumed initial public offering price of $16.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, the pro forma net tangible book value per share of our common stock would have been a deficit of $(1.84) per share. Therefore, the new investors in our common stock would have paid $16.00 for a share of common stock having a pro forma net tangible book value of a deficit of approximately $(1.84) per share after this offering. That is, their investment would have been diluted by approximately $17.84 per share. At the same time, our current stockholders would have realized an increase in pro forma net tangible book value of $1.07 per share after this offering without further cost or risk to themselves. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 16.00
Pro forma net tangible book value per share before this offering	$ (2.91)	
Increase in pro forma net tangible book value per share attributable to investors in this offering	$ 1.07	
Pro forma net tangible book value per share after this offering		$ (1.84)
Dilution per share to new investors		$ 17.84

The following table sets forth, as of September 30, 2003, on a pro forma basis to give effect to the conversion of all shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of all of our outstanding warrants into 91,016,520 shares of common stock, the number of shares of common stock purchased in this offering, the total consideration paid, and the average price per share paid by existing and new stockholders, before deducting underwriting discounts and commissions and our estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders(1)	91,016,520(2)	93.6%	$ 13.4	11.8%	$ .15
New investors	6,250,000	6.4	100.0	88.2	$ 16.00
Total	97,266,520	100.0%	$ 113.4	100.0%	$ 1.17

(1) Total consideration to existing stockholders reflects $160.0 million distributed to these existing stockholders as a return of capital.

(2) Excludes an aggregate of 6,533,720 shares of common stock issuable pursuant to stock options outstanding as of September 30, 2003 at an exercise price per share of $1.87.

Table of Contents

UNAUDITED PRO FORMA AS ADJUSTED FINANCIAL INFORMATION

The following unaudited pro forma as adjusted condensed consolidated financial data for the nine months ended September 30, 2003 and the twelve months ended December 31, 2002 are based on the historical financial statements included elsewhere in this prospectus.

The recapitalization occurred in August 2003. Because the balance sheet as of September 30, 2003 included elsewhere in this prospectus includes the effects of the Tempur acquisition and recapitalization, no pro forma as adjusted balance sheet information is presented. The pro forma as adjusted condensed consolidated statements of operations for the nine months ended September 30, 2003 and the twelve months ended December 31, 2002 are adjusted to give effect to the Tempur acquisition, the recapitalization and the offering as if they had occurred at the beginning of the periods presented. The pro forma adjustments are described in the accompanying notes and are based upon available information and certain assumptions that management believes are reasonable.

The unaudited condensed consolidated pro forma as adjusted financial data do not purport to represent what our results of operations or financial condition would actually have been had these transactions occurred on the dates indicated or to project our results of operations or financial condition for any future period or date. The unaudited pro forma as adjusted condensed consolidated financial data should be read in conjunction with our and our predecessor company s historical financial statements and related notes thereto included elsewhere in this prospectus and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Unaudited Pro Forma As Adjusted Condensed Consolidated Statement of Income

for the Twelve Months ended December 31, 2002

($ in thousands, except per share data)	Historical Period from January 1, 2002 to October 31, 2002	Historical Period from November 1, 2002 to December 31, 2002	Pro Forma Tempur Acquisition Adjustments	Pro Forma Recapitalization Adjustments	Pro Forma	Pro Forma Offering Adjustments	Pro Forma as Adjusted
Net sales	$ 237,314	$ 60,644	$	$	$ 297,958	$	$ 297,958
Cost of sales	110,228	37,811	(2,011)(a)		146,028		146,028
Operating expenses	86,693	23,816	7,605 (b)		118,114		118,114
Operating income/(loss)	40,393	(983)	(5,594)		33,816		33,816
Net interest (income)/expense	6,292	2,955	5,888 (c)	14,165(d)	29,300	(6,679)(e)	22,621
Other (income)/expense	1,724	(1,330)			394		394
Income/(loss) before income taxes	32,377	(2,608)	(11,482)	(14,165)	4,122	6,679	10,801
Income taxes	12,436	640	(4,478)(f)	(5,524)(f)	3,074	2,607 (f)	5,681
Net income/(loss)	$ 19,941	$ (3,248)	$ (7,004)	$ (8,641)	$ 1,048	$ 4,072	$ 5,120
Preferred stock dividend	1,238	1,958			3,196	(3,196)(g)	
Net income/(loss) available to common stockholders	$ 18,703	$ (5,206)	$ (7,004)	$ (8,641)	$ (2,148)	$ 7,268	$ 5,120
Earnings per share							
Basic		$ (.67)			$ .01		$ .05
Diluted		$ (.67)			$ .01		$ .05
Weighted average shares (in thousands)							
Basic		7,815			95,689(h)		95,689(h)
Diluted		7,815			100,907(h)		100,907(h)

See accompanying Notes to Unaudited Pro Forma As Adjusted Financial Data

Table of Contents

Unaudited Pro Forma As Adjusted Condensed Consolidated Statement of Income

for the Nine Months Ended September 30, 2003

	Historical			Pro Forma	
	Period from January 1, 2003 to September 30, 2003	Pro Forma Recapitalization Adjustments	Pro Forma	Offering Adjustments	Pro Forma as Adjusted
($ in thousands, except per share data)					
Net sales	$ 342,359	$	$ 342,359	$	$ 342,359
Cost of sales	158,804		158,804		158,804
Operating expenses	125,015		125,015		125,015
Operating income/(loss)	58,540		58,540		58,540
Net interest (income)/expense	13,741	9,316 (d)	23,057	(4,877)(e)	18,180
Other (income)/expense	1,478		1,478		1,478
Income/(loss) before income taxes	43,321	(9,316)	34,005	4,877	38,882
Income taxes	17,332	(3,633)(f)	13,699	1,902 (f)	15,601
Net income/(loss)	$ 25,989	$ (5,683)	$ 20,306	$ 2,975	$ 23,281
Preferred stock dividend	8,764		8,764	(8,764)(g)	
Net income/(loss) available to common stockholders	$ 17,225	$ (5,683)	$ 11,542	$ 11,739	$ 23,281
Earnings per share					
Basic	$ 2.13		$ 1.43		$ .24
Diluted	$ .28		$ .22		$ .23
Weighted average shares (in thousands)					
Basic	8,091		8,091		95,689(h)
Diluted	93,143		93,143		100,907(h)

See accompanying Notes to Unaudited Pro Forma As Adjusted Financial Data

Table of Contents

Notes to Unaudited Pro Forma As Adjusted Financial Data

(dollars in thousands)

(a) Represents the step-up in the value of inventories acquired in the Tempur acquisition to fair market value.

	Twelve months Ended December 31, 2002
Estimated inventory step-up adjustment as if the Tempur acquisition occurred at the beginning of the respective period	$ 7,769
Actual Tempur acquisition step-up adjustment recorded as of November 1, 2002	9,780
	$ (2,011)

(b) Represents additional depreciation expense on step-up in the value of property, plant and equipment acquired in the Tempur acquisition to fair market value and additional amortization of the intangibles resulting from the Tempur acquisition.

	Twelve months Ended December 31, 2002
Additional depreciation expense on the step-up in the value of property, plant and equipment as if the Tempur acquisition occurred as of the beginning of the respective period	$ 304
Additional amortization expense of intangible assets resulting from the Tempur acquisition as if the Tempur acquisition occurred at the beginning of the respective period	7,301
	$ 7,605

(c) Represents additional interest expense and amortization of debt issuance costs associated with Tempur acquisition borrowings for the Tempur pre-acquisition period, net of the elimination of Tempur pre-acquisition interest and amortization expense.

	Twelve months Ended December 31, 2002
Additional interest expense as if the Tempur acquisition occurred at the beginning of the respective period, net of the elimination of Tempur pre-acquisition interest expense	$ 4,855
Additional debt issuance costs amortization as if the Tempur acquisition occurred at the beginning of the respective period	1,033

$	5,888

Interest expense was calculated using an assumed variable interest rate of 4.6% (three-month LIBOR plus applicable margin of 375 points) on the amended senior credit facilities and 12.5% on the mezzanine debt facility entered into in conjunction with Tempur acquisition. The actual interest rates on the variable rate indebtedness incurred to consummate the Tempur acquisition could vary from those used to compute the above adjustment of interest expense. A one-half percent increase in these rates would increase interest expense for the the twelve months ended December 31, 2002 by approximately $0.7 million.

Table of Contents

(d) Represents additional interest expense and amortization of debt issuance costs associated with the recapitalization.

	Twelve months Ended December 31, 2002	Nine months Ended September 30, 2003
Additional interest expense as if the recapitalization occurred at the beginning of the respective period	$ 12,724	$ 8,382
Additional debt issuance costs amortization as if the recapitalization occurred at the beginning of the respective period, net of the elimination of amortization with respect to the mezzanine debt facility	1,441	934
	$ 14,165	$ 9,316

Interest expense on the notes was calculated using the actual interest rate on the notes. The assumed weighted average variable interest rate of 4.5% (three-month LIBOR plus applicable margin of 325 to 350 points) on the variable rate indebtedness incurred to consummate the recapitalization could vary from those used to compute the above adjustment of interest expense. A one-half percent increase in these variable rates would increase interest expense for the nine months ended September 30, 2003 and the twelve months ended December 31, 2002 by approximately $0.8 million and $2.0 million, respectively.

(e) Represents reduction of interest expense due to the prepayment of debt from the proceeds of this offering, net of additional amortization of deferred financing costs.

	Twelve months Ended December 31, 2002	Nine months Ended September 30, 2003
Reduction of interest expense due to prepayment of debt	$ (6,988)	$ (5,226)
Additional amortization of deferred financing cost	309	349
	$ (6,679)	$ (4,877)

(f) Reflects the tax effects of the recapitalization and Tempur acquisition pro forma adjustments based upon an effective tax rate of 39%.

(g) Represents elimination of preferred stock dividend as preferred stock will convert to common stock following this offering.

(h) Pro forma earnings per share is based on the weighted average number of shares of common stock outstanding after giving effect to the offering, the automatic conversion of all outstanding shares of our convertible preferred stock and all outstanding classes of our common stock and the mandatory exercise of our outstanding warrants into shares of our common stock upon completion of the offering and the 525-for-one stock split granted in the form of a stock dividend.

Table of Contents

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth our selected historical consolidated financial and operating data for the periods indicated. Our predecessor company for periods prior to January 1, 2000 is a combination of our Danish manufacturing operations and the United States distribution entity and is sometimes referred to as the pre-predecessor company. Tempur World, Inc. was formed on January 1, 2000 to combine the manufacturing facilities and the worldwide distribution capabilities of all Tempur products, and our predecessor company for the period from January 1, 2000 to October 31, 2002 is Tempur World, Inc. We completed the Tempur acquisition (which we accounted for using the purchase method of accounting) as of November 1, 2002. As a result of adjustments to the carrying value of assets and liabilities pursuant to the acquisition, the financial position and results of operations for periods subsequent to the Tempur acquisition are not comparable to those of our predecessor or pre-predecessor companies.

We have derived the statement of operations and balance sheet data for our pre-predecessor company as of and for the years ended April 30, 1998 and 1999 and the eight months ended December 31, 1999 from the combined audited financial statements of our pre-predecessor company. We have derived the statements of operations and balance sheet data as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002 from the audited financial statements of our predecessor company. We have derived our statements of operations and balance sheet data as of and for the two months ended December 31, 2002 from our audited financial statements. We have derived the statement of operations data and balance sheet data as of and for the nine month period ended September 30, 2002 from our predecessor company s unaudited condensed consolidated interim financial statements. We have derived the statement of operations and balance sheet data as of and for the nine month period ended September 30, 2003 from our unaudited condensed consolidated interim financial statements. In the opinion of management, our unaudited condensed consolidated interim financial statements have been prepared on a basis consistent with our audited financial statements for the two months ended December 31, 2002 and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim period. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Our predecessor company s financial statements as of and for the years ended December 31, 2000 and 2001 and the ten months ended October 31, 2002, its unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2002 and our financial statements for the two months ended December 31, 2002 and our unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2003 are included elsewhere in this prospectus.

Table of Contents

($ in thousands, except per share data)	Pre-Predecessor Year ended April 30, 1998	Pre-Predecessor Year ended April 30, 1999	Pre-Predecessor 8 Months ended December 31, 1999	Predecessor Year ended December 31, 2000	Predecessor Year ended December 31, 2001	Predecessor Period from January 1, 2002 to October 31, 2002	Tempur-Pedic International Period from November 1, 2002 to December 31, 2002	Predecessor Nine Months ended September 30, 2002 (unaudited)	Tempur-Pedic International Nine Months ended September 30, 2003 (unaudited)
Statement of Operations Data:									
Net sales	$ 58,800	$ 85,245	$ 73,635	$ 161,969	$ 221,514	$ 237,314	$ 60,644	$ 205,944	$ 342,359
Cost of sales(1)	37,932	55,500	45,755	89,450	107,569	110,228	37,811	95,822	158,804
Gross profit	20,868	29,745	27,880	72,519	113,945	127,086	22,833	110,122	183,555
Operating expenses(2)	10,795	21,678	16,410	50,081	83,574	86,693	23,816	77,627	125,015
Operating income/(loss)	10,073	8,067	11,470	22,438	30,371	40,393	(983)	32,495	58,540
Net interest expense	482	976	997	2,225	6,555	6,292	2,955	5,713	13,741
Other (income)/expense	(1,337)	(10)	793	947	316	1,724	(1,330)	(652)	1,478
Income/(loss) before income taxes	10,928	7,101	9,680	19,266	23,500	32,377	(2,608)	27,434	43,321
Income taxes	4,821	2,821	3,851	6,688	11,643	12,436	640	12,493	17,332
Net income/(loss)	6,107	4,280	5,829	12,578	11,857	19,941	(3,248)	14,941	25,989
Preferred stock dividend					345	1,238	1,958	1,109	8,764
Net income/(loss) available to common stockholders	$ 6,107	$ 4,280	$ 5,829	$ 12,578	$ 11,512	$ 18,703	$ (5,206)	$ 13,832	$ 17,225
Earnings per share(3)									
Basic							$ (.67)		$ 2.13
Diluted							$ (.67)		$ .28
Weighted average shares (in thousands)									
Basic							7,815		8,091
Diluted							7,815		93,143
Balance Sheet Data (at end of period):									
Cash and cash equivalents	$ 2,412	$ 2,877	$ 1,984	$ 10,572	$ 7,538	$ 6,380	$ 12,654	$ 5,518	$ 12,512
Total assets	34,520	49,276	66,404	144,305	176,841	199,641	448,593	193,432	535,183
Total debt	6,496	8,637	19,508	71,164	106,023	89,050	198,352	91,454	382,532
Redeemable preferred stock					11,715	15,331		15,199	
Total stockholders equity	9,495	12,862	14,424	38,237	16,694	39,895	151,606	34,746	25,523
Other Financial and Operating Data (GAAP):									
Depreciation and amortization				$ 6,002	$ 10,051	$ 10,383	$ 3,306	$ 10,066	$ 14,437
Net cash provided by operating activities				1,125	19,716	22,706	12,385	15,091	41,770
Net cash used in investing activities				(27,014)	(34,862)	(4,646)	(1,859)	(3,534)	(16,545)
Net cash (used in)/provided by financing activities				34,314	12,593	(19,702)	(4,221)	(13,330)	(24,808)

Capital expenditures	27,418	35,241	9,175	1,961	7,660	17,266
Other Financial and Operating Data (non-GAAP):						
Number of pillows sold(4)	1,717,476	1,819,993	1,528,608	407,476	1,354,331	2,199,223
Number of mattresses sold(4)	173,338	212,695	218,656	50,564	194,085	283,078

(1) Includes $9.8 million in non-cash charges for the two months ended December 31, 2002 relating to the step-up in inventory as of November 1, 2002 relating to the Tempur acquisition.

(2) Includes $19.3 million in non-cash charges for the nine months ended September 30, 2003 comprised of $13.6 million relating to the non-recurring write-off of deferred financing fees in connection with the recapitalization, $3.8 million in amortization of definite-lived intangibles and $1.9 million in non-cash stock-based compensation expense relating to stock option grants and acceleration.

(3) Pre-predecessor company and predecessor company earnings per share have been omitted as such information is not considered meaningful due to the change in capital structure that occurred with the Tempur acquisition.

(4) Number of units sold is before the consideration of returned mattresses and pillows.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the section Selected Historical Consolidated Financial and Operating Data, the audited consolidated financial statements and accompanying notes thereto and the unaudited consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for Tempur-Pedic International Inc. or its predecessors. The forward-looking statements in this discussion regarding the mattress and pillow industries, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described under Risk Factors and elsewhere in this prospectus. Our actual results may differ materially from those contained in any forward-looking statements.

General

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In the three year period ended December 31, 2002, our total net sales grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 million.

Tempur-Pedic International was formed in 2002 by TA and FFL to acquire Tempur World, Inc., or Tempur World. This acquisition occurred effective November 1, 2002. The financial information for the periods prior to November 1, 2002 are based on the financial information for Tempur World and its consolidated subsidiaries, which we sometimes collectively refer to as our predecessor company. For purposes of this Management s Discussion and Analysis of Financial Condition and Results of Operations, we, our, ours and us refer to Tempur-Pedic International and its consolidated subsidiaries for the period from and after November 1, 2002 and refer to our predecessor company for periods prior to November 1, 2002.

Business Segment Information

We operate in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately.

Beginning in 2002, following the opening of our United States manufacturing facility, we changed our reporting structure from a single segment to Domestic and International reporting segments. This change was consistent with our ability to monitor and report operating results in each of these segments. The Domestic segment consists of our United States manufacturing facility, which commenced operations in July 2001 and whose customers include our United States distribution subsidiary and certain North American third party distributors. The International segment consists of our manufacturing facility in Denmark, whose customers include all of our distribution subsidiaries and third party distributors outside the Domestic segment. Our International segment includes our sales and distribution companies operating in Europe, Japan, South Africa and Singapore. In addition, we have third party distributor arrangements in the Asia/Pacific, Middle East, Eastern Europe, Central and South America, Canada and Mexico markets. We evaluate segment performance based on sales and operating income.

As we operated in one segment prior to the commencement of our United States manufacturing operations, we have not restated prior year segment information to reflect our new reporting structure.

Critical Accounting Policies

Our management is responsible for our financial statements and has evaluated the accounting policies to be used in their preparation. Our management believes these policies are reasonable and appropriate. The following discussion identifies those accounting policies that we believe will be critical in the preparation of our financial statements, the judgments and uncertainties affecting the application of those policies and the possibility that materially different amounts will be reported under different conditions or using different assumptions.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that the management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Our estimates of sales returns are a critical component of our revenue recognition. We recognize sales, net of estimated returns, when we ship our products to customers and the risks and rewards of ownership are transferred to them. Estimated sales returns are provided at the time of sale, based on our level of historical sales returns. We allow returns for up to 120 days following a sale, depending on the channel and promotion. Our level of sales returns differs by channel, with our direct channel typically experiencing the highest rate of returns. Our level of returns has been generally stable over the last five years and consistent with our estimates.

Warranties

Cost of sales includes estimated costs to service warranty claims of our customers. Our estimate is based on our historical claims experience and extensive product testing that we perform from time to time. We provide a 20-year warranty for United States sales and a 15-year warranty for non-United States sales on mattresses, each prorated for the last 10 years. Because our products have not been in use by our customers for the full warranty period, we rely on the combination of historical experience and product testing for the development of our estimate for warranty claims. Our estimate of warranty claims could be adversely affected if our historical experience ultimately proves to be greater than the performance of the product in our product testing. We also provide 2-year to 3-year warranties on pillows. Estimated future obligations related to these products are provided by charges to operations in the period in which the related revenue is recognized. Our estimated obligation for warranty claims as of September 30, 2003 was $3.8 million.

Impairment of Goodwill, Intangibles and Long-Lived Assets

Goodwill reflected in our consolidated balance sheet consists of the purchase price from the Tempur acquisition in excess of the estimated fair values of identifiable net assets as of the date of the Tempur acquisition. Intangibles consist of tradenames for various brands under which our products are sold. Other intangibles include our customer database for our direct channel, process technology and the formulation of our visco-elastic foam.

As of January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets. Pursuant to the provisions of SFAS 142, we stopped amortizing goodwill and indefinite-lived intangible assets and perform an impairment test on goodwill and indefinite-lived intangibles at least annually. The impairment test requires the identification of potential impairment by comparing the fair value of our reporting units to their carrying values, including the applicable goodwill and indefinite-lived intangibles. These fair values are determined by calculating the discounted cash flow expected to be generated by each reporting unit taking into account what we consider to be the appropriate industry and market rate assumptions. If the carrying value exceeds the fair value, then a second step is performed which

Table of Contents

compares the implied fair value of the applicable reporting unit s goodwill and indefinite-lived intangibles with the carrying amount of that goodwill and indefinite-lived intangible to measure the amount of impairment, if any. In addition to performing the required impairment test, SFAS 142 requires us to reassess the expected useful lives of existing intangible assets including those for which the useful life is determinable.

Estimates of fair value for our reporting units involve highly subjective judgments on the part of management, including the amounts of cash flows to be received, their estimated duration, and perceived risk as reflected in selected discount rates. In some cases, cash flows may be required to be estimated without the benefit of historical data, although historical data will be used where available. Although we believe our estimates and judgments are reasonable, different assumptions and judgments could result in different impairment, if any, of some or all of our recorded goodwill and indefinite-lived intangibles of $264.2 million as of September 30, 2003.

Long-lived assets reflected in our consolidated balance sheet consists of property, plant and equipment. Accounting for the impairment of long-lived assets is governed by Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets.

SFAS 144 requires that whenever events or circumstances indicate that we may not be able to recover the net book value of our productive assets through future cash flows, an assessment must be performed of expected future cash flows, and undiscounted estimated future cash flows must be compared to the net book value of these productive assets to determine if impairment is indicated. Impaired assets are written down to their estimated fair value by recording an impairment charge to earnings. SFAS 144 provides that fair values may be estimated using discounted cash flow analysis or quoted market prices, together with other available information, to estimate fair values. We primarily use discounted cash flow analysis to estimate the fair value of productive assets when events or circumstances indicate that we may not be able to recover our net book values.

The application of SFAS 144 requires the exercise of significant judgment and the preparation of numerous significant estimates. Although we believe that our estimates of cash flows in our application of SFAS 144 are reasonable, and based upon all available information, including historical cash flow data about the prior use of our assets, such estimates nevertheless require substantial judgments and are based upon material assumptions about future events.

Income Tax Accounting

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. These deferred taxes are measured by applying the provisions of tax laws in effect at the balance sheet date.

We recognize deferred tax assets in our balance sheet, and these deferred tax assets typically represent items deducted currently in the financial statements that will be deducted in future periods in tax returns. In accordance with SFAS 109, a valuation allowance is recorded against these deferred tax assets to reduce the total deferred tax assets to an amount that will, more likely than not, be realized in future periods. The valuation allowance is based, in part, on our estimate of future taxable income, the expected utilization of tax loss carryforwards, both domestic and foreign, and the expiration dates of tax loss carryforwards. Significant assumptions are used in developing the analysis of future taxable income for purposes of determining the valuation allowance for deferred tax assets which, in our opinion, are reasonable under the circumstances.

In conjunction with the acquisition of Tempur World on November 1, 2002, Tempur-Pedic International repatriated approximately $44.2 million from one of its foreign subsidiaries in the form of a loan that under applicable United States tax principles is treated as a taxable dividend. In addition, Tempur-Pedic International

33

Table of Contents

has provided for the remaining undistributed earnings as of November 1, 2002 of $10.1 million. Provisions have not been made for United States income taxes or foreign withholding taxes on undistributed earnings of foreign subsidiaries since the Tempur acquisition, as these earnings are considered indefinitely reinvested.

Undistributed foreign earnings as of September 30, 2003 were approximately $68.4 million. These earnings could become subject to United States income taxes and foreign withholding taxes (subject to a reduction for foreign tax credits) if they were remitted as dividends, were loaned to Tempur-Pedic International or a United States subsidiary, or if Tempur-Pedic International should sell its stock in the subsidiaries.

Stock-Based Compensation.

We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and comply with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Several companies recently elected to change their accounting policies and record the fair value of options as an expense. We currently are not required to record stock-based compensation charges if the employee stock option exercise price or restricted stock purchase price equals or exceeds the deemed fair value of our common stock at the grant date. Because no market for our common stock existed prior to this offering, our board of directors determines the fair value of our common stock based upon several factors, including our operating performance, forecasted future operating results, the terms of redeemable or convertible preferred stock issued by us, including the liquidation value and other preferences of our preferred stockholders and our expected valuation in an initial public offering.

In addition, we understand that discussions of potential changes to APB 25 and SFAS 123 standards are ongoing and the parties responsible for authoritative guidance in this area may require changes to the applicable accounting standards. If we had estimated the fair value of the options on the date of grant using a minimum value pricing model and then amortized this estimated fair value over the vesting period of the options, our net income (loss) would have been adversely affected.

In connection with stock option grants to certain employees, we recorded non-cash stock-based compensation expense during 2003 in the amount of approximately $1.9 million. The Company has recorded unearned non-cash stock-based compensation of $11.3 million as of September 30, 2003. The unearned non-cash stock-based compensation will be amortized to compensation expense over the respective vesting term, based on the graded vesting methodology.

Results of Operations

The results of operations include the effect of the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed for the period from November 1, 2002 through December 31, 2002. These adjustments include, among other items, a write up to fair value of the inventory acquired of $9.8 million and is reflected in cost of sales for the two months ended December 31, 2002.

Table of Contents

The following table sets forth the various components of our consolidated statements of operations, expressed as a percentage of net revenue, for the periods indicated:

	Year ended December 31, 2000	Year ended December 31, 2001	Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Pro forma as Adjusted Twelve Months Ended December 31, 2002	Nine Months ended September 30, 2002	Nine Months ended September 30, 2003
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.2	48.6	46.5	62.4	49.0	46.5	46.4
Gross profit	44.8	51.4	53.5	37.6	51.0	53.5	53.6
Selling expenses	18.3	23.5	25.1	25.3	25.1	25.2	22.0
General and administrative and other	12.6	14.2	11.4	14.0	12.5	12.5	14.5
Operating income	13.9	13.7	17.0	(1.7)	13.4	15.8	17.1
Interest expense, net	1.4	3.0	2.7	5.0	7.6	2.8	4.0
Other expense, net	0.6	0.1	0.7	(2.4)	0.1	(0.3)	0.4
Income before income taxes	11.9	10.6	13.6	(4.3)	5.7	13.3	12.7
Income tax provision	4.1	5.2	5.2	1.0	2.7	6.1	5.1
Net income	7.8%	5.4%	8.4%	(5.3)%	3.0%	7.2%	7.6%

We generate sales, net of returns, by selling our products through four distribution channels: direct, retail, healthcare and third party. The direct channel sells directly to consumers. Our retail channel sells primarily to furniture and specialty stores, as well as department stores internationally. Our healthcare channel sells our products primarily to hospitals, nursing homes, healthcare professionals and medical retailers. The following table sets forth net sales information, by channel and by segment, for the periods indicated:

	Year ended December 31, 2000	Year ended December 31, 2001	Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Pro forma as Adjusted Twelve Months Ended December 31, 2002	Nine months ended September 30, 2002	Nine months ended September 30, 2003
($ in millions)							
Retail	$ 77.8	$ 116.9	$ 141.7	$ 36.0	$ 177.7	$ 123.2	$ 217.5
Direct	31.1	47.6	46.4	12.4	58.8	38.6	63.7
Healthcare	33.1	33.5	32.8	8.4	41.2	29.1	31.9

Third Party	20.0	23.5	16.5	3.8	20.3	15.2	29.3
Domestic	$ 74.1	$ 113.2	$ 131.3	$ 33.8	$ 165.3	$ 114.0	$ 199.7
International	87.9	108.3	106.1	26.8	132.7	91.9	142.7

Nine Months Ended September 30, 2003 Compared With Nine Months Ended September 30, 2002

Net Sales. Net sales for the nine months ended September 30, 2003 were $342.4 million as compared to $205.9 million for the nine months ended September 30, 2002, an increase of $136.5 million, or 66.3%. The increase in net sales was attributable to growth in our Domestic net sales to $199.7 million for the nine months ended September 30, 2003 as compared to $114.0 million for the nine months ended September 30, 2002, an increase of $85.7 million, or 75.2%, and an increase in our International net sales to $142.7 million for the nine months ended September 30, 2003 as compared to $91.9 million for the nine months ended September 30, 2002, an increase of $50.8 million, or 55.3%. The growth in our Domestic net sales was attributable primarily to an increase in net sales in our retail channel of $60.4 million and in the direct channel of $24.1 million, and the growth in our International net sales was attributable primarily to growth in the retail channel of $34.1 million. During the second quarter 2002, we introduced a new mattress, the Deluxe Mattress, which represented $23.2 million, or 11.6%, of Domestic net sales for the nine months ended September 30, 2003, and a new pillow, the Comfort Pillow, which represented $6.0 million, or 3.0%, of Domestic net sales for the nine months ended September 30, 2003.

Cost of Sales. Cost of sales includes the cost of raw material purchases, manufacturing costs and distribution costs associated with the production and sale of products to our customers. The cost of delivering our products to customers is also included in cost of sales. Cost of sales increased to $158.8 million for the nine months ended September 30, 2003 as compared to $95.8 million for the nine months ended September 30, 2002, an increase of $63.0 million, or 65.8%, although cost of sales decreased as a percentage of net sales from 46.5% in the nine months ended September 30, 2002 to 46.4% in the nine months ended September 30, 2003. This decrease in cost of sales as a percentage of net sales was due to improved manufacturing utilization and an increase in pillow net sales as a percentage of our total net sales. We generally experience higher margins on our pillows than on our mattresses and, accordingly, our cost of sales as a percentage of our net sales is affected by changes in our product sales mix. Our Domestic cost of sales increased to $104.7 million for the nine months ended September 30, 2003 as compared to $56.4 million for the nine months ended September 30, 2002, an increase of $48.3 million, or 85.6%. Our International cost of sales increased to $48.8 million for the nine months ended September 30, 2003 as compared to $39.4 million for the nine months ended September 30, 2002, an increase of $9.4 million, or 23.9%, excluding eliminations for sales from the International segment to the Domestic segment.

Selling Expenses. Selling expenses include advertising and media production associated with our direct channel, other marketing materials such as catalogs, brochures, videos, product samples, direct customer mailings and point of purchase materials, and sales force compensation and customer service. We also include in selling expenses our new product development costs, including market research and testing for new products. Selling expenses increased to $75.2 million for the nine months ended September 30, 2003 as compared to $51.9 million for the nine months ended September 30, 2002, an increase of $23.3 million, or 44.9%, but decreased as a percentage of net sales to 22.0% during the nine months ended September 30, 2003 from 25.2% for the nine months ended September 30, 2002. The increase in the dollar amount of selling expenses was due to additional spending on advertising, sales compensation and point of purchase materials. The decrease as a percentage of net sales was primarily due to an increase in the net sales of our retail channel to $217.4 million for the nine months ended September 30, 2003 as compared to $123.2 million for the nine months ended September 30, 2002, an increase of $94.2 million or 76.5%. This increase was due primarily to an increase in net sales in our retail channel, as a percentage of total net sales, to 63.5% of total net sales for the nine months ended September 30, 2003 as compared to 59.7% of total net sales for the nine months ended September 30, 2002. Our retail channel has lower selling expenses than our other channels on a combined basis and, accordingly, our selling expenses as a percentage of our net sales are affected by the level of our retail sales as a percentage of our total sales.

General and Administrative and Other. General and administrative and other expenses include management salaries, information technology, professional fees, depreciation of furniture and fixtures, leasehold improvements and computer equipment, expenses for finance, accounting, human resources and other administrative functions, and research and development costs associated with our new product developments. General and administrative and other expenses increased to $49.8 million for the nine months ended September 30, 2003 as compared to $25.8 million for the nine months ended September 30, 2002, an increase of $24.0 million, or 93.0%. Included in general and administrative and other expenses are expenses totaling $13.6 million relating to the write off of deferred financing fees, original issue discount and prepayment penalties relating to our recapitalization in August 2003, expenses totaling $3.8 million in amortization of definite-lived intangibles and expenses totaling $1.9 million relating to stock option grants and accelerations. The Company has recorded unearned non-cash stock-based compensation of $11.3 million as of September 30, 2003. The unearned non-cash stock-based compensation will be amortized to compensation expense over the respective vesting term, based on the graded vesting methodology. Excluding the expenses related to the recapitalization, general and administrative and other expenses increased as a percentage of net sales to 13.4% during the nine months ended September 30, 2003 from 12.5% for the nine months ended September 30, 2002. The increase, excluding the expenses associated with the recapitalization, was due to additional spending on corporate overhead expenses, including information technology and professional services. The decrease, excluding the expenses associated with the recapitalization, as a percentage of sales was due to increased operating leverage from fixed administrative and research and development costs.

Interest Expense, Net. Interest expense, net includes the interest costs associated with our senior and mezzanine debt facilities and the amortization of deferred financing costs related to those facilities. Interest expense, net increased to $13.7 million for the nine months ended September 30, 2003 as compared to $5.7 million for the nine months ended September 30, 2002, an increase of $8.0 million. This increase was due to higher average debt levels and the incurrence of additional debt from the recapitalization in August 2003. In 2003, we entered into an interest rate cap agreement that effectively capped $60.0 million of our floating-rate debt at an interest rate of 5% plus applicable margin through March 2006. We are required under our existing credit agreements to hedge at least $60.0 million of our floating rate senior term debt.

Income Tax Provision. Our income tax provision includes income taxes associated with taxes currently payable and deferred taxes and includes the impact of the utilization of foreign tax credits associated with our foreign earnings and profits and net operating losses for certain of our foreign operations. Our effective income tax rates in 2003 and 2002 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes, valuation allowances on foreign net operating losses and foreign tax credits. Our effective tax rate for the nine months ended September 30, 2003 and September 30, 2002 was approximately 40.0% and 45.5%, respectively. Our effective tax rate between the nine month periods has decreased principally as a result of decreasing foreign net operating losses, which are fully reserved, and a decrease in foreign income taxable in the U.S. (Subpart F) income.

Unaudited Pro forma as Adjusted for the Twelve Months Ended December 31, 2002 Compared With Year Ended December 31, 2001

The following unaudited pro forma as adjusted data for the twelve months ended December 31, 2002 (pro forma twelve months ended December 31, 2002) are based on the historical financial statements for our predecessor for the ten months ended October 31, 2002 and Tempur-Pedic International for the two months ended December 31, 2002. The pro forma twelve months ended December 31, 2002 are adjusted to give effect to the Tempur acquisition and the recapitalization as if they had occurred at the beginning of the period presented.

For the predecessor ten months ended October 31, 2002, our net sales were $237.3 million and cost of sales was $110.2 million. Our selling expenses were $59.6 million and general and administrative and other expenses were $27.1 million. Interest expense, net was $6.3 million and the income tax provision was $12.4 million.

For the successor two months ended December 31, 2002 our net sales were $60.6 million and cost of sales was $37.8 million. Our selling expenses were $15.3 million and general and administrative and other expenses were $8.5 million. Interest expense, net was $3.0 million and the income tax provision was $0.6 million.

Net Sales. Net sales were $298.0 million for pro forma twelve months ended December 31, 2002 as compared to $221.5 million for the year ended December 31, 2001, an increase of $76.5 million, or 34.5%. The increase in net sales was attributable to growth in Domestic net sales to $165.3 million for pro forma twelve months ended December 31, 2002, as compared to $113.2 million for the year ended December 31, 2001, an increase of $52.1 million, or 46.0%, and an increase in International net sales to $132.7 million for pro forma twelve months ended December 31, 2002, as compared to $108.3 million for the year ended December 31, 2001, an increase of $24.4 million, or 22.5%. Growth in Domestic net sales was due primarily to an increase in net sales in our retail channel of $40.6 million and an increase in net sales in our direct channel of $8.2 million. Growth in International net sales was due primarily to an increase in net sales in Japan, consisting primarily of pillows, of 51.2% for pro forma twelve months ended December 31, 2002, partially offset by the general economic slowdown in Europe over the year ended December 31, 2001.

Cost of Sales. Cost of sales increased to $146.0 million for pro forma twelve months ended December 31, 2002 as compared to $107.6 million for the year ended December 31, 2001, an increase of $38.4 million, or 35.7%. The increase was primarily due to increased plant capacity with the addition of our United States manufacturing facility in July 2001. Our cost of sales as a percentage of total net sales increased to 49.0% for pro forma twelve months ended December 31, 2002 as compared to 48.6% for the year ended December 31, 2001, due primarily to the pro forma inventory step-up of $7.8 million and fixed capacity costs in our United States manufacturing facility, partially offset by a reduction in importation duties to the United States as a result of the commencement of operations at our United States manufacturing facility.

Selling Expenses. Selling expenses increased to $74.9 million for pro forma twelve months ended December 31, 2002 as compared to $52.1 million for the year ended December 31, 2001, an increase of $22.8 million or 43.8%, and increased as a percentage of net sales to 25.1% for pro forma twelve months ended December 31, 2002 as compared to 23.5% for the year ended December 31, 2001. The increase was due to additional spending on direct sales advertising, sales compensation, point of purchase materials provided to the indirect channel and market research related to new product development. The increase as a percentage of net sales was primarily due to an increase in use of television advertising.

General and Administrative and Other. General and administrative and other expenses increased to $37.1 million for pro forma twelve months ended December 31, 2002 as compared to $31.5 million for the year ended December 31, 2001, an increase of $5.6 million, or 17.8%, but decreased as a percentage of net sales to 12.5% for pro forma twelve months ended December 31, 2002 as compared to 14.2% for the year ended December 31, 2001. The increase was due primarily to additional spending on corporate overhead expenses of $0.2 million, including information technology and professional services and an increase in the pro forma depreciation and amortization of property, plant and equipment and intangible assets of $1.6 million.

Interest Expense, Net. Interest expense, net increased to $22.6 million for pro forma twelve months ended December 31, 2002 as compared to $6.6 million for the year ended December 31, 2001, an increase of $16.0 million, or 242.4%. This increase was due to higher average pro forma debt levels as a result of the Tempur acquisition and the recapitalization during the period.

Income Tax Provision. The effective income tax rates in 2003 and pro forma twelve months ended December 31, 2002 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes and foreign tax credits. The effective tax rate for pro forma twelve months ended December 31, 2002 was approximately 52.6% compared to approximately 49.4% in 2001. This higher effective tax rate for pro forma twelve months ended December 31, 2002 compared to 2001 was primarily due to increased pro forma interest expense and partially offset by the fact that we no longer amortize goodwill which was previously a non-deductible item for tax purposes.

Year Ended December 31, 2001 Compared With Year Ended December 31, 2000

Net Sales. Net sales for the year ended December 31, 2001 were $221.5 million, as compared to $162.0 million for the year ended December 31, 2000, an increase of $59.5 million, or 36.7%. The increase in net sales was attributable to growth in Domestic net sales to $113.2 million for the year ended December 31, 2001 as compared to $74.1 million for the year ended December 31, 2000, an increase of $39.1 million, or 53.0%, and an increase in International net sales to $108.3 million for the year ended December 31, 2001 as compared to $87.9 million for the year ended December 31, 2000, an increase of $20.4 million, or 23.2%. The increase in Domestic net sales was attributable primarily to an increase in net sales in our retail channel of $17.7 million and an increase in net sales in our direct channel of $18.3 million, and the increase in International net sales was attributable to an increase in net sales in our retail channel of $21.4 million.

Cost of Sales. Cost of sales increased to $107.6 million for the year ended December 31, 2001 as compared to $89.5 million for the year ended December 31, 2000, an increase of $18.1 million, or 20.2%, but decreased as a percentage of net sales to 48.6% for the year ended December 31, 2001 from 55.2% for the year ended December 31, 2000. This decrease as a percentage of net sales was primarily due to payments made during 2000 under a license agreement with Tempur World s former parent company, Fagerdala Industri, AB, of $10.5 million, which was terminated at the end of 2000. Additionally, cost of sales was affected by increased plant capacity with the addition of our United States manufacturing facility in July 2001, because our new United States facility did not become operational until fourth quarter 2001.

Selling Expenses. Selling expenses increased to $52.1 million for the year ended December 31, 2001 as compared to $29.6 million for the year ended December 31, 2000, an increase of $22.5 million or 76.0%, and increased as a percentage of net sales to 23.5% for the year ended December 31, 2001 from 18.3% for the year ended December 31, 2000. The increase was due to additional spending on direct sales advertising, increased direct customer mailings, sales compensation and market research related to new product development. The increase as a percentage of net sales was primarily due to an increase in the number of direct customer mailings.

General and Administrative and Other. General and administrative and other expenses increased to $31.5 million for the year ended December 31, 2001 as compared to $20.5 million for the year ended December 31, 2000, an increase of $11.0 million, or 53.7%, and increased as a percentage of net sales to 14.2% for the year ended December 31, 2001 from 12.6% for the year ended December 31, 2000. The increase was due to spending on the formation and operation of our corporate headquarters in the United States and overhead expenses including information technology investments and professional services, and was partially offset by a decrease of $0.5 million due to certain identifiable intangibles being fully amortized during 2001.

Interest Expense, Net. Interest expense, net increased to $6.6 million for the year ended December 31, 2001 as compared to $2.2 million for the year ended December 31, 2000, an increase of $4.4 million, primarily due to increased average debt levels. During the third quarter of 2001, Tempur World completed a financing transaction of $115.0 million of a new senior credit facility to provide long-term financing for the new United States manufacturing operations and the repurchase of stock from certain stockholders. Included in interest expense, net was $0.2 million of amortization related to deferred financing costs for the year ended December 31, 2001 that was being amortized over the life of our outstanding senior credit facility.

Income Tax Provision. Our effective income tax rates in 2001 and 2000 differed from the federal statutory rate principally because of the effect of certain foreign tax rate differentials, state and local income taxes and foreign tax credits. Our effective tax rate for 2001 was approximately 49.5% compared to approximately 34.7% in 2000. This higher effective tax rate for 2001 compared to 2000 was primarily due to an increase in deferred tax asset valuation allowances for certain foreign net operating losses, limitations on the deductibility of charitable contributions and Subpart F income from foreign operations.

Liquidity and Capital Resources

Liquidity

At September 30, 2003, we had working capital of $39.5 million including cash and cash equivalents of $12.5 million as compared to working capital of $31.3 million including $12.7 million in cash and cash equivalents as of December 31, 2002. The $0.2 million increase in cash and cash equivalents was primarily related to net income for the nine month period ended September 30, 2003 of $26.0 million and an increase in the change in income taxes payments of $10.7 million offset by investments in property, plant and equipment of $17.2 million and cash used in financing activities of $24.8 million. The $8.2 million increase in working capital was driven primarily by an increase in accounts receivable and inventory offset by an increase in income taxes payable, accounts payable and accrued expenses.

Our principal sources of funds are cash flows from operations and borrowings under our United States and European revolving credit facilities. Our principal use of funds consists of capital expenditures and payments of

Table of Contents

principal, and interest on our outstanding senior debt facilities. Capital expenditures totaled $11.1 million for pro forma twelve months ended December 31, 2002 and $17.3 million for the nine months ended September 30, 2003. We expect 2003 capital expenditures to be approximately $25.4 million, including the $18.0 million associated with the expansion of our United States manufacturing facility and approximately $5.0 million related to maintenance of our existing assets. Through September 30, 2003 we have spent approximately $10.1 million in connection with the expansion of our United States manufacturing facility. In November 2002, in connection with the Tempur acquisition, we obtained from a syndicate of lenders a $170.0 million senior secured credit facility under United States and European term loans and long-term revolving credit facilities. Additionally, we obtained a total of $50.0 million of 12.5% senior subordinated unsecured debt financing under United States and European term loans, all of which was drawn upon at the inception of this facility to fund a portion of the various payments required in connection with the Tempur acquisition. On August 15, 2003, in connection with the recapitalization, we amended and restated our senior secured credit facility, with a syndicate of United States and European lenders. The facility was increased from $170.0 million to a total of $270.0 million of senior secured U.S. and European term loans and revolving credit facilities. The amended senior facility consists of a (i) $20.0 million U.S. revolving credit facility; (ii) $30.0 million U.S. term loan A; (iii) $135.0 million U.S. term loan B (the U.S. revolving credit facility, term loan A and term loan B are collectively referred to as the US Facility); (iv) $20.0 million European revolving credit facility; and (v) $65.0 million European term loan A (the European revolving credit facility and term loan A are collectively referred to as the European Facility). The U.S. and European revolving credit facilities provide for the issuance of letters of credit to support local operations. At September 30, 2003, we had approximately $33.7 million available under our United States and European revolving credit facilities. Our net weighted-average borrowing cost was 6.9% for pro forma twelve months ended December 31, 2002 and 6.2% for the year ended December 31, 2001, and 6.9% and 5.7% for the nine months ended September 30, 2003 and September 30, 2002, respectively.

Our cash flow from operations increased to $35.1 million for pro forma twelve months ended December 31, 2002 as compared to $19.7 million for the year ended December 31, 2001, an increase of $15.4 million, or 78.2%. This increase resulted primarily from improved net income and working capital management. Our cash flow from operations increased to $41.8 million for the nine months ended September 30, 2003 as compared to $15.1 million for the nine months ended September 30, 2002, an increase of $26.7 million, or 176.8%. This increase in operating cash flows was primarily the result of increased net income, partially offset by increased investment in inventory as we continue to build up inventories in anticipation of our expanded capacity at our United States manufacturing facility becoming operational, which we expect will occur in the first quarter of 2004.

Net cash used in investing activities for pro forma twelve months ended December 31, 2002 and the years ended December 31, 2001 and 2000 was $6.5 million, $34.9 million and $27.0 million, respectively. Investing activities consisted primarily of purchases of property and equipment related to investment in information technology and ongoing plant expenditures in all periods. The net cash used in investing activities was significantly higher in 2000 and 2001 than for pro forma twelve months ended December 31, 2002 because of the timing of the costs associated with the expansion of our Danish manufacturing facility and the construction of our new United States manufacturing facility. In May 2000, we began construction of our United States manufacturing facility. Capital expenditures in 2001 and 2000 included the cost to construct this facility, the equipment used in the facility and new equipment in our manufacturing facility in Denmark. Total capital expenditures in the nine month period ended September 30, 2003 were $17.3 million.

Cash flow provided by financing activities decreased to $12.6 million for the year ended December 31, 2001 as compared to cash flow provided by financing activities of $34.3 million for the year ended December 31, 2000, a decrease of $21.7, or 63.3%. This decrease was caused by repayment of long-term debt. Cash flow used in financing activities increased to $23.9 million for pro forma twelve months ended December 31, 2002 as compared to cash flow provided by financing activities of $12.6 million for the year ended December 31, 2001, an increase of $36.5 million or 289.7%. This increase is due to the repayment of our long-term credit facilities. On November 1, 2002, in connection with the Tempur acquisition, we refinanced all of Tempur World s existing credit facilities and issued new debt totaling $200.0 million to fund the Tempur acquisition. Cash flow used by financing activities increased to $24.8 million for the nine months ended September 30, 2003 as compared to $13.3 million for the nine months ended September 30, 2002, an increase of $11.5 million or 86.5%. This increase is due primarily to the repayment of our long-term credit facilities.

Capital Expenditures

Due to the continued growth in our business, in March 2003, we began construction on a $20.0 million addition to our United States manufacturing facility to support the continuing growth in mattress sales and to provide needed capacity to meet future demand for our products. We expect total capital expenditures related to this expansion to be $18.0 million for 2003. We spent $10.1 million in capital expenditures related to this expansion through September 30, 2003. The additional production capacity at our United States manufacturing facility will allow us to significantly increase our mattress manufacturing capacity. Additionally, we plan to begin expanding mattress production capacity in our Denmark manufacturing facility in the fourth quarter of 2004 to meet the demands for our international operations. We expect total capital expenditures related to that expansion to be $20.0 million in 2004.

In May 2003, we engaged a site selection firm to assist us in selecting a location for our third manufacturing facility, which will be located in Albuquerque, New Mexico. This facility is currently expected to require capital expenditures of approximately $45.0 million and to be completed by the fourth quarter of 2006. This facility will provide additional capacity to meet anticipated future demand.

Debt Service

Amended Senior Credit Facilities. In connection with the recapitalization, we entered into amended senior credit facilities on the terms described below.

Our amended senior credit facilities provide a total of $270.0 million in financing, consisting of:

- a $20.0 million United States revolving credit facility;
- a $30.0 million United States term loan A facility;
- a $135.0 million United States term loan B facility (the United States revolving credit facility and the United States term loans are collectively referred to herein as the United States Facility);
- a $20.0 million European revolving credit facility; and
- a $65.0 million European term loan A facility (the European revolving credit and the European term loan are collectively referred to herein as the European Facility).

Our revolving credit facilities and our term loan A facilities mature in 2008 and our term loan B facility matures in 2009. At September 30, 2003, we had a total of $230.0 million in borrowing outstanding under the amended senior credit facilities, and a total of $4.6 million in letters of credit outstanding.

Borrowing availability under the United States and European revolving credit facilities is subject to a borrowing base, as defined in the loan agreement. Each of the United States and European revolving facilities also provide for the issuance of letters of credit to support local operations. Allocations of the United States and European revolving facilities to such letters of credit will reduce the amounts available to be borrowed under their respective facilities.

Subject to exceptions for reinvestment of proceeds, we are required to prepay outstanding loans under our amended senior credit facilities with the net proceeds of certain asset dispositions, condemnation settlements and insurance settlements from casualty losses, issuances of certain equity and a portion of excess cash flow.

We may voluntarily prepay loans or reduce commitments under our amended senior credit facilities, in whole or in part, subject to minimum amounts. If we prepay Eurodollar rate loans other than at the end of an applicable interest period, we will be required to reimburse lenders for their redeployment costs.

The amended senior credit facilities contain negative and affirmative covenants and requirements affecting us and our domestic and foreign subsidiaries that we create or acquire, with certain exceptions set forth in our amended credit agreement. Our amended senior credit facilities contain the following negative covenants and restrictions, among others: restrictions on liens, real estate purchases, sale-leaseback transactions, indebtedness, dividends and other restricted payments, guarantees, redemptions, liquidations, consolidations and mergers, acquisitions, asset dispositions, investments, loans, advances, changes in line of business, formation of new subsidiaries, changes in fiscal year, transactions with affiliates, amendments to charter, by-laws and other material documents, hedging agreements and intercompany indebtedness.

The amended senior credit facilities contain the following affirmative covenants, among others: delivery of financial and other information to the administrative agent, compliance with laws, maintenance of properties, licenses and insurance, access to books and records by the lenders, notice to the administrative agent upon the occurrence of events of default, material litigation and other events, conduct of business and existence, payment of obligations, maintenance of collateral and maintenance of interest rate protection agreements.

The incremental proceeds of our amended senior credit facilities were used along with the proceeds from the offering of the senior subordinated notes and cash on hand to fund the recapitalization and provide working capital.

Senior Subordinated Notes. Pursuant to the terms of the indenture, Tempur-Pedic International s indirect, wholly-owned subsidiaries, Tempur-Pedic, Inc. and Tempur Production USA, Inc., issued senior subordinated notes in the aggregate principal amount of $150.0 million. Those notes will mature on August 15, 2010.

Tempur-Pedic, Inc. and Tempur Production USA, Inc. are permitted to redeem some or all of the senior subordinated notes at any time after August 15, 2007 at specified redemption prices.

If Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International or any of Tempur-Pedic International s other restricted subsidiaries sell certain assets or experience specific kinds of changes of control, Tempur-Pedic, Inc. and Tempur Production USA, Inc. must offer to repurchase the senior subordinated notes at the prices, plus accrued and unpaid interest, and additional interest, if any, to the date of redemption specified in the indenture.

The indenture governing the senior subordinated notes contains certain negative and affirmative covenants and requirements affecting us and our subsidiaries that we create or acquire. Subject to certain important exceptions and qualifications set forth in the indenture, these covenants limit the ability of Tempur-Pedic, Inc., Tempur Production USA, Inc., Tempur-Pedic International and the restricted subsidiaries to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments, sell assets, including capital stock of our restricted subsidiaries, merge or consolidate with other entities, and enter into transactions with affiliates.

Future Liquidity Sources

Our primary sources of liquidity are cash flow from operations and borrowings under our revolving credit facilities. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources. We incurred substantial indebtedness in connection with the recapitalization, including as a result of the issuance of the senior subordinated notes. As of September 30, 2003, we had approximately $382.5 million of indebtedness outstanding, excluding letters of credit. In addition, as of September 30, 2003, we had stockholders equity of approximately $25.5 million. Our significant debt service obligations following the recapitalization could, under certain circumstances, have material consequences to our security holders, including holders of the senior subordinated notes. Total cash interest payments related to our amended senior credit facilities and the senior subordinated notes is expected to be in excess of approximately $26.0 million annually. The scheduled installments for principal payments on our term loans under our amended senior credit facilities (as currently in effect) total to $3.0 million in 2003, $11.9 million in 2004, $15.4 million in 2005, $15.4 million in 2006, $22.4 million in 2007 and $159.0 million thereafter.

Based upon the current level of operations and anticipated growth, we believe that cash generated from operations and amounts available under the revolving credit facilities will be adequate to meet our anticipated debt services requirements, capital expenditures and working capital needs for the foreseeable future. There can be no assurance, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under the senior credit facilities or otherwise to enable us to service our indebtedness, including the senior credit facilities and the senior subordinated notes, or to make anticipated capital expenditures.

Our long-term obligations contain various financial tests and covenants. We were out of compliance with certain of such covenants restricting indebtedness, operating leases, capital expenditures, investments and changes to our corporate structure and requiring the delivery of financial statements and other reports, as of the year ended December 31, 2002, but obtained waivers from our lenders under the senior credit facilities then in effect. We were not in compliance with certain non-financial covenants as of September 30, 2003 but obtained waivers from our lenders under our amended senior credit facilities.

Contractual Obligations

Our contractual obligations and other commercial commitments as of September 30, 2003 are summarized below:

Contractual Obligations	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**After 2008**	**Total Obligations**
($ in millions)								
Long-term Debt	$ 3.5	$ 12.3	$ 15.8	$ 15.8	$ 22.9	$ 32.1	280.1	$ 382.5
Operating Leases	1.0	2.8	2.3	1.8	1.7	1.6	1.1	12.3
Total	$ 4.5	$ 15.1	$ 18.1	$ 17.6	$ 24.6	$ 33.7	281.2	$ 394.8

Impact of Recently Issued Accounting Pronouncements

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS 145 was effective January 1, 2003. SFAS 145 eliminates the required classification of gain or loss on extinguishment of debt as an extraordinary item of income and states that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board Opinion No. 30, Reporting Results of Operations (APB 30). SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions, and makes various other technical corrections to existing pronouncements.

In June 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). This statement nullifies Emerging Issues Task Force Issue 94-3 (Issue 94-3), Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity s commitment to an exit plan. The provisions of

43

Table of Contents

SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of SFAS 146 to have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34 (FIN 45). FIN 45 elaborates on the disclosures to be made regarding obligations under certain issued guarantees by a guarantor in interim and annual financial statements. It also clarifies the requirement of a guarantor to recognize a liability at the inception of the guarantee at the fair value of the obligation. FIN 45 does not provide specific guidance for subsequently measuring the guarantor s recognized liability over the term of the guarantee. The provisions relating to the initial recognition and measurement of a liability are applicable on a prospective basis for guarantees issued or modified subsequent to December 31, 2002. The disclosure requirements of FIN 45 are effective for interim and annual financial statements for periods ending after December 15, 2002. This did not have a significant impact on our consolidated financial statements.

In November 2002, the EITF reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect the adoption of EITF No. 00-21 to have a material impact on our consolidated financial statements.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement 123 (SFAS 148), which was effective on December 31, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method on reported results. The provisions regarding alternative methods of transition do not apply to us, which accounts for stock-based compensation using the intrinsic value method. The disclosure provisions have been adopted. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46). FIN 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. On October 10, 2003, the FASB issued Staff Position (FSP) FIN 46-6, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities (the FSP). The FSP defers the effective date of FIN 46 for VIEs created or acquired prior to February 1, 2003 until the end of fiscal periods ending after December 15, 2003. Although we do not expect FIN 46 to have a material impact on our consolidated financial statements, we are continuing to evaluate our interest in other entities in accordance with this complex interpretation.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, (b) in connection with other FASB projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an underlying and the characteristics of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial

reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 15, 2003 (with a few exceptions) and for hedging relationships designated after June 15, 2003. The guidance is to be applied prospectively. We do not believe that the adoption of this Statement will have a significant impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new guidance requires that those instruments be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Application of SFAS 150 to financial instruments that exist on the date of adoption should be reported through a cumulative effect of a change in an accounting principle by measuring those instruments at fair value or as otherwise required by the SFAS 150. We do not believe that the adoption of SFAS 150 will have a significant impact on our consolidated financial statements.

Foreign Currency Exposures

Our earnings, as a result of our global operating and financing activities, are exposed to changes in foreign currency exchange rates, which may adversely affect our results of operations and financial position. A sensitivity analysis indicates that if the exchange rate of the United States Dollar to foreign currency at September 30, 2003 increased by 10%, we would incur losses of approximately $0.6 million on foreign currency forward contracts outstanding at September 30, 2003. Such losses would be largely offset by gains from the revaluation or settlement of the underlying positions economically hedged. This calculation assumes that each exchange rate would change in the same direction relative to the United States Dollar.

Within the normal course of business, we use derivative financial instruments principally to manage the exposure to changes in the value of certain foreign currency denominated assets and liabilities of our Denmark manufacturing operations. Gains and losses are recognized currently in the results of operations and are generally offset by losses and gains on the underlying assets and liabilities being hedged. Gains and losses on these contracts generally offset losses and gains on our foreign currency receivables and foreign currency debt. We do not hedge the effects of foreign exchange rates fluctuations on the translation of its foreign results of operations or financial position, nor do we hedge exposure related to anticipated transactions.

We do not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked-to-market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings. Our currency forward contracts are denominated in United States Dollars, British Pound Sterling and Japanese Yen, each against the Danish Krone.

Interest Rate Risk

We are exposed to changes in interest rates. All of our indebtedness under our amended senior credit facilities is variable rate debt. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of our interest payments and therefore, our future earnings and cash flows, assuming other factors are held constant. On September 30, 2003, we had variable rate debt of approximately $230.0 million. Holding other variables constant including levels of indebtedness, a one hundred basis point increase in interest rates on our variable rate debt would have an estimated impact on income before income taxes for the next year of approximately $1.3 million. We are required under the terms of our existing senior credit facilities, and we are required under the terms of our amended senior credit facilities, to have at least $60.0 million of our total indebtedness subject to either a fixed interest rate or interest rate protection for a period of not less than three years within 60 days from the date of the closing of the recapitalization.

Table of Contents

In January 2003, we paid a premium to purchase two three-year interest rate caps for the purpose of protecting $60.0 million of the existing variable interest rate debt outstanding, at any given time, against LIBOR rates rising above 5%. Under the terms of the interest rate caps, we have paid a premium to receive payments based on the difference between 3-month LIBOR and 5% during any period in which the 3-month LIBOR rate exceeds 5%. The interest rate caps settle on the last day of March, June, September and December until expiration.

As a result of entering into the interest rate caps, we have mitigated our exposure to interest rate fluctuations above the predetermined level. As the interest payments on long-term debt are based on 3-month LIBOR and we receive a payment based on the difference between the set ceiling (5%) and 3-month LIBOR from the interest rate cap counter-party, we have eliminated any impact to rising interest rates above the stated ceiling, for an amount equal to $60.0 million of our total debt outstanding.

The fair value carrying amount of these instruments was $0.1 million at December 31, 2001, $(2.0) million at December 31, 2002 and $0.0 million at September 30, 2003, which is recorded as follows:

	December 31, 2001	December 31, 2002	September 30, 2003
($ in millions)			
Foreign exchange receivable	$ 0.1	$	$
Foreign exchange payable		(2.0)	(0.2)
Interest rate caps			0.2
Total	$ 0.1	$ (2.0)	$ 0.0

Table of Contents

BUSINESS

General

We are a rapidly growing, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic foam mattresses and pillows that we sell globally in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic foam is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In April 2003, *Consumers Digest* named one of our products among the eight best buys of the mattress industry in the applicable price range in recognition of the strong value it provides to consumers. Consumer surveys commissioned on our behalf over the last several years have indicated that our products achieve satisfaction ratings generally ranging from 80% to 92%. In the three years ended December 31, 2002, our total net sales grew at a compound annual rate of approximately 36% and for the nine months ended September 30, 2003 we had total net sales of $342.4 million.

While most standard mattress companies offer pricing discounts through a single channel, we sell our premium mattresses and pillows through multiple channels at full prices. We sell our products through four distribution channels: retail (furniture and specialty stores, as well as department stores internationally); direct (direct response and internet); healthcare (chiropractors, medical retailers, hospitals and other healthcare channels); and third party distributors. In the United States, we sell a majority of our mattresses and pillows through furniture and specialty retailers. We also have a direct response business that generates product sales and enhances awareness of our brand. International sales account for approximately 41.7% of our total net sales, with the United Kingdom, Germany, France, Spain and Japan representing our largest markets. In Asia, our net sales consist primarily of pillows. Internationally, in addition to sales through our retail channel, we sell a significant amount of our products through the healthcare channel and third party distributors.

Market Opportunity

Global Mattress Market

The International Sleep Products Association (ISPA) estimates that the United States wholesale market for mattresses and foundations in 2002 was approximately $4.8 billion. We believe the international mattress market is generally the same size as the domestic mattress market. The international market consists primarily of sales in Canada and Europe. According to ISPA, from 1991 to 2002, mattress units sales grew in the United States at an average of approximately 500,000 units annually, with 21.5 million mattress units sold in the United States in 2002, although sales decreased during the 2000 to 2002 period. We believe a similar number of mattress units were sold outside the United States in 2002. ISPA further estimates that approximately 20% of those mattress units were sold at retail price points greater than $1,000, which is the premium segment of the market we target. Based on information derived from an ISPA report, we believe that the premium segment of the market grew in the United States at an annual rate of 32% in 2002, and is the fastest-growing segment of this market.

Most standard mattresses are made using innersprings and most innerspring mattresses are sold for under $1,000, primarily through retail furniture and bedding stores. Alternatives to standard and premium innerspring mattresses include visco-elastic and other foam mattresses, airbeds and waterbeds. Four large manufacturers (Sealy Corporation, Serta, Inc., Simmons Company and The Spring Air Company) dominate the standard innerspring mattress market in the United States, accounting for approximately 60% of wholesale mattress dollar sales in 2001 according to *Furniture/Today*, a trade publication. The balance of the United States wholesale mattress market is fragmented, with a large number of other manufacturers, many of which operate primarily on a regional basis. Standard innerspring mattresses represent approximately

80% of the overall mattress market in the United States.

Table of Contents

The medical community is also a large consumer of mattresses to furnish hospitals and nursing homes. In the United States, there are approximately 15,400 nursing homes and 5,000 hospitals with a collective bed count in excess of 2.7 million. Medical facilities typically purchase twin mattresses with standard operating functions such as adjustable height and mechanisms to turn patients to prevent pressure ulcers (or bedsores). We believe demographic trends suggest that as the population ages, the healthcare market for mattresses will continue to grow.

Global Pillow Market

Based on our market research, we estimate that the United States retail market for pillows is approximately $1.1 billion. The United States pillow market has a traditional and specialty segment. Traditional pillows are generally made of low cost foam or feathers, other than down. Specialty pillows include all alternatives to traditional pillows, including visco-elastic and other foam, sponge rubber and down. We believe the international pillow market is generally the same size as the domestic pillow market.

Our Market Position

We believe we are the leading global manufacturer, marketer and distributor of visco-elastic foam mattresses and pillows, and we estimate we had an approximate 70% market share in 2002 in both the United States and globally. We believe consumer demand for our premium products in the United States is being driven primarily by increased housing and home furnishing purchases by the baby boom generation; significant growth in our core demographic market as the baby boom generation ages; increased awareness of the health benefits of a better quality mattress; and the shifting consumer preference from firmness to comfort. Our net sales of mattresses, including overlays, have increased from $79.3 million in 2000 to $156.0 million in 2002 (a 40.3% compound annual growth rate), and net sales of pillows have increased from $63.1 million in 2000 to $91.2 million in 2002 (a 20.2% compound annual growth rate). As consumers continue to prefer alternatives to standard innerspring mattresses, our products become more widely available, and our brand gains broader consumer recognition, we expect our premium products will continue to attract sales away from the standard mattress market.

Competitive Strengths

We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

Superior Product Offering. Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and provide better spinal alignment, reduced pressure points, greater relief of lower back and neck pain, and better quality sleep than traditional bedding products. We believe the benefits of our products have become widely recognized, as evidenced by the more than 25,000 healthcare professionals who recommend our products, and the approval of one or more of our products for purchase or reimbursement by the government healthcare agencies in several European countries. Consumer surveys commissioned on our behalf over the last several years indicate that our products achieve satisfaction ratings generally ranging from 80% to 92%. Net sales of our mattresses, including overlays, have increased from $116.8 million in 2001 to $156.0 million in 2002, and net sales of our pillows have increased from $75.3 million in 2001 to $91.2 million in 2002. Further, we continue to leverage our unique and proprietary manufacturing process to develop new products and refine existing products to meet the changing demands and preferences of consumers. Our innovative products distinguish us from the major manufacturers of standard innerspring mattresses and traditional pillows in the United States, which we believe offer generally similar products and must compete primarily on price.

Increasing Global Brand Awareness. We believe consumers in the United States and internationally increasingly associate our brand name with premium quality products that enable better overall sleep. We sell our products in 54 countries primarily under the Tempur® and Tempur-Pedic® brands. Our Tempur brand has been in

Table of Contents

existence since 1991, and we believe its global recognition is reinforced by our high level of customer satisfaction. One of our products was recently ranked among the eight best buys of the mattress industry in the applicable price range by *Consumers Digest*, a recognition awarded to products that provide strong value to consumers. In addition, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand.

Diversified Product Offerings Sold Globally Through Multiple Distribution Channels. Our diversified product offerings include mattresses, pillows and other products, primarily adjustable beds, which we sell through multiple distribution channels including retail, direct, healthcare and third party distributor channels. For the nine months ended September 30, 2003, mattress, pillow and other product sales, primarily adjustable beds, represented 52.9%, 27.8% and 19.3%, respectively, of our total net sales. For the nine months ended September 30, 2003, our retail channel represented 63.5% of total net sales, with our direct, healthcare and third party distributor channels representing 18.6%, 9.3% and 8.6%, respectively. Domestic and International operations generated 58.3% and 41.7%, respectively, of net sales for the nine months ended September 30, 2003.

Strong Financial Performance. Over the last several years, our highly-diversified, well-balanced business model has enabled us to achieve rapidly growing revenues and strong gross and operating margins, with low maintenance capital expenditure and working capital requirements. Further, our vertically-integrated operations generated an average of approximately $340,000 in net sales per employee in 2002, which we believe is more than 1.5 times the average for three of the major bedding manufacturers in the United States. For the nine months ended September 30, 2003, our gross margin exceeded 53.6% on net sales of $342.4 million. Our strong financial performance gives us the flexibility to invest in our manufacturing operations, enhance our sales force and marketing, invest in information systems and recruit talented management and other personnel.

Significant Growth Opportunities. We believe we have significant growth opportunities because we have penetrated only a small percentage of our addressable market. For example, we currently sell our products in approximately 2,500 furniture retail stores in the United States, out of a total of approximately 9,000 stores we have identified as appropriate targets. Similarly, we currently sell our products in approximately 2,500 furniture retail stores outside the United States, out of a total of approximately 7,000 stores we have identified as appropriate targets. Furthermore, we have recently begun to expand our direct response business in our European markets, based on our similar, successful initiatives in the United States and in the United Kingdom, to reach a greater number of consumers and increase our brand awareness. In addition, we currently supply only a small percentage of the approximately 15,400 nursing homes and 5,000 hospitals in the United States (with a collective bed count in excess of 2.7 million). As this healthcare market expands over time, we expect our growth potential in this market will also increase.

Management Team with Proven Track Record. Since launching our United States operations in 1992, Robert Trussell, Jr., has helped grow our company from its early stages into a global business with approximately $342.4 million in total net sales for the nine months ended September 30, 2003. Furthermore, Mr. Trussell has assembled a highly experienced management team with significant sales, marketing, consumer products, manufacturing, accounting and treasury expertise. From 2000 to 2002, our management team has:

- further penetrated the United States market, with net sales in our Domestic segment growing from $74.1 million in 2000 to $165.3 million in net sales for the pro forma twelve months ended December 31, 2002;

- achieved a compound annual sales growth rate of 36% from $162.0 million for our predecessor company for the year ended December 31, 2000 to $298.0 million for the pro forma twelve months ended December 31, 2002;

- expanded our market share in the premium segment of the global mattress industry;

- successfully developed and constructed a manufacturing facility in the United States; and

- improved the efficiency of our product distribution network.

The management team and certain key employees currently own approximately 13% of our common equity on a fully-diluted as-converted basis, after giving effect to the vesting of all outstanding options (11.9% after this offering).

Our Strategy

Our goal is to become the leading global manufacturer, marketer and distributor of premium mattresses and pillows by pursuing the following key initiatives:

Maintain Focus on Core Products. We believe we are the leading provider of visco-elastic foam mattresses and pillows, which we sell at attractive margins. We utilize a vertically-integrated, proprietary process to manufacture a comfortable, durable and high quality visco-elastic foam. Although this foam could be used in a number of different products, we are currently committed to maintaining our focus primarily on premium mattresses and pillows. We also plan to lead the industry in product innovation and sleep expertise by continuing to develop and market mattress and pillow products that enable better overall sleep and personalized comfort. This strategy has contributed to significant growth in net sales of both mattresses (40.3% compound annual growth rate) and pillows (20.2% compound annual growth rate) over the past three years. We believe our focused sales, marketing and product strategies will enable us to increase market share in the premium market, while maintaining our margins.

Continue to Build Global Brand Awareness. We plan to continue to invest in increasing our global brand awareness through targeted marketing and advertising campaigns that further associate our brand name with better overall sleep and premium quality products. We estimate that our current advertising campaign yields 2.7 billion consumer impressions per month via television, radio, magazines and newspapers. Our high level of customer satisfaction further drives brand awareness through word-of-mouth marketing. Consumer surveys commissioned on our behalf over the last several years indicate that our products achieve satisfaction ratings generally ranging from 80% to 92%.

Further Penetrate U.S. Retail Channel. In the United States, the retail sales division is our largest sales division. Of the 33,000 retail stores in the United States selling mattresses, we have established a target market of over 9,000 potential stores. We plan to build and maintain our base of furniture retailers including Jordan s, Art Van and Haverty s and specialty retailers including Brookstone, Relax-the-Back and Bed, Bath & Beyond. We target retail stores that have significant sales volumes, experience marketing premium products and a corporate image that is consistent with our efforts to further build our brand awareness. In order to continue to penetrate this channel, we have increased our salesforce and have increased the number of personnel who train retail salespersons to sell our products more effectively. We believe we are able to more effectively attract and retain retailers because our premium products provide retailers with higher per unit profits than standard innerspring products.

Table of Contents

Continue to Expand Internationally. We plan to increase international sales growth by further penetrating each of our existing distribution channels. We plan to expand our direct response business, which has increased both sales and brand awareness in the United States. We have already successfully introduced this program to the United Kingdom, and we intend to expand this program to our operations elsewhere in Europe and in Asia. In addition, we are focused on managing our third party distributors, including hiring regional sales managers, establishing training programs and expanding distribution. We will continue to promote our operations in Japan, which now represents a significant portion of our international business. In addition, we intend to further enhance sales growth in our retail channel by attracting new retailers that meet our criteria and by expanding sales within our existing customers retail stores through the introduction of new mattress and pillow products tailored for specific markets, continued investment in our brand and ongoing sales and product training and education.

Increase Growth Capacity. We intend to continue to invest in our operating infrastructure to meet the requirements of our rapidly growing business. Currently, we manufacture our products in two highly automated, vertically-integrated facilities located in Aarup, Denmark and Duffield, Virginia. Over the past three years, we have invested more than $50.0 million to upgrade and expand these facilities. To accommodate our anticipated growth, we plan to invest an additional $75.0 to $100.0 million to increase productivity and expand manufacturing capacity during the next several years, including the development and construction of an additional manufacturing facility in North America. We also plan to continue to enhance our internal information technology systems and our product distribution network, as well as augment our personnel in management sales, marketing and customer service.

Our Products

Our proprietary visco-elastic foam mattresses and pillows contour to the body more naturally and enable better spinal alignment, reduced pressure points, greater relief of lower back and neck pain and better quality sleep compared to standard innerspring products and traditional pillows. Net sales of our mattresses, including overlays, increased from $116.8 million in 2001 to $156.0 million in 2002, and net sales of our pillows increased from $75.3 million in 2001 to $91.2 million in 2002.

Our high-quality, high-density, temperature-sensitive visco-elastic foam distinguishes our products from other products in the marketplace. Visco-elastic foam was originally developed by NASA in 1971 in an effort to relieve astronauts of the g-forces experienced during lift-off, and NASA subsequently made this formula publicly available. The NASA foam originally proved unstable for commercial use. However, after several years of research and development, we succeeded in developing a proprietary formulation and proprietary process to manufacture a stable, durable and commercially viable product. The key feature of our visco-elastic foam is its temperature sensitivity. It conforms to the body, becoming softer in warmer areas where the body is making the most contact with the foam and remaining firmer in cooler areas where less body contact is being made. As the material molds to the body s shape, the body is supported in the correct anatomical position with the neck and spine in complete therapeutic alignment. The visco-elastic foam also has higher density than other foam, resulting in improved durability and enhanced comfort. In addition, clinical evidence indicates that our products are both effective and cost efficient for the prevention and treatment of decubitis, or bed sores, a major problem for elderly and bed-ridden patients.

Table of Contents

Our core product offerings are:

Mattresses	Summary Description	Suggested U.S. Retail Price
Classic	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of a 4.5" high resiliency foam base (Airflow System)	$999-$1,699
	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points	
	Recommended by over 25,000 healthcare professionals	
Deluxe	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of two 3" high resiliency foam layers (Dual Airflow System)	$1,249-$2,099
	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points	
	Specially designed to fit on platform frames	
CelebrityBed	Our highest profile bed, with a total height of 13/4"	$1,999-$2,999
	Composed of a patented multi-layered, heat sensitive, visco-elastic foam on top of two 3" high resiliency foam layers (Dual Airflow System), together with a pillowtop layer of six individual comfort sheets filling a specially designed cover	
	Molds to the exact body shape of the user to evenly distribute weight and eliminate pressure points	