

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

FORM 10-Q

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

For the quarterly period ended March 29, 2008

OR

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

For the transition period from _____ to _____

Commission file number 333-124138

SIMMONS COMPANY

(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>20-0646221</u> (I.R.S. Employer Identification No.)
<u>One Concourse Parkway, Suite 800, Atlanta, Georgia</u> (Address of principal executive offices)	<u>30328-6188</u> (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: No:

The number of shares of the registrant's common stock outstanding as of May 6, 2008: 100

DOCUMENTS OR PARTS THEREOF INCORPORATED BY REFERENCE: None

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarters Ended	
	March 29, 2008	March 31, 2007
Net sales	\$ 276,881	\$ 267,406
Cost of products sold	167,207	159,215
Gross profit	<u>109,674</u>	<u>108,191</u>
Operating expenses:		
Selling, general and administrative expenses	88,551	84,708
Amortization of intangibles	1,589	1,479
Licensing revenues	<u>(2,568)</u>	<u>(3,193)</u>
Operating income	22,102	25,197
Interest expense, net	17,815	18,389
Income before income taxes	4,287	6,808
Income tax expense	<u>1,772</u>	<u>2,395</u>
Net income	2,515	4,413
Other comprehensive income (loss):		
Foreign currency translation adjustment	(5,364)	1,254
Comprehensive income (loss)	<u>\$ (2,849)</u>	<u>\$ 5,667</u>

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

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

	<u>March 29,</u> 2008 <u>(Unaudited)</u>	<u>December 29,</u> 2007* <u></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,972	\$ 27,520
Accounts receivable, less allowances for doubtful receivables, discounts and returns of \$3,894 and \$4,550	124,066	119,984
Inventories	39,148	35,207
Deferred income taxes	6,036	5,953
Prepaid expenses	9,783	11,167
Other current assets	8,357	8,161
Total current assets	<u>205,362</u>	<u>207,992</u>
Property, plant and equipment, net	90,909	87,449
Goodwill	538,568	540,126
Intangible assets, net	600,165	604,547
Other assets	40,934	37,539
Total assets	<u>\$ 1,475,938</u>	<u>\$ 1,477,653</u>

* Derived from the Company's 2007 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America

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

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

	March 29, 2008 (Unaudited)	December 29, 2007*
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 675	\$ 772
Accounts payable	79,267	72,484
Accrued liabilities	81,405	96,366
Total current liabilities	161,347	169,622
Long-term debt	923,731	900,716
Deferred income taxes	190,687	190,321
Other	31,365	28,842
Total liabilities	1,307,130	1,289,501
Commitments and contingencies		
Stockholder's equity:		
Common stock, \$0.01 par value: authorized - 1,000 shares; issued - 100 shares	1	1
Additional paid-in capital	100,610	100,613
Retained earnings	54,737	68,714
Accumulated other comprehensive income	13,460	18,824
Total stockholder's equity	168,808	188,152
Total liabilities and stockholder's equity	\$ 1,475,938	\$ 1,477,653

* Derived from the Company's 2007 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America

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

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

	Quarters Ended	
	March 29, 2008	March 31, 2007
Cash flows from operating activities:		
Net income	\$ 2,515	\$ 4,413
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,216	7,348
Provision for bad debts	910	958
Provision for deferred income taxes	735	1,934
Non-cash interest expense	6,093	5,556
Non-cash stock compensation expense	(3)	119
Net changes in operating assets and liabilities:		
Accounts receivable	(8,611)	(16,524)
Inventories	(4,128)	(5,489)
Other current assets	1,136	(1,110)
Accounts payable	7,003	14,858
Accrued liabilities	(17,640)	(8,300)
Other, net	(747)	(9,157)
Net cash used in operating activities	<u>(4,521)</u>	<u>(5,394)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,292)	(4,227)
Other, net	-	(96)
Net cash used in investing activities	<u>(5,292)</u>	<u>(4,323)</u>
Cash flows from financing activities:		
Borrowings on revolving loan	17,500	-
Payments of other debt	(143)	(141)
Dividend to Simmons Holdco, Inc.	(16,492)	-
Purchase of common stock	-	(1)
Net cash provided by (used in) financing activities	<u>865</u>	<u>(142)</u>
Net effect of exchange rate changes on cash	(600)	48
Change in cash and cash equivalents	(9,548)	(9,811)
Cash and cash equivalents, beginning of period	27,520	20,784
Cash and cash equivalents, end of period	<u>\$ 17,972</u>	<u>\$ 10,973</u>

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

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

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total Stockholder's Equity
					Net Unrealized Gain (Loss) From Currency Translation	Benefit Plans	
December 29, 2007							
(audited)	100	\$ 1	\$ 100,613	\$ 68,714	\$ 19,179	\$ (355)	\$ 188,152
Net income	-	-	-	2,515	-	-	2,515
Foreign currency translation	-	-	-	-	(5,364)	-	(5,364)
Comprehensive income				2,515	(5,364)	-	(2,849)
Stock compensation expense	-	-	(3)	-	-	-	(3)
Dividend to Simmons Holdco, Inc.	-	-	-	(16,492)	-	-	(16,492)
March 29, 2008							
(unaudited)	100	\$ 1	\$ 100,610	\$ 54,737	\$ 13,815	\$ (355)	\$ 168,808

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

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

A. Basis of Presentation

Simmons Company (“Holdings”) is a holding company with no operating assets. Through its wholly-owned subsidiary THL-SC Bedding Company, which is also a holding company, Simmons Company owns the common stock of Simmons Bedding Company. All of Simmons Company’s business operations are conducted by Simmons Bedding Company and its direct and indirect subsidiaries (collectively “Simmons Bedding”). Simmons Company, together with its subsidiaries (collectively the “Company” or “Simmons Company”), is one of the largest bedding manufacturers in North America.

These condensed consolidated financial statements of the Company are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and Rule 10-01 of Regulation S-X for interim financial information. The accompanying unaudited condensed consolidated financial statements contain all adjustments, which, in the opinion of management, are necessary to present fairly the financial position of the Company as of March 29, 2008, and its results of operations and cash flows for the periods presented herein. All adjustments in the periods presented herein are normal and recurring in nature unless otherwise disclosed. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 29, 2007. Operating results for the period ended March 29, 2008 are not necessarily indicative of future results that may be expected for the fiscal year ending December 27, 2008 or for any future period.

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

B. Inventories

A summary of inventories follows (in thousands):

	March 29, 2008	December 29, 2007
Raw materials	\$ 25,765	\$ 22,669
Work-in-progress	1,117	1,122
Finished goods	12,266	11,416
	<u>\$ 39,148</u>	<u>\$ 35,207</u>

C. Goodwill

The changes in the carrying amount of goodwill for the quarter ended March 29, 2008 are as follows (in thousands):

	Domestic	Canada	Consolidated
Balance as of December 29, 2007	\$ 500,221	\$ 39,905	\$ 540,126
Foreign currency translation adjustment	-	(1,554)	(1,554)
Other	(4)	-	(4)
Balance as of March 29, 2008	<u>\$ 500,217</u>	<u>\$ 38,351</u>	<u>\$ 538,568</u>

D. Warranties

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

The following table presents a reconciliation of the Company’s warranty accrual for the quarters ended March 29, 2008 and March 31, 2007 (in thousands):

	March 29, 2008	March 31, 2007
Balance at beginning of period	\$ 4,291	\$ 3,668
Additional warranties issued	770	543
Warranty settlements	(546)	(443)
Accruals related to pre-existing warranties (including change in estimate)	61	85
Balance at end of period	<u>\$ 4,576</u>	<u>\$ 3,853</u>

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

E. Long-Term Debt

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

	<u>March 29, 2008</u>	<u>December 29, 2007</u>
Senior credit facility:		
Revolving loan	\$ 17,500	\$ -
Tranche D term loan	465,000	465,000
Total senior credit facility	<u>482,500</u>	<u>465,000</u>
7.875% senior subordinated notes due 2014	200,000	200,000
10.0% senior discount notes, due 2014, net of discount of \$41,264 and \$46,835, respectively	227,736	222,165
Other, including capital lease obligations	<u>14,170</u>	<u>14,323</u>
	924,406	901,488
Less current portion	<u>(675)</u>	<u>(772)</u>
	<u>\$ 923,731</u>	<u>\$ 900,716</u>

The Company has a \$75.0 million revolving loan facility which can be used for borrowings and letters of credit. At March 29, 2008, \$17.5 million was outstanding under the revolving loan facility and the Company had approximately \$48.2 million available to borrow after taking into account \$9.3 million that was reserved for the Company's reimbursement obligations with respect to outstanding letters of credit.

The weighted average interest rate per annum in effect as of March 29, 2008 for the senior credit facility was 5.6%.

As of March 29, 2008, the Company was in compliance with all of its financial covenants in its loan agreements.

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

F. Segment Information

The Company has determined that it has two reportable segments organized by geographic area, Domestic (including Puerto Rico) and Canada. Both segments manufacture, sell and distribute premium branded bedding products to retail customers and institutional users of bedding products, such as the hospitality industry.

The Company evaluates segment performance and allocates resources based on net sales and Adjusted EBITDA. Adjusted EBITDA differs from the term "EBITDA" as it is commonly used. In addition to adjusting net income to exclude interest expense, income taxes, depreciation and amortization, Adjusted EBITDA also adjusts net income by excluding items or expenses not typically excluded in the calculation of "EBITDA" such as management fees and unusual or non-recurring items as defined by the Company's senior credit facility. Management believes the aforementioned approach is the most informative representation of how management evaluates performance. Adjusted EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs.

The following tables summarize our segment information for the quarters ended March 29, 2008 and March 31, 2007:

Quarter Ended March 29, 2008
(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 245,002	\$ 31,879	\$ -	\$ 276,881
Intersegment net sales	63	-	(63)	-
Adjusted EBITDA	30,292	2,689	-	32,981
Depreciation and amortization expense	6,881	1,335	-	8,216
Expenditures for long-lived assets	4,413	879	-	5,292
Segment assets	1,437,384	174,134	(135,580)	1,475,938
Reconciliation of net income to Adjusted EBITDA:				
Net income (loss)	\$ 3,418	\$ (903)	\$ -	\$ 2,515
Depreciation and amortization	6,881	1,335	-	8,216
Income taxes	2,253	(481)	-	1,772
Interest expense, net	15,814	2,001	-	17,815
Interest income	17	114	-	131
Transaction expenses including integration costs	107	-	-	107
Non-recurring professional service fees	408	-	-	408
Relocation of manufacturing and Canada corporate facilities	485	73	-	558
Reorganization expense including management severance	275	-	-	275
Management fees	(35)	523	-	488
ERP system implementation costs	482	-	-	482
(Gain) loss on foreign currency	404	(605)	-	(201)
State taxes in lieu of income taxes	106	-	-	106
Other	(323)	632	-	309
Adjusted EBITDA	<u>\$ 30,292</u>	<u>\$ 2,689</u>	<u>\$ -</u>	<u>\$ 32,981</u>

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Quarter Ended March 31, 2007
(In thousands)

	<u>Domestic</u>	<u>Canada</u>	<u>Eliminations</u>	<u>Totals</u>
Net sales to external customers	\$ 238,002	\$ 29,404	\$ -	\$ 267,406
Intersegment net sales	225	-	(225)	-
Adjusted EBITDA	32,479	3,622	-	36,101
Depreciation and amortization expense	6,287	1,061	-	7,348
Expenditures for long-lived assets	3,816	411	-	4,227
Segment assets	1,375,379	147,467	(115,987)	1,406,859
Reconciliation of net income to Adjusted EBITDA:				
Net income (loss)	\$ 4,440	\$ (27)	\$ -	\$ 4,413
Depreciation and amortization	6,287	1,061	-	7,348
Income taxes	2,429	(34)	-	2,395
Interest expense, net	16,603	1,786	-	18,389
Interest income	334	33	-	367
Reorganization expense including management severance	497	123	-	620
Management fees	465	-	-	465
Transaction related expenses	585	-	-	585
Non-cash stock compensation expense	119	-	-	119
Conversion costs associated with meeting new flammability standard	913	-	-	913
Loss on foreign currency transactions	-	95	-	95
State taxes in lieu of income taxes	130	-	-	130
Other	(323)	585	-	262
Adjusted EBITDA	<u>\$ 32,479</u>	<u>\$ 3,622</u>	<u>\$ -</u>	<u>\$ 36,101</u>

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

G. Commitments and Contingencies

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

Simmons Holdco, Inc. ("Simmons Holdco"), a holding company that wholly owns the Company, has a \$300.0 million senior unsecured loan ("Toggle Loan"). The Company does not guarantee nor have any of its assets pledged as collateral under the Toggle Loan. The Toggle Loan is structurally subordinated in right of payment to any existing and future liabilities of the Company. Although the Company is not obligated to make cash distributions to service principal and interest on the Toggle Loan, Simmons Holdco is dependent on the cash flow of the Company to meet the interest and principal payments under the Toggle Loan. The Toggle Loan is not included in the financial statements of the Company. In February 2008, the Company provided \$16.3 million of cash in the form a dividend to Simmons Holdco so that the interest coupon on the Toggle Loan could be paid. Simmons Holdco has elected to pay its next interest payment of \$12.3 million due on the Toggle Loan in August 2008 in cash.

H. Accounting Pronouncements

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Upon adoption, an entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Most of the provisions apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available for sale and trading securities. SFAS 159 was adopted by the Company at the beginning of fiscal year 2008 and has determined not to apply the fair value option to any of its financial assets and liabilities.

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

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

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 enhances the disclosure framework of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"). SFAS 161 expands the disclosures to provide an enhanced understanding of (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (3) how derivative instruments affect an entity's financial position, financial performance, and cash flows. SFAS 161 will be effective for the Company at the beginning of fiscal year 2009. The Company is in the process of evaluating the impact of this guidance on its consolidated financial statements and results of operations.

I. Guarantor / Non-Guarantor Statements

Simmons Bedding's 7.875% senior subordinated notes due 2014 are fully and unconditionally guaranteed, on a joint and several basis, and on an unsecured, senior subordinated basis by Holdings and THL-SC Bedding (the "Parent Guarantors") and all of Simmons Bedding's active domestic subsidiaries (the "Subsidiary Guarantors"). All of the Subsidiary Guarantors are 100% owned by Simmons Bedding. The Company's Puerto Rico and foreign subsidiaries are not guarantors of the 7.875% senior subordinated notes due 2014 (the "Non-Guarantor Subsidiaries"). The Supplemental Consolidating Condensed Financial Statements provide additional guarantor/non-guarantor information.

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Statements of Operations
For the Quarter Ended March 29, 2008
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net sales	\$ -	\$ (22,152)	\$ 265,281	\$ 33,815	\$ (63)	\$ 276,881
Cost of products sold	-	802	141,917	24,551	(63)	167,207
Gross profit	-	(22,954)	123,364	9,264	-	109,674
Operating expenses:						
Selling, general and administrative expenses	-	58,824	22,413	7,314	-	88,551
Amortization of intangibles	-	739	600	250	-	1,589
Intercompany fees	-	(83,998)	82,700	1,298	-	-
Licensing revenues	-	(401)	(1,933)	(234)	-	(2,568)
	-	(24,836)	103,780	8,628	-	87,572
Operating income	-	1,882	19,584	636	-	22,102
Interest expense, net	5,643	9,923	210	2,039	-	17,815
Income from subsidiaries	6,295	13,672	-	-	(19,967)	-
Income (loss) before income taxes	652	5,631	19,374	(1,403)	(19,967)	4,287
Income tax expense (benefit)	(1,863)	(664)	4,781	(482)	-	1,772
Net income (loss)	\$ 2,515	\$ 6,295	\$ 14,593	\$ (921)	\$ (19,967)	\$ 2,515

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Statements of Operations
For the Quarter Ended March 31, 2007
(In thousands)

	Issuer and Guarantors					Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net sales	\$ -	\$ (24,568)	\$ 260,222	\$ 31,977	\$ (225)	\$ 267,406	
Cost of products sold	-	628	136,658	22,154	(225)	159,215	
Gross profit	-	(25,196)	123,564	9,823	-	108,191	
Operating expenses:							
Selling, general and administrative expenses	(10)	55,877	21,793	7,048	-	84,708	
Amortization of intangibles	-	739	526	214	-	1,479	
Intercompany fees	-	(89,646)	88,886	760	-	-	
Licensing revenues	-	(297)	(2,731)	(165)	-	(3,193)	
	(10)	(33,327)	108,474	7,857	-	82,994	
Operating income	10	8,131	15,090	1,966	-	25,197	
Interest expense, net	5,141	11,535	(97)	1,810	-	18,389	
Income from subsidiaries	7,791	8,321	-	-	(16,112)	-	
Income before income taxes	2,660	4,917	15,187	156	(16,112)	6,808	
Income tax expense (benefit)	(1,753)	(2,874)	7,029	(7)	-	2,395	
Net income	\$ 4,413	\$ 7,791	\$ 8,158	\$ 163	\$ (16,112)	\$ 4,413	

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Balance Sheets
As of March 29, 2008
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 1,510	\$ 248	\$ 16,214	\$ -	\$ 17,972
Accounts receivable	-	-	98,340	25,790	(64)	124,066
Inventories	-	37	33,301	5,810	-	39,148
Other	-	8,720	13,195	2,261	-	24,176
Total current assets	-	10,267	145,084	50,075	(64)	205,362
Property, plant and equipment, net	-	26,065	41,047	23,797	-	90,909
Goodwill and other intangibles, net	-	70,597	960,948	107,188	-	1,138,733
Other assets	31,298	129,010	566	3,463	(123,403)	40,934
Net investment in and advances to (from) affiliates	365,386	897,780	299,757	(3,414)	(1,559,509)	-
Total assets	<u>\$ 396,684</u>	<u>\$ 1,133,719</u>	<u>\$ 1,447,402</u>	<u>\$ 181,109</u>	<u>\$ (1,682,976)</u>	<u>\$ 1,475,938</u>
LIABILITIES AND STOCKHOLDER'S EQUITY						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ -	\$ 300	\$ 375	\$ -	\$ 675
Accounts payable and accrued liabilities	140	48,667	96,905	26,480	(11,520)	160,672
Total current liabilities	140	48,667	97,205	26,855	(11,520)	161,347
Long-term debt	227,736	682,500	12,500	84,484	(83,489)	923,731
Deferred income taxes	-	31,164	176,162	11,820	(28,459)	190,687
Other non-current liabilities	-	20,610	6,282	4,473	-	31,365
Total liabilities	227,876	782,941	292,149	127,632	(123,468)	1,307,130
Stockholder's equity	168,808	350,778	1,155,253	53,477	(1,559,508)	168,808
Total liabilities and stockholder's equity	<u>\$ 396,684</u>	<u>\$ 1,133,719</u>	<u>\$ 1,447,402</u>	<u>\$ 181,109</u>	<u>\$ (1,682,976)</u>	<u>\$ 1,475,938</u>

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Balance Sheets
As of December 29, 2007
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Subsidiary Guarantors	Non-Guarantor Subsidiaries		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 8,241	\$ 4,087	\$ 15,192	\$ -	\$ 27,520
Accounts receivable	-	-	93,399	26,726	(141)	119,984
Inventories	-	37	30,041	5,129	-	35,207
Other	-	9,859	13,008	2,414	-	25,281
Total current assets	-	18,137	140,535	49,461	(141)	207,992
Property, plant and equipment, net	-	24,818	38,423	24,208	-	87,449
Goodwill and other intangibles, net	-	71,335	961,552	111,786	-	1,144,673
Other assets	29,508	126,973	586	3,695	(123,223)	37,539
Net investment in and advances to (from) affiliates	380,949	910,379	287,881	(2,219)	(1,576,990)	-
Total assets	\$ 410,457	\$ 1,151,642	\$ 1,428,977	\$ 186,931	\$ (1,700,354)	\$ 1,477,653
LIABILITIES AND STOCKHOLDER'S EQUITY						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ -	\$ 300	\$ 472	\$ -	\$ 772
Accounts payable and accrued liabilities	140	66,681	86,762	25,168	(9,901)	168,850
Total current liabilities	140	66,681	87,062	25,640	(9,901)	169,622
Long-term debt	222,165	665,000	12,500	87,919	(86,868)	900,716
Deferred income taxes	-	32,859	171,284	12,773	(26,595)	190,321
Other non-current liabilities	-	20,754	3,867	4,221	-	28,842
Total liabilities	222,305	785,294	274,713	130,553	(123,364)	1,289,501
Stockholder's equity	188,152	366,348	1,154,264	56,378	(1,576,990)	188,152
Total liabilities and stockholder's equity	\$ 410,457	\$ 1,151,642	\$ 1,428,977	\$ 186,931	\$ (1,700,354)	\$ 1,477,653

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Statements of Cash Flows
For the Quarter Ended March 29, 2008
(In thousands)

	Issuer and Guarantors				Eliminations	Consolidated
	Parent Guarantors	Simmons Bedding Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net cash provided by (used in) operating activities	\$ (3)	\$ (29,627)	\$ 23,660	\$ 1,449	\$ -	\$ (4,521)
Cash flows from investing activities:						
Purchase of property, plant and equipment, net	-	(2,391)	(2,022)	(879)	-	(5,292)
Other	-	-	-	-	-	-
Net cash used in investing activities	-	(2,391)	(2,022)	(879)	-	(5,292)
Cash flows from financing activities:						
Dividend to Simmons Holdco, Inc.	(16,492)	-	-	-	-	(16,492)
Borrowings on revolving loan	-	17,500	-	-	-	17,500
Repayment of long-term obligations	-	-	-	(143)	-	(143)
Receipt from (distribution to) affiliates	16,495	7,787	(25,477)	1,195	-	-
Net cash provided by (used in) financing activities	3	25,287	(25,477)	1,052	-	865
Net effect of exchange rate changes	-	-	-	(600)	-	(600)
Change in cash and cash equivalents	-	(6,731)	(3,839)	1,022	-	(9,548)
Cash and cash equivalents:						
Beginning of period	-	8,241	4,087	15,192	-	27,520
End of period	\$ -	\$ 1,510	\$ 248	\$ 16,214	\$ -	\$ 17,972

Simmons Company and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Supplemental Consolidating Condensed Statements of Cash Flows
For the Quarter Ended March 31, 2007
(In thousands)

	<u>Issuer and Guarantors</u>					<u>Eliminations</u>	<u>Consolidated</u>
	<u>Parent Guarantors</u>	<u>Simmons Bedding Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>			
Net cash provided by (used in) operating activities	\$ 68	\$ (21,737)	\$ 15,805	\$ 470	\$ -	\$ (5,394)	
Cash flows from investing activities:							
Purchase of property, plant and equipment, net	-	(2,970)	(729)	(528)	-	(4,227)	
Other, net	-	-	-	(96)	-	(96)	
Net cash used in investing activities	-	(2,970)	(729)	(624)	-	(4,323)	
Cash flows from financing activities:							
Payment of other long-term obligations	-	-	-	(141)	-	(141)	
Purchase of treasury stock	(1)	-	-	-	-	(1)	
Receipt from (distribution to) affiliates	(67)	17,870	(18,216)	413	-	-	
Net cash provided by (used in) financing activities	(68)	17,870	(18,216)	272	-	(142)	
Net effect of exchange rate changes	-	-	-	48	-	48	
Change in cash and cash equivalents	-	(6,837)	(3,140)	166	-	(9,811)	
Cash and cash equivalents:							
Beginning of period	-	9,841	5,606	5,337	-	20,784	
End of period	\$ -	\$ 3,004	\$ 2,466	\$ 5,503	\$ -	\$ 10,973	

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements as of December 29, 2007, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2007 Annual Report on Form 10-K, and the unaudited interim financial statements included elsewhere in this report.

Results of Operations

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

	Quarters Ended	
	March 29, 2008	March 31, 2007
Net sales	100.0%	100.0%
Cost of products sold	60.4%	59.5%
Gross margin	39.6%	40.5%
Operating expenses:		
Selling, general and administrative expenses	32.0%	31.7%
Amortization of intangibles	0.6%	0.6%
Licensing revenues	-0.9%	-1.2%
	31.6%	31.0%
Operating income	8.0%	9.4%
Interest expense, net	6.4%	6.9%
Income before income taxes	1.5%	2.5%
Income tax expense	0.6%	0.9%
Net income	0.9%	1.7%

Quarter Ended March 29, 2008 as Compared to the Quarter Ended March 31, 2007

Net Sales. Our consolidated net sales increased \$9.5 million, or 3.5%, to \$276.9 million for the quarter ended March 29, 2008 compared to \$267.4 million for the quarter ended March 31, 2007 principally due to growth in our Domestic segment net sales. Our Domestic segment net sales increased \$6.8 million, or 2.9%, to \$245.1 million for the quarter ended March 29, 2008 compared to \$238.2 million during the same period of 2007. Our Domestic segment net sales improved for the quarter ended March 29, 2008 primarily as a result of an increase in our conventional bedding average unit selling price ("AUSP") of 7.9%, or approximately \$17.4 million, partially offset by a decrease in our conventional bedding unit volume of 3.6%, or approximately \$8.2 million, compared to the same period of 2007. Our conventional bedding AUSP increased primarily due to (i) our November 2007 price increase for our innerspring products that targeted retail price points above \$1,000 and all foundations and (ii) a shift in our product sales mix to our higher priced products. We attribute our conventional bedding unit volume decline principally due to the U.S. macroeconomic environment resulting in consumers delaying or foregoing their purchases of mattresses. Our conventional bedding unit volume decrease was principally at retail price points below \$1,000, which was partially offset by an increase in unit volume at retail price points above \$1,000. Our Canada segment net sales increased \$2.5 million to \$31.9 million for the quarter ended March 29, 2008 compared to \$29.4 million for the quarter ended March 31, 2007. In local currency, our Canada segment net sales decreased for the quarter ended March 29, 2008 by 6.8% compared to the same period of 2007 due to a decline in conventional bedding AUSP and unit volume of 4.5% and 3.3%, respectively. Our Canada segment AUSP and unit volume decreased principally due to our customers transitioning from the 2007 Canadian product lines into the new 2008 Canadian product lines, which resulted in promotional pricing of the 2007 products.

Gross Profit. Our consolidated gross profit increased \$1.5 million to \$109.7 million (39.6% of consolidated net sales) for the quarter ended March 29, 2008 compared to \$108.2 million (40.5% of consolidated net sales) for the quarter ended March 31, 2007. Our Domestic segment gross profit increased \$1.8 million to \$101.0 million (41.2% of Domestic segment net sales) for the quarter ended March 29, 2008 compared to \$99.3 million (41.7% of Domestic segment net sales) for the quarter ended March 31, 2007. Our Domestic segment gross margin decreased 0.5 percentage points for the first quarter of 2008 compared to the same period of 2007 principally due to a 13.5% increase in our conventional bedding material costs per unit, partially offset by a 4.7% decrease in our conventional bedding manufacturing cost per unit. Our material cost per unit increased primarily due to (i) the addition of flame retardant materials to meet the Consumer Products Safety Commission's ("CPSC") new regulations relating to open flame resistance standards for the mattress industry that became effective July 1, 2007; (ii) inflation in the costs of raw materials, particularly in the price of foam, steel and lumber; and (iii) a change in our sales mix to products with higher material content. Our manufacturing cost per unit decreased principally due to (i) on-going labor and overhead cost containment initiatives and (ii) \$2.7 million of incremental manufacturing costs having been incurred in the first quarter of 2007 related to our Beautyrest product line roll out.

Our Canada gross profit decreased \$0.3 million to \$8.6 million (27.1% of Canada segment net sales) for the quarter ended March 29, 2008 compared to \$8.9 million (30.3% of Canada segment net sales) for the quarter ended March 31, 2007. Our Canada segment gross margins decreased 3.2 percentage points due primarily to the promotional pricing of 2007 products.

Selling, General and Administrative Expenses ("SG&A"). Our consolidated SG&A increased \$3.8 million for the quarter ended March 29, 2008 to \$88.6 million (32.0% of consolidated net sales) compared to \$84.7 million (31.7% of consolidated net sales) for the quarter ended March 31, 2007. Our Domestic segment SG&A increased \$3.5 million to \$81.7 million (33.3% of Domestic segment net sales) for the quarter ended March 29, 2008 from \$78.2 million (32.8% of Domestic segment net sales) for the quarter ended March 31, 2007. Our Domestic segment SG&A increased due principally to higher (i) variable selling expenses of \$4.2 million due to an increase in co-operative advertising expense resulting from a shift in customer sales mix; (ii) distribution expenses of \$1.5 million due primarily to rising diesel prices; and (iii) salaries and fringes of \$1.3 million principally due to an increase in the number of salaried employees as well as salary increases over the last year. Partially offsetting these increases for the quarter ended March 29, 2008, our Domestic segment SG&A had lower fixed selling and brand development expense of \$4.6 million compared to the same period of 2007, principally due to less product roll out costs.

Amortization of Intangibles. For the quarter ended March 29, 2008, amortization of intangibles increased \$0.1 million to \$1.6 million from \$1.5 million for the quarter ended March 31, 2007.

Interest Expense, Net. For the quarter ended March 29, 2008, interest expense decreased \$0.6 million to \$17.8 million from \$18.4 million for the quarter ended March 31, 2007. The decreased interest expense for the quarter ended March 29, 2008 was primarily due to lower LIBOR base rates on our senior credit facility and lower average outstanding borrowings during the period. Our non-cash interest expense, which includes accretion of our senior discount notes and the amortization of deferred financing fees, increased \$0.5 million to \$6.1 million for the quarter ended March 29, 2008 compared to \$5.6 million for the quarter ended March 31, 2007.

Income Taxes. The effective income tax rate for the quarter ended March 29, 2008 of 41.3% exceeded the effective income tax rate of 35.2% for the quarter ended March 31, 2007 principally due to (i) the recognition of a discrete tax expense of \$0.2 million for the quarter ended March 29, 2008 and (ii) the recognition of a discrete tax benefit of \$0.4 million for the quarter ended March 31, 2007. Both discrete items related to a change in the tax rate used to calculate deferred state taxes. Excluding discrete items, the effective income tax rates for the quarters ended March 29, 2008 and March 31, 2007 reflect the Company's expected full year tax rate on reported income before income taxes of approximately 36 percent and 38 percent, respectively. The 2008 full year tax rate is less than the 2007 full year tax rate principally due to a 2008 deduction for domestic production activities not taken in previous years.

Liquidity and Capital Resources

Our principal sources of cash to fund liquidity needs are (i) cash provided by operating activities and (ii) borrowings available under our senior credit facility. Restrictive covenants in our debt agreements restrict our ability to pay cash dividends and make other distributions. Our primary use of funds consists of payments for working capital increases, capital expenditures, customer supply agreements, principal and interest for our debt, distributions to service Simmons Holdco debt and acquisitions. Barring any unexpected significant external or internal developments, we expect current cash balances on hand, cash provided by operating activities and borrowings available under our senior credit facility to be sufficient to meet our short-term and long-term liquidity needs.

Capital expenditures totaled \$5.3 million for the quarter ended March 29, 2008. We believe that the annual capital expenditure limitations in our senior credit facility will not significantly inhibit us from meeting our ongoing capital expenditure needs. We anticipate our capital expenditures to be approximately \$24 million for 2008 as a result of implementation of our new enterprise resource planning ("ERP") system, additional equipment for our Domestic operations and the capital requirements of our Canadian operations.

Future principal debt payments are expected to be paid out of cash flows from operations, borrowings under our senior credit facility, and future refinancing of our debt. Our affiliates, significant shareholders, or we may from time to time, in their or our sole discretion, purchase, repay, redeem or retire any of our outstanding debt or equity securities (including any publicly issued debt) in privately negotiated or open market transactions by tender offer or otherwise.

Historically, we have paid minimal federal income taxes as a result of net operating loss carryforwards. In 2007, we paid cash taxes of \$1.3 million and we expect cash tax payments to be slightly higher in 2008.

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

	Quarters Ended	
	March 29, 2008	March 31, 2007
Statement of Cash Flow Data:		
Cash flows provided by (used in):		
Operating activities	\$ (4.5)	\$ (5.4)
Investing activities	(5.3)	(4.3)
Financing activities	0.9	(0.1)
Effect of exchange rate changes on cash	(0.6)	0.1
Decrease in cash and cash equivalents	(9.5)	(9.8)
Cash and cash equivalents:		
Beginning of period	27.5	20.8
End of period	\$ 18.0	\$ 11.0

Quarter Ended March 29, 2008 as Compared to Quarter Ended March 31, 2007

Cash flows used in Operating Activities. Our cash flows used in operating activities decreased \$0.9 million for the quarter ended March 29, 2008 compared to the quarter ended March 31, 2007. The decrease in cash flow used in operations resulted primarily from our working capital being a \$15.1 million use of cash for the quarter ended March 29, 2008 compared to our working capital being a \$16.8 million use of cash for the quarter ended March 31, 2007. Our working capital, as a percentage of net sales for the last twelve months, increased to 2.4% as of March 29, 2008 compared to 2.3% as of March 31, 2007.

Cash flows used in Investing Activities. For the quarter ended March 29, 2008, our cash flows used in investing activities of \$5.3 million consisted of purchases for property, plant and equipment compared to \$4.3 million for the same period a year ago. Our increased purchases of property, plant and equipment in 2008 was principally due to an ongoing upgrade of our Domestic segment ERP system and purchases of new manufacturing equipment to help meet anticipated future demand for our products.

Cash flows provided by (used in) Financing Activities. For the quarter ended March 29, 2008, our financing activities resulted in a \$0.9 million source of cash due to borrowings under our revolving credit facility, partially offset by dividend payments to Simmons Holdco, Inc. For the quarter ended March 31, 2007, our financing activities resulted in a \$0.1 million use of cash.

Debt

As of March 29, 2008, our debt outstanding was \$924.4 million compared to \$901.5 million as of December 29, 2007. Our outstanding debt was primarily our senior credit facility, senior subordinated notes and senior discount notes.

Senior Credit Facility

The senior credit facility provides for a \$75.0 million revolving loan facility and a \$465.0 million tranche D term loan facility. Our revolving credit facility expires on December 19, 2009 and our tranche D term loan facility expires on December 19, 2011. As of March 29, 2008, we had \$17.5 million outstanding and the availability to borrow an additional \$48.2 million under the revolving loan facility after taking into account \$9.3 million that was reserved for reimbursement obligations with respect to outstanding letters of credit.

The senior credit facility bears interest at the Company's choice of the Eurodollar Rate or Base Rate (both as defined in the senior credit facility), plus the applicable interest rate margins as follows:

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

The weighted average interest rate per annum in effect as of March 29, 2008 for the senior credit facility was 5.6%.

The tranche D term loan has a mandatory principal payment of \$113.5 million due on March 31, 2011 and quarterly mandatory principal payments of \$117.2 million from June 30, 2011 through maturity on December 19, 2011. Depending on Simmons Bedding's leverage ratio, the Company may be required to prepay a portion of the tranche D term loan with up to 50% of its excess cash flows (as defined in the senior credit facility) from each fiscal year. Based upon 2007 results, the Company is not required to prepay a portion of the tranche D term loan in fiscal year 2008.

Senior Subordinated Notes

Our \$200.0 million of senior subordinated notes due 2014 (the "Subordinated Notes") bear interest at the rate of 7.875% per annum, which is payable semi-annually in cash in arrears on January 15 and July 15. The Subordinated Notes are subordinated in right of payment to all existing and future senior indebtedness of Simmons Bedding.

The Subordinated Notes are redeemable at our option beginning January 15, 2009 at prices decreasing from 103.938% of the principal amount thereof to par on January 15, 2012 and thereafter. We are not required to make mandatory redemption or sinking fund payments with respect to the Subordinated Notes.

Senior Discount Notes

Our senior discount notes ("Discount Notes"), with an aggregate principal amount at maturity of \$269.0 million, bear interest at the rate of 10.0% per annum payable semi-annually in cash in arrears on June 15 and December 15 of each year commencing on June 15, 2010. Prior to December 15, 2009, interest will accrue on the Discount Notes in the form of an increase in the accreted value of the Discount Notes. As of March 29, 2008, the net amount of Discount Notes outstanding was \$227.7 million. Our ability to make payments on the Discount Notes is dependent on the earnings and distribution of funds from Simmons Bedding to Holdings.

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

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

Debt Covenants

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

- 1) A minimum cash interest coverage ratio, with compliance levels ranging from cash interest coverage of no less than 2.75:1.00 from March 29, 2008 through December 27, 2008; and 3.00:1.00 from March 28, 2009 through each fiscal quarter ending thereafter.
- 2) A maximum leverage ratio, with compliance levels ranging from total leverage of no greater than 4.50:1.00 from March 29, 2008 through December 27, 2008; and 4.00:1.00 from March 28, 2009 through each fiscal quarter ending thereafter.

We were in compliance with such covenants as of March 29, 2008. However, if our operating results fall below current expectations, we may not be able to meet such covenants in future periods. If we are not in compliance with such covenants in future periods, we would be required to obtain a waiver from our senior credit facility lenders to avoid being in default. We may not be able to obtain such a waiver on a timely basis or at all. The most restrictive covenants apply to Simmons Bedding and relate to ratios of minimum cash interest coverage ratio and maximum leverage ratio, all as defined in the senior credit facility. There is also a maximum capital expenditure limitation in the senior credit facility. The minimum cash interest coverage ratio and maximum leverage ratio are computed based on Simmons Bedding's financial results for the last twelve months ended, adjusted for any dispositions or acquisitions.

The indenture for the Subordinated Notes requires Simmons Bedding to comply with certain restrictive covenants, including restrictions on dividends, and limitations on the occurrence of indebtedness, certain payments and distributions, and sales of Simmons Bedding's assets and stock. We were in compliance with such covenants as of March 29, 2008.

The indenture for the Senior Discount Notes requires Holdings to comply with certain restrictive covenants, including restrictions on dividends, and limitations on the occurrence of indebtedness, certain payments and distributions, and sales of Holdings' assets and stock. We were in compliance with such covenants as of March 29, 2008.

The following is a calculation of our minimum cash interest coverage and maximum leverage ratios under our senior credit facility as of March 29, 2008 (dollar amounts in millions, except ratios). The terms and related calculations are defined in the senior credit facility:

Calculation of minimum cash interest coverage ratio:

Simmons Bedding Adjusted EBITDA(1)	\$ 154.0
Simmons Bedding cash interest expense(2)	\$ 53.0
Actual interest coverage ratio(3)	2.90x
Minimum permitted interest coverage ratio	2.75x

Calculation of maximum leverage ratio:

Simmons Bedding debt(4)	\$ 696.7
Less: Simmons Bedding cash and cash equivalents	(18.0)
Net Simmons Bedding debt	\$ 678.7
Adjusted EBITDA(1)	\$ 154.0
Actual leverage ratio(5)	4.41x
Maximum permitted leverage ratio	4.50x

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

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the twelve months ended March 29, 2008 (in millions):

Net income	\$ 22.1
Depreciation and amortization	31.5
Income taxes	8.0
Interest expense, net	75.1
Interest income	0.3
EBITDA	<u>\$ 137.0</u>
Reorganization expenses including management severance	2.1
Management fees	1.7
Transaction related expenses	4.1
Conversion costs associated with meeting new flammability standard	1.3
ERP system implementation costs	2.1
Non-recurring professional service fees	3.5
Other, including expenses at Holdings	2.1
Pro forma effect of ComforPedic acquisition	0.1
	<u>\$ 154.0</u>

(2) A calculation of consolidated cash interest expense, as defined in our senior credit facility, for the twelve months ended March 29, 2008 (in millions):

Simmons Company consolidated interest expense, net	\$ 75.1
Less: Simmons Company non-cash interest expense	(21.3)
Simmons Bedding interest expense, net	<u>53.8</u>
Add: Simmons Bedding interest income	0.3
Add: Simmons Bedding interest capitalized	0.8
Simmons Bedding gross interest expense	54.8
Less: Simmons Bedding non-cash interest expense	(1.8)
Simmons Bedding cash interest expense	<u>\$ 53.0</u>

(3) Represents ratio of Adjusted EBITDA to cash interest expense.

(4) A calculation of Simmons Bedding debt as of March 29, 2008 (in millions):

Simmons Company consolidated debt	\$ 924.4
Less: Simmons Company debt	(227.7)
Simmons Bedding debt	<u>\$ 696.7</u>

(5) Represents ratio of debt less cash and cash equivalents to Adjusted EBITDA.

Seasonality/Other

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

Accounting Pronouncements

See Note I in the Notes to our Unaudited Condensed Consolidated Financial Statements in Item 1 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations and financial condition, which is incorporated herein by reference.

Forward Looking Statements

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

- general economic and industry conditions;
- competitive pricing pressures in the bedding industry;
- legal and regulatory requirements;
- the success of our new products and the future costs to roll out such products;

- our relationships with and viability of our major suppliers;
- fluctuations in costs of our raw materials and energy prices;
- our relationship with and viability of significant customers and licensees;
- our ability to increase prices on our products and the effect of these price increases on our unit sales;
- an increase in our return rates and warranty claims;
- our labor relations;
- departure of our key personnel;
- encroachments on our intellectual property;
- our product liability claims;
- our level of indebtedness;
- interest rate risks;
- foreign currency exchange rate risks;
- compliance with covenants in our debt agreements;
- our future acquisitions;
- our ability to achieve the expected benefits from any personnel realignments;
- our ability to successfully implement our new enterprise resource planning system; and
- other risks and factors identified from time to time in our reports filed with the Securities and Exchange Commission (“SEC”).

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information relative to our market risk sensitive instruments by major category should be read in conjunction with the related disclosure contained in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

Market Risk

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

Foreign Currency Exposures

As a result of our acquisition of Simmons Canada, our earnings are affected by fluctuations in the value of Canadian dollar (Simmons Canada’s functional currency) as compared to the currencies of Simmons Canada’s foreign denominated purchases (principally the U.S. dollar). Foreign currency forward contracts are used as economic hedges against the earnings effects of such fluctuations. The potential loss in fair value on forward contracts outstanding as of March 29, 2008, resulting from a hypothetical 10% adverse change in the Canadian dollar against the U.S. dollar, is approximately \$0.6 million. Such losses would be largely offset by gains from the revaluation or settlement of the underlying assets and liabilities that are being protected by the forward contracts. As of March 29, 2008, we had forward contracts to sell a total of \$5.8 million Canadian dollars with expiration dates ranging from April 7, 2008 to November 28, 2008. As of March 29, 2008, the fair value of our net liability under the forward contracts was \$0.1 million. We do not apply hedge accounting to our forward contracts; therefore, contracts are marked-to-market as of each reporting date through earnings.

Interest Rate Risk

We are exposed to market risks from changes in interest rates. Our senior credit facility and certain of our other debt instruments are floating rate debt. We currently do not have a hedging program in place to manage fluctuations in long-term interest rates. We have implemented a policy to utilize extended Eurodollar contracts under the senior credit facility to minimize the impact of near term Eurodollar rate increases.

On March 29, 2008, we had floating rate debt of \$487.0 million. All other factors remaining unchanged, a hypothetical 10% increase or decrease in interest rates on our floating rate debt would impact our annual interest expense by \$0.6 million.

Commodity Price Risk

The major raw materials that we purchase for production are foam, wire, spring components, lumber, cotton, insulator pads, foundation constructions, fabrics and roll goods consisting of foam, fiber, ticking and non-wovens. The price and availability of these raw materials are subject to market conditions affecting supply and

demand. In particular, the price of many of our goods can be impacted by fluctuations in petrochemical and steel prices. Additionally, our distribution costs can be impacted by fluctuations in diesel prices. We currently do not have a hedging program in place to manage fluctuations in commodity prices.

Item 4T. Internal Controls and Procedures

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in SEC rules and forms. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as of March 29, 2008.

Changes in Internal Control over Financial Reporting

There has been a change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, identified in connection with the evaluation that occurred during the first quarter of 2008 that has materially affected our internal control over financial reporting. In July 2007, we implemented a new financial accounting system in connection with our new ERP system. In November 2007 and March 2008, we implemented modules of the ERP system at certain of our manufacturing facilities. The remaining modules of the ERP system are scheduled to be implemented in the first half of 2008. The financial accounting system implementation was undertaken to enhance our ERP system and not in response to any identified deficiency or weakness to our internal controls over financial reporting. The new financial accounting system, which has undergone rigorous review and testing, has helped strengthen our internal control over financial reporting. With the exception of the continued implementation of the ERP system, there were no changes in internal controls in the first quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes to the Company's risk factors outlined in its Annual Report filed with the SEC on Form 10-K on March 26, 2008.

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 Chief Executive Officer Certification of the Type Described in Rule 13a - 14(a) and Rule 15d - 14(a)
- 31.2 Chief Financial Officer Certification of the Type Described in Rule 13a - 14(a) and Rule 15d - 14(a)
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)

SIGNATURES

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

SIMMONS COMPANY

By: /s/ William S. Creekmuir
William S. Creekmuir
Executive Vice President & Chief Financial Officer
Date: May 6, 2008

CERTIFICATIONS

CHIEF EXECUTIVE OFFICER'S SECTION 302 CERTIFICATION

I, Charles R. Eitel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Simmons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2008 /s/ Charles R. Eitel
Name: Charles R. Eitel
Title: Chief Executive Officer

CHIEF FINANCIAL OFFICER'S SECTION 302 CERTIFICATION

I, William S. Creekmuir, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Simmons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2008 /s/ William S. Creekmuir
Name: William S. Creekmuir
Title: Chief Financial Officer

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

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

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 29, 2008 (the "Report"), being filed with the U.S. Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 6, 2008 /s/ Charles R. Eitel
Name: Charles R. Eitel
Title: Chief Executive Officer

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

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

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

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 29, 2008 (the "Report"), being filed with the U.S. Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 6, 2008 /s/ William S. Creekmuir
Name: William S. Creekmuir
Title: Chief Financial Officer

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