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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

☐ **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 001-31922

TEMPUR-PEDIC INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**33-1022198** **(I.R.S. Employer Identification No.)**

1713 Jaggie Fox Way
Lexington, Kentucky 40511
(Address, including zip code, of principal executive offices)

Registrant's telephone number, including area code: (800) 878-8889

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 x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

(Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No x

The number of shares outstanding of the registrant's common stock as of July 27, 2010 was 69,780,192 shares.

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Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which include information concerning our plans; objectives; goals; strategies; future events; future revenues or performance; the impact of the macroeconomic environment in both the U.S. and internationally on sales and our business segments; investments in operating infrastructure; changes in capital expenditures; the impact of consumer confidence; litigation and similar issues; pending tax assessments; financial flexibility; the impact of initiatives to accelerate growth, expan d market share and attract sales from the standard mattress market; the improvements in our Net sales; efforts to expand business within established accounts, improve account productivity, reduce costs and operating expenses and improve manufacturing productivity; initiatives to improve gross margin; the vertical integration of our business; the development, rollout and market acceptance of new products, including the success of the TEMPUR-Cloud™ Supreme; our ability to further invest in the business and in brand awareness; our ability to meet financial obligations and continue to comply with the terms of our credit facility, including its financial ratio covenants; effects of changes in foreign exchange rates on our reported earnings; our expected sources of cash flow; our ability to effectively manage cash; our ability to align costs with sales expectations and other information that is not historical information. Many of these statements appear, in particular, under the heading “Man agement’s Discussion and Analysis of Financial Condition and Results of Operations” in ITEM 2 of Part I of this report. When used in this report, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. 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 report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including under the heading “Risk Factors” under ITEM 1A of Part II of this report and under the heading “Risk Factors” under ITEM 1A of Part 1 of our annual report on Form 10-K for the year ended December 31, 2009. 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 apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

When used in this report, except as specifically noted otherwise, the term “Tempur-Pedic International” refers to Tempur-Pedic International Inc. only, and the terms “Company,” “we,” “our,” “ours” and “us” refer to Tempur-Pedic International Inc. and its consolidated subsidiaries.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per common share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net sales	**$ 263,044**	$ 185,176	**$ 516,933**	$ 362,280
Cost of sales	**135,003**	98,845	**264,083**	194,088
Gross profit	**128,041**	86,331	**252,850**	168,192
Selling and marketing expenses	**46,827**	35,191	**93,058**	69,063
General, administrative and other expenses	**27,364**	21,978	**53,652**	44,086
Operating income	**53,850**	29,162	**106,140**	55,043
Other expense, net:				
Interest expense, net	**(3,786)**	(4,477)	**(6,975)**	(9,048)
Other (expense) income, net	**(64)**	270	**99**	618
Total other expense	**(3,850)**	(4,207)	**(6,876)**	(8,430)
Income before income taxes	**50,000**	24,955	**99,264**	46,613
Income tax provision	**16,485**	8,098	**32,506**	16,418
Net income	**$ 33,515**	$ 16,857	**$ 66,758**	$ 30,195
Less: Net income attributable to the noncontrolling interest	**9**	—	**104**	—
Net income attributable to common stockholders	**$ 33,506**	$ 16,857	**$ 66,654**	$ 30,195
Earnings per common share:				
Basic	**$ 0.47**	$ 0.23	**$ 0.93**	$ 0.40
Diluted	**$ 0.46**	$ 0.22	**$ 0.90**	$ 0.40
Weighted average common shares outstanding:				
Basic	**70,730**	74,894	**72,014**	74,884
Diluted	**73,152**	75,493	**74,438**	75,036

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,367	$ 14,042
Accounts receivable, net	112,338	105,576
Inventories	65,310	57,686
Prepaid expenses and other current assets	14,174	11,268
Deferred income taxes	20,462	20,411
Total Current Assets	227,651	208,983
Property, plant and equipment, net	159,528	172,497
Goodwill	210,475	193,391
Other intangible assets, net	69,985	64,717
Other non-current assets	4,298	3,791
Total Assets	$ 671,937	$ 643,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 48,664	$ 47,761
Accrued expenses and other current liabilities	79,481	81,452
Income taxes payable	14,584	7,312
Total Current Liabilities	142,729	136,525
Long-term debt	435,000	297,470
Deferred income taxes	30,689	29,865
Other non-current liabilities	8,211	7,226
Total Liabilities	616,629	471,086
Commitments and contingencies—see Note 9		
Equity attributable to common stockholders	53,979	172,293
Equity attributable to the noncontrolling interest	1,329	—
Total Stockholders' Equity	55,308	172,293
Total Liabilities and Stockholders' Equity	$ 671,937	$ 643,379

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 66,758**	$ 30,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**15,706**	15,514
Amortization of stock-based compensation	**5,339**	4,093
Amortization of deferred financing costs	**345**	345
Bad debt expense	**1,278**	3,864
Deferred income taxes	**(2,697)**	(6,148)
Foreign currency adjustments and other	**(2,150)**	148
Changes in operating assets and liabilities, net of effects of acquired business	**(16,757)**	17,439
Net cash provided by operating activities	**67,822**	65,450
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	**(18,692)**	—
Purchases of property, plant and equipment	**(6,698)**	(4,728)
Payments for other	**(184)**	(155)
Net cash used by investing activities	**(25,574)**	(4,883)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term revolving credit facility	**222,336**	83,797
Repayments of long-term revolving credit facility	**(83,313)**	(133,036)
Proceeds from issuance of common stock	**19,470**	—
Excess tax benefit from stock-based compensation	**2,613**	—
Treasury shares repurchased	**(200,000)**	—
Net cash used by financing activities	**(38,894)**	(49,239)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,029)**	(1,739)
Increase in cash and cash equivalents	**1,325**	9,589
CASH AND CASH EQUIVALENTS, beginning of period	**14,042**	15,385
CASH AND CASH EQUIVALENTS, end of period	**$ 15,367**	$ 24,974
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	**$ 6,397**	$ 8,987
Income taxes, net of refunds	**$ 23,641**	$ 25,385

See accompanying Notes to Condensed Consolidated Financial Statements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In thousands, except per common share amounts)

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation and Description of Business*—Tempur-Pedic International Inc., a Delaware corporation, together with its subsidiaries is a U.S. based, multinational company. The term “Tempur-Pedic International” refers to Tempur-Pedic International Inc. only, and the term “Company” refers to Tempur-Pedic International Inc. and its consolidated subsidiaries.

The Company manufactures, markets and sells products including pillows, mattresses and other related products. The Company manufactures essentially all its pressure-relieving TEMPUR® products at three manufacturing facilities, with one located in Denmark and two in the U.S. The Company has sales distribution subsidiaries operating in North America, Europe and Asia Pacific and has third party distribution arrangements in certain other countries where it does not have subsidiaries. The Company sells its products through four sales channels: Retail, Direct, Healthcare and Third party.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements of the Company and related footnotes for the year ended December 31, 2009, included in the Company’s annual report on Form 10-K.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

(b) *Basis of Consolidation*—The accompanying Condensed Consolidated Financial Statements include the accounts of Tempur-Pedic International, its wholly-owned subsidiaries and its majority-owned subsidiaries in which a controlling interest is held. Intercompany balances and transactions have been eliminated. The noncontrolling interest represents the portion of equity interests of consolidated affiliates not owned by the Company. On January 29, 2010, the Company established a 51% interest in Tempur Shanghai Holding Ltd (a Hong Kong company).

(c) *Use of Estimates*—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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. The Company’s results are affected by economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies and changes in the prices of raw materials, can have a significant effect on operations. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

(d) *Inventories*—Inventories are stated at the lower of cost or market, determined by the first-in, first-out method, and consist of the following:

	June 30, 2010	December 31, 2009
Finished goods	**$ 47,636**	$ 41,805
Work-in-process	**5,431**	6,654
Raw materials and supplies	**12,243**	9,227
	$ 65,310	$ 57,686

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

(e) *Accrued Sales Returns*—The Company allows product returns up to 120 days following a sale through certain sales channels and on certain products. Estimated sales returns are provided at the time of sale based on historical sales channel return rates. The level of sales returns differs by channel with the Direct channel typically experiencing the highest rate of return. Estimated future obligations related to these products are provided by a reduction of sales in the period in which the revenue is recognized. Accrued sales returns are included in Accrued expenses and other current liabilities in the accompanying Condensed Consoli dated Balance Sheets.

The Company had the following activity for sales returns from December 31, 2009 to June 30, 2010:

Balance as of December 31, 2009	$	4,233
Amounts accrued		22,758
Returns charged to accrual		(21,994)
Balance as of June 30, 2010	$	4,997

(f) *Warranties*—The Company provides a 20-year warranty for U.S. sales and a 15-year warranty for non-U.S. sales on mattresses, each prorated for the last 10 years. The Company also provides a 2-year to 3-year warranty on pillows. Estimated future obligations related to these products are charged to operations in the period in which the related revenue is recognized. Estimates of warranty expenses are based primarily on historical claim experience and product testing. Warranties are included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for warranties from December 31, 2009 to June 30, 2010:

Balance as of December 31, 2009	$	4,052
Amounts accrued		2,223
Warranties charged to accrual		(2,287)
Balance as of June 30, 2010	$	3,988

(g) *Revenue Recognition*—Sales of products are recognized when persuasive evidence of an arrangement exists, products are shipped and title passes to customers and the risks and rewards of ownership are transferred, the sales price is fixed or determinable and collectability is reasonably assured. The Company extends volume discounts to certain customers and reflects these amounts as a reduction of sales. The Company also reports sales net of tax assessed by qualifying governmental authorities. The Company extends credit based on the creditworthiness of its customers. No collateral is required on sales made in the normal course of business.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company regularly reviews the adequacy of its allowance for doubtful accounts. The Company determines the allowance based on historical write-off experience and current economic conditions and also considers factors such as customer credit, past transaction history with the customer and changes in customer payment terms when determining whether the collection of a receivable is reasonably assured. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowanc e for doubtful accounts included in Accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets was $8,221 and $9,030 as of June 30, 2010 and December 31, 2009, respectively.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

(h) *Advertising Costs*—The Company expenses advertising costs as incurred except for production costs and advance payments, which are deferred and expensed when advertisements run for the first time. Direct response advance payments are deferred and are amortized over the life of the program.

(i) *Research and Development Expenses*—Research and development expenses for new products are expensed as they are incurred and included in General, administrative and other expenses in the accompanying Condensed Consolidated Statements of Income. Research and development costs charged to expense were approximately $1,699 and $1,640 for the three months ended June 30, 2010 and June 30, 2009, respectively. For the six months ended June 30, 2010 and 2009, research and development costs charged to expense were $3,549 and $3,099, respectively.

(j) *Subsequent Events*—On July 15, 2010, the Board of Directors authorized a repurchase authorization of up to $100,000 of the Company's common stock. Share repurchases under this authorization may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate; these repurchases may be funded by operating cash flows and/or borrowings under our credit facility. This share repurchase program may be limited, suspended or terminated at any time without prior notice.

(2) Goodwill and Other intangible assets

The following summarizes changes to the Company's Goodwill, by reportable business segment:

	North America	International	Total
Balance as of December 31, 2009	$ 89,929	$ 103,462	$ 193,391
Goodwill from acquisition	18,822	—	18,822
Foreign currency translation adjustments and other	(897)	(841)	(1,738)
Balance as of June 30, 2010	$ 107,854	$ 102,621	$ 210,475

On April 1, 2010, the Company acquired its third party distributor in Canada. The total amount of cash paid for the acquisition was approximately $18,692. Additional payments may be made to the former owners if certain financial targets are met, the present value of these payments as of the acquisition date was $6,241. Accordingly, the acquisition date fair value of the consideration transferred was $24,933. We estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model, which represents Level 3 fair value measure under U.S. GAAP.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The Company is in the process of finalizing its purchase price allocation and accordingly, fair value estimates may change as valuations and assessments are completed.

Net working capital	42
Deferred tax liability	(1,782)
Property, plant and equipment	322
Intangible assets	7,529
Goodwill	18,822
Total purchase price	$ 24,933

Intangible assets are comprised of $5,639 related to reacquired rights with a useful life of 3 years and $1,890 related to customer relationships with a useful life of 5 years. The goodwill was assigned to the North American segment. None of the goodwill is expected to be deductible for income tax purposes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

The following table summarizes information relating to the Company's Other intangible assets:

		June 30, 2010			December 31, 2009		
	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized indefinite life intangible assets:							
Trademarks		$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ 55,000
Amortized intangible assets:							
Technology	10	$ 16,000	$ 12,267	$ 3,733	$ 16,000	$ 11,467	$ 4,533
Patents & other trademarks	5-20	11,835	8,261	3,574	11,876	8,002	3,874
Customer database	5	4,760	4,592	168	4,855	4,593	262
Foam formula	10	3,700	2,837	863	3,700	2,652	1,048
Reacquired rights	3	5,382	448	4,934	—	—	—
Customer relationships	5	1,803	90	1,713	—	—	—
Total		$ 98,480	$ 28,495	$ 69,985	$ 91,431	$ 26,714	$ 64,717

Amortization expense relating to intangible assets for the Company was $1,233 and $604 for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009 amortization expense relating to intangible assets was $1,904 and $1,210 respectively. No impairments of goodwill or other intangible assets have adjusted the gross carrying amount of these assets in any historical period.

(3) Long-term Debt

(a) Long-term Debt—Long-term debt for the Company consists of the following:

	June 30, 2010	December 31, 2009
2005 Senior Credit Facility:		
Domestic Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (2.95% and 3.72% as of June 30, 2010 and December 31, 2009, respectively), commitment through and due June 8, 2012	$ 435,000	$ 294,000
Foreign Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (2.06% as of December 31, 2009), commitment through and due June 8, 2012	—	3,470
Long-term debt	$ 435,000	$ 297,470

(b) *Secured Credit Financing*—On October 18, 2005, the Company entered into a credit agreement (2005 Senior Credit Facility) with a syndicate of banks. The 2005 Senior Credit Facility, as amended, consists of domestic and foreign credit facilities (Revolvers) that provide for the incurrence of indebtedness up to an aggregate principal amount of $640,000 and matures in 2012. The domestic credit facility is a five-year, $615,000 revolving credit facility (Domestic Revolver). The foreign credit facility is a five-year $25,000 revolving credit facility (Foreign Revolver). The Revolvers provide for the issuance of letters of credit which, when issued, constitute usage and reduce availability under the Revolvers. The aggregate amount of letters of credit outstanding under the Revolvers was $11,827 at June 30, 2010. After giving effect to letters of credit and $435,000 in borrowings under the Revolvers, total availability under the Revolvers was $193,173 as of June 30, 2010. Both credit facilities bear interest at a rate equal to the 2005 Senior Credit Facility's applicable margin, as determined in accordance with a performance pricing grid set forth in Amendment No. 3, plus one of the following indexes: London Inter-Bank Offering Rate (LIBOR) and for U.S. dollar-denominated loans only, a base rate. The base rate of U.S. dollar-denominated loans is defined as the higher of the Bank of America prime rate or the Federal Funds rate plus .50%. The Company also pays an annual facility fee on the total amount of the 2005 Senior Credit Facility. The facility fee is calculated based on the consolidated leverage ratio and ranges from .125% to .25%.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

The 2005 Senior Credit Facility is guaranteed by Tempur-Pedic International, as well as certain other subsidiaries of Tempur-Pedic International, and is secured by certain fixed and intangible assets of Dan-Foam ApS and substantially all the Company's U.S. assets. The 2005 Senior Credit Facility contains certain financial covenants and requirements affecting the Company, including a consolidated interest coverage ratio and a consolidated leverage ratio. The Company was in compliance with all covenants as of June 30, 2010.

In May 2008, the Company entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates associated with the 2005 Senior Credit Facility. Refer to Note 5, "Derivative Financial Instruments" for additional information regarding the Company's derivative instruments, including this interest rate swap.

(4) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset and liability in an orderly transaction between market participants at the measurement date. The Company estimates fair value of its financial instruments utilizing an established three-level hierarchy. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows:

- Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. At June 30, 2010, the Company had an interest rate swap and foreign currency forward contracts recorded at fair value. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for credit risk and restrictions and other terms specific to the contracts. The following table provides a summary by level of the fair value of financial instruments that are measured on a recurring basis:

		Fair Value Measurements at June 30, 2010 Using:		
	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Foreign currency forward contracts	$ 31	$ —	$ 31	$ —
Interest rate swap	$ 4,142	$ —	$ 4,142	$ —

		Fair Value Measurements at December 31, 2009 Using:		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Foreign currency forward contracts	$ 438	$ —	$ 438	$ —
Interest rate swap	$ 6,865	$ —	$ 6,865	$ —

The carrying value of Cash and cash equivalents, Accounts receivable and Accounts payable approximate fair value because of the short-term maturity of those instruments. Borrowings under the 2005 Senior Credit Facility (as defined in Note 3(b)) are at variable interest rates and accordingly their carrying amounts approximate fair value.

(5) Derivative Financial Instruments

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates and foreign currency exchange rates. The Company uses various derivative contracts, primarily interest rate swaps and foreign currency exchange forward contracts, to manage risks from these market fluctuations. The financial instruments used by the Company are straight-forward, non-leveraged instruments. The counterparties to these financial instruments are financial institutions with strong credit ratings. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions.

Interest Rate Risk

The Company is exposed to changes in interest rates on its 2005 Senior Credit Facility. In order to manage this risk, in May 2008, the Company entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. The Company designated this interest rate swap as a cash flow hedge of floating rate borrowings and expects the hedge to be highly effective in offsetting fluctuations in the designated interest payments resulting from changes in the benchmark interest rate. The gains and losses on the designated swap agreement will offset losses and gains on the transactions being hedged. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in c ash flows of the hedged transaction. The fair value of the interest rate swap is calculated as described in Note 4, “Fair Value Measurements” taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As a result of this swap, the Company pays at a fixed rate and receives payment at a variable rate. The swap effectively fixed the floating LIBOR-based interest rate to 3.755% on $350,000 of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap amortizes as follows: to $300,000 on November 28, 2008 (through November, 2009); to $200,000 on November 28, 2009 (through November, 2010); and to $100,000 on November 28, 2010 (through November 28, 2011). The Company will select the LIBOR-based rate on the hedged portion of the 2005 Senior Credit Facility during the term of the swap. The effective portion of the change in value of the swap is reflected as a component of Accumulated other comprehensive loss (OCL) and recognized as Interest expense, net as payments are paid or accrued. The remaining gain or loss in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any (i.e., the ineffective portion) or hedge components excluded from the assessment of effectiveness are recognized as Interest expense, net during the current period.

As of June 30, 2010 the total notional amount of the Company’s interest rate swap agreement is $200,000. Over the next 12 months, the Company expects to reclassify $4,142 of deferred losses on derivative instruments from Accumulated OCL to earnings due to the payment of variable interest associated with the 2005 Senior Credit Facility.

Foreign Currency Exposures

The Company is exposed to foreign currency risk primarily related to intercompany debt and associated interest payments. To manage the risk associated with fluctuations in foreign currencies, the Company enters into foreign currency forward contracts. The Company does not designate any of these foreign currency forward contracts as hedging instruments, however, the Company considers the contracts as economic hedges. Accordingly, changes in the fair value of these instruments affect earnings during the current period. These foreign currency forward contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from payments in foreign currencies. The fair value of foreign currency agreements are estimated as described in Note 4, “Fair Value Measurements” taking into consideration foreign currency rates and the current creditworthiness of the counterparties or the Company, as applicable.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

As of June 30, 2010, the Company had foreign currency forward contracts with expiration dates ranging from July 2, 2010 through October 26, 2010. The changes in fair value of these foreign currency hedges are included as a component of Other (expense) income, net. As of June 30, 2010 the Company had the following outstanding foreign currency forward contracts:

Foreign Currency		Currency Denomination
Great Britain Pound	£	3,625
Japanese Yen	¥	380,192
Swedish Krona	kr.	6,783
Norwegian Krone	kr.	717
Australian Dollar	$	924
New Zealand Dollar	$	653
Singapore Dollar	$	252
Canadian Dollar	$	5,503
United States Dollar	$	4,451

As of June 30, 2010 and December 31, 2009, the fair value carrying amount of the Company's derivative instruments were recorded as follows:

	Liability Derivatives					
	June 30, 2010			**December 31, 2009**		
	Balance Sheet Location		Fair Value	**Balance Sheet Location**		**Fair Value**
Derivatives designated as hedging instruments						
Interest rate swap	Other non-current liabilities	$	4,142	Other non-current liabilities	$	6,865
Derivatives not designated as hedging instruments						
Foreign exchange forward contracts	Accrued expenses and other current liabilities	$	31	Accrued expenses and other current liabilities	$	438
		$	4,173		$	7,303

The effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income for the three months ended June 30, 2010 was as follows:

Derivatives Designated as Cash Flow Hedging Relationships		**Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)**	**Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)**		**Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)**	**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**		**Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Interest rate swap	$	1,788	Interest expense, net	$	(1,757)	Interest expense, net	$	—

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (387)

For the three months ended June 30, 2009:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 1,398	Interest expense, net	$ (2,059)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (1,405)

The effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income for the six months ended June 30, 2010 was as follows:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 2,723	Interest expense, net	$ (3,488)	Interest expense, net	$ —

(In thousands, except per common share amounts)

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	$ (1,353)

For the six months ended June 30, 2009:

Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 2,218	Interest expense, net	$ (3,470)	Interest expense, net	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange forward contracts	Other (expense) income, net	(2,146)

(6) Stockholders' Equity

(a) *Capital Stock*—Tempur-Pedic International's authorized shares of capital stock are 300,000 shares of common stock and 10,000 shares of preferred stock. Subject to preferences that may be applicable to any outstanding preferred stock, holders of the common stock are entitled to receive ratably such dividends as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution or winding up, the holders of the common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

(b) *Share Repurchase Programs*—On October 16, 2007, the Board of Directors authorized a repurchase authorization of up to $300,000 of the Company's common stock. On January 13, 2010 the Board of Directors approved a share repurchase program of up to $100,000 of the Company's common stock, which replaced the October 2007 authorization. The Company repurchased 3,694 shares of the Company's common stock for $100,000 from the January 2010 authorization and completed the purchases from this authorization in February 2010. On April 15, 2010, the Board of Directors approved an additional share repurchase authorization of up to $100,000 of the Company's common stock. The Company repurchased 2,992 shares o f the Company's common stock for $100,000 from the April 2010 authorization and completed the purchases from this authorization in May 2010. Share repurchases under authorizations may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

(7) Other Items

(a) *Property, plant and equipment—*

Property, plant and equipment, net consisted of the following:

	June 30, 2010	December 31, 2009
Land and buildings	**$ 116,771**	$ 123,743
Machinery and equipment, furniture and fixtures and other	**197,788**	202,474
Construction in progress	**10,340**	8,107
	324,899	334,324
Accumulated depreciation	**(165,371)**	(161,827)
	$ 159,528	$ 172,497

(b) *Accrued expenses and other current liabilities—*

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2010	December 31, 2009
Salary and related expenses	$ **16,205**	$ 18,131
Accrued unrecognized tax benefits	**13,153**	12,544
Accrued sales and value added taxes	**11,258**	11,472
Warranty accrual	**3,988**	4,052
Sales returns	**4,997**	4,233
Other	**29,880**	31,020
	$ **79,481**	$ 81,452

(c) *Accumulated other comprehensive loss—*

Accumulated other comprehensive loss consisted of the following:

	June 30, 2010	December 31, 2009
Derivative instruments accounted for as hedges, net of tax of $1,616 and $2,678, respectively	**$ (2,526)**	$ (4,187)
Foreign currency translation	**(17,137)**	(3,817)
Accumulated other comprehensive loss	**$ (19,663)**	$ (8,004)

(In thousands, except per common share amounts)

(d) *Comprehensive income*

The components of comprehensive income consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net income attributable to common stockholders	**$ 33,506**	$ 16,857	**$ 66,654**	$ 30,195
Derivative instruments accounted for as hedges, net of taxes of $698, $545, $1,063 and $865, respectively	**1,091**	853	**1,661**	1,353
Cumulative translation adjustment	**(7,892)**	5,003	**(13,320)**	729
Comprehensive income attributable to common stockholders	**26,705**	22,713	**54,995**	32,277
Comprehensive income attributable to the noncontrolling interest	**9**	—	**104**	—
Total comprehensive income	**$ 26,714**	$ 22,713	**$ 55,099**	$ 32,277

(8) Stock-Based Compensation

The Company currently has three stock-based compensation plans: the 2002 Option Plan (2002 Plan), the Amended and Restated 2003 Equity Incentive Plan (2003 Plan) and the 2003 Employee Stock Purchase Plan (ESPP), which are described under the caption “Stock-based Compensation” in the notes to the Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. Effective February 1, 2010, the Company suspended offerings under the ESPP indefinitely.

In the first quarter of 2010, the Compensation Committee of the Board of Directors approved the terms of a Long-Term Incentive Program (LTIP), established under the 2003 Plan. For 2010, the LTIP awards consist of a mix of stock options and performance-based restricted stock units (PRSUs). Shares with respect to the PRSUs will be granted and vest following the end of the applicable performance period and achievement of applicable performance metrics as determined by the Compensation Committee of the Board of Directors.

The Company granted PRSUs during the three and six months ended June 30, 2010. The maximum number of shares to be awarded under the PRSUs granted during the three and six months ended June 30, 2010 will be 12 and 418 shares, respectively, and will vest, if earned, at the end of the three-year performance period ending on December 31, 2012. Actual payout under the PRSUs granted in 2010 is dependent upon the achievement of certain financial goals, based on Net sales and Earnings Before Interest and Taxes (EBIT) margin targets. The Company recognized compensation expense of $356 and $463 associated with the 2010 PRSUs during the three and six months ended June 30, 2010, respectively. Based on current estimates of the performance metrics, unrecognized compensation expense with respect to the PRSUs was $3,419, as of Ju ne 30, 2010, which is expected to be recorded over the weighted average remaining life of 2.51 years. No PRSUs were granted during the six months ended June 30, 2009.

The Company granted options to purchase 33 and 162 shares of common stock during the three and six months ending June 30, 2010. The Company recognized compensation expense of $221 and $280 associated with the 2010 grants during the three and six months ended June 30, 2010, respectively. The Company granted new options to purchase 278 and 1,694 shares of common stock during the three and six months ending June 30, 2009, respectively. The Company recognized compensation expense of $406 and $477 associated with the 2009 grants during the three and six months ended June 30, 2009, respectively. As of June 30, 2010, there was $1,910 of unrecognized compensation expense associated with the options granted in 2010, which is expected to be recorded over the weighted average remaining vesting period of 2.42 years. The options granted in the three months ended June 30, 2010 had a weighted average grant-date fair value of $15.31 per option, as determined by the Black-Scholes option pricing model using the following assumptions:

(In thousands, except per common share amounts)

Expected volatility of stock	**71.8 – 84.2%**
Expected life of options, in years	**2.0 – 4.0**
Risk-free interest rate	**1.0 – 2.3%**
Expected dividend yield on stock	**0.0 – 1.1%**

The Company granted 12 and 188 awards during the three and six months ended June 30, 2010 that consisted of restricted stock units (RSUs) and deferred stock units (DSUs). The Company recognized compensation expense of $504 and $643 associated with the 2010 RSUs and DSUs during the three and six months ended June 30, 2010, respectively. As of June 30, 2010, there was $4,618 of unrecognized compensation expense associated with the RSUs and DSUs granted in 2010, which is expected to be recorded over the weighted average remaining vesting period of 2.4 years. No RSUs or DSUs were granted during the six months ended June 30, 2009.

The Company recorded $2,928 and $2,190 of total stock-based compensation expense for the three months ended June 30, 2010 and June 30, 2009, respectively. The Company recorded $5,339 and $4,093 of total stock-based compensation expense for the six months ended June 30, 2010 and 2009, respectively.

(9) Commitments and Contingencies

(a) *Purchase Commitments*—The Company will, from time to time, enter into limited purchase commitments for the purchase of certain raw materials. Amounts committed under these programs were not significant as of June 30, 2010 or December 31, 2009.

(b) *Antitrust Action*—On January 5, 2007, a purported class action was filed against the Company in the United States District Court for the Northern District of Georgia, Rome Division (Jacobs v. Tempur-Pedic International, Inc. and Tempur-Pedic North America, Inc., or the Antitrust Action). The Antitrust Action alleges violations of federal antitrust law arising from the pricing of Tempur-Pedic mattress products by Tempur-Pedic North America and certain distributors. The action alleges a class of all purchasers of Tempur-Pedic mattresses in the United States since January 5, 2003, and seeks damages and injunctive relief. Count Two of the complaint was dismissed by the court on June 25, 2007, based on a motion filed by the Company. Following a decision issued by the United States Supreme Court in *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.* on June 28, 2007, the Company filed a motion to dismiss the remaining two counts of the Antitrust Action on July 10, 2007. On December 11, 2007, that motion was granted and, as a result, judgment was entered in favor of the Company and the plaintiffs' complaint was dismissed with prejudice. On December 21, 2007, the plaintiffs filed a "Motion to Alter or Amend Judgment," which was fully briefed. On May 1, 2008, that motion was denied. The Jacobs appealed the dismissal of their claims, and the parties argued the appeal before the United States Circuit Court for the Eleventh Circuit on December 11, 2008. The matter has been taken under advisement by the court. The Company continues to strongly believe that the Antitrust Action lacks merit, and intends to defend against the claims vigorously. Howeve r, due to the inherent uncertainties of litigation, we cannot predict the outcome of the Antitrust Action at this time, and can give no assurance that these claims will not have a material adverse affect on the Company's financial position or results of operation. Accordingly, the Company cannot make an estimate of the possible ranges of loss.

(c) New York Attorney General—In December 2008, the Office of the Attorney General of the State of New York, Antitrust Bureau (OAG) requested that the Company consider discontinuing its unilateral retail price policy (UPPL) in the State of New York, and informed the Company that it may bring an enforcement action against the Company under New York law if the Company chose not to do so. On March 29, 2010, the Office of the Attorney General filed suit in New York state court against the Company with respect to this matter. The complaint does not charge the Company with any violation of state or federal antitrust law; instead it claims the Company violated a 1975 New York state law which declares certain contractual provisions to be unenforceable. The Company believes that its UPPL complies with state and federal law and intends to vigorously defend it. However, due to the inherent uncertainties of this matter, the Company cannot at this time predict the outcome of the enforcement action and can give no assurance that these claims will not have a material adverse affect on its financial position or results of operation. Accordingly, the Company cannot make an estimate of the possible range of loss.

The Company is involved in various other legal proceedings incidental to the operations of its business. The Company believes that the outcome of all such pending legal proceedings in the aggregate will not have a material adverse affect on its business, financial condition, liquidity or operating results.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

(10) Income Taxes

The Company’s effective tax rate for the three months ended June 30, 2010 and June 30, 2009 was 33.0% and 32.5% respectively. The Company’s effective tax rate for the six months ended June 30, 2010 and June 30, 2009 was 32.7% and 35.2% respectively. The Company’s effective income tax rate for the three and six months ended June 30, 2010 and 2009 differed from the federal statutory rate of 35.0% principally because of certain foreign tax rate differentials, state and local income taxes, foreign income currently taxable in the U.S., the production activities deduction and certain other permanent differences.

The Company has not provided for U.S. federal and/or state income and foreign withholding taxes on $179,600 of undistributed earnings from non-U.S. operations as of June 30, 2010 because Tempur-Pedic International intends to reinvest such earnings indefinitely outside of the United States. If these earnings were to be distributed, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability.

On October 24, 2007, the Company received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years and an assessment with respect to the 2004 tax year on April 29, 2010. The tax assessments relate to the royalty paid by one of Tempur-Pedic International’s U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $69,300 including interest and penalties. On January 23, 2008 and May 26, 2010, the Company filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral Advance Pric ing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008 the Company filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and expects to finalize its position during 2010. The Company believes it has meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary. It is reasonably possible the amount of unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to tax examinations by tax authorities in the U.S. for periods prior to 2006, U.S. state and local municipalities for periods prior to 2004, and in non-U.S. jurisdictions for periods prior to 2001. Additionally, the Company is currently under examination by various tax authorities around the world. The Company anticipates it is reasonably possible an increase or decrease in the amount of unrecognized tax benefits could be made in the next twelve months as a result of the statute of li mitations expiring and/or the examinations being concluded on these returns. However, the Company does not presently anticipate that any increase or decrease in unrecognized tax benefits will be material to the consolidated financial statements.

During the three and six months ended June 30, 2010, the liability for unrecognized tax benefits increased by $609 primarily related to interest on previously recorded liabilities.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

(11) Earnings Per Common Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Numerator:				
Net income attributable to common stockholders	**$ 33,506**	$ 16,857	**$ 66,654**	$ 30,195
Denominator:				
Denominator for basic earnings per common share-weighted average shares	**70,730**	74,894	**72,014**	74,884
Effect of dilutive securities:				
Employee stock options	**2,422**	599	**2,424**	152
Denominator for diluted earnings per common share-adjusted weighted average shares	**73,152**	75,493	**74,438**	75,036
Basic earnings per common share	**$ 0.47**	$ 0.23	**$ 0.93**	$ 0.40
Diluted earnings per common share	**$ 0.46**	$ 0.22	**$ 0.90**	$ 0.40

The Company excluded 22 and 4,508 shares issuable upon exercise of outstanding stock options for the three months ended June 30, 2010 and 2009, respectively, and 96 and 4,783 shares issuable upon exercise of outstanding stock options for the six month period ended June 30, 2010 and 2009, respectively, from the Diluted earnings per common share computation because their exercise price was greater than the average market price of Tempur-Pedic International's common stock or they were otherwise anti-dilutive.

(12) Business Segment Information

The Company operates in two business segments: North America and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations. The North America segment consists of the two U.S. manufacturing facilities and our North American distribution subsidiaries. The International segment consists of the manufacturing facility in Denmark, whose customers include all of the distribution subsidiaries and third party distributors outside the North American segment. The Company evaluates segment performance based on Net sales and Operating income.

The following table summarizes Total assets by segment:

	June 30, 2010	December 31, 2009
Total assets:		
North America	**$ 553,746**	$ 481,942
International	**282,888**	274,112
Intercompany eliminations	**(164,697)**	(112,675)
	$ 671,937	$ 643,379

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(Continued)
(In thousands, except per common share amounts)

The following table summarizes segment information:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net sales from external customers:				
North America				
Mattresses	**$ 136,686**	$ 86,300	**$ 254,072**	$ 162,011
Pillows	**14,058**	11,029	**28,187**	20,874
Other	**41,478**	23,415	**76,516**	44,293
	$ 192,222	$ 120,744	**$ 358,775**	$ 227,178
International				
Mattresses	**$ 41,936**	$ 38,044	**$ 93,623**	$ 81,461
Pillows	**13,868**	12,977	**30,485**	26,193
Other	**15,018**	13,411	**34,050**	27,448
	$ 70,822	$ 64,432	**$ 158,158**	$ 135,102
	$ 263,044	$ 185,176	**$ 516,933**	$ 362,280
Inter-segment sales:				
North America	**—**	—	**—**	—
International	**$ 456**	$ 346	**$ 661**	$ 569
Intercompany eliminations	**(456)**	(346)	**(661)**	(569)
	$ —	$ —	**$ —**	$ —
Operating income:				
North America	**$ 36,076**	$ 14,223	**$ 63,123**	$ 22,027
International	**17,774**	14,939	**43,017**	33.016
	$ 53,850	$ 29,162	**$ 106,140**	$ 55,043
Depreciation and amortization (including stock-based compensation amortization):				
North America	**$ 8,873**	$ 7,554	**$ 16,603**	$ 14,876
International	**2,176**	2,423	**4,442**	4,731
	$ 11,049	$ 9,977	**$ 21,045**	$ 19,607
Capital expenditures:				
North America	**$ 2,578**	$ 1,698	**$ 3,927**	$ 2,088
International	**1,449**	1,607	**2,771**	2,640
	$ 4,027	$ 3,305	**$ 6,698**	$ 4,728

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes included in this Form 10-Q. Unless otherwise noted, all of the financial information in this report is condensed consolidated information for Tempur-Pedic International Inc. or its predecessor. 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 "Special Note Regarding Forward-Looking Statements" and "Risk Factors" elsewhere in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2009. Our actual results may differ materially from those contained in any forward-looking statements. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements contained herein.

In this discussion and analysis, the Company discusses and explains the financial condition and results of operations for Tempur-Pedic International Inc. for the three and six month periods ended June 30, 2010 and 2009 that includes the following points:

- An overview of our business and strategy;
- Our Net sales and costs in the periods presented as well as changes between periods;
- Discussion of new initiatives that may affect our future results of operations and financial condition;
- Expected future expenditures for capital projects and sources of liquidity for future operations; and
- The effect of the foregoing on our overall financial performance and condition, as well as factors that could affect our future performance.

Executive Overview

General—We are the leading manufacturer, marketer and distributor of premium mattresses and pillows which we sell in approximately 80 countries under the TEMPUR® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary pressure-relieving TEMPUR® material is temperature sensitive, has a high density and therapeutically conforms to the body.

We sell our premium mattresses and pillows through four distribution channels in each operating business segment: Retail (furniture and bedding, specialty and department stores); Direct (direct response and internet); Healthcare (chiropractors, medical retailers, hospitals and other healthcare markets); and Third party distributors in countries where we do not sell directly through our own subsidiaries.

Business Segment Information—We have two reportable business segments: North America and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their geographies. The North American operating segment consists of two U.S. manufacturing facilities and our North American distribution subsidiaries. The International segment consists of our manufacturing facility in Denmark, whose customers include all of our distribution subsidiaries and third party distributors outside the North American operating segment. We evaluate segment performance based on Net sales and Operating income.

On April 1, 2010, we purchased our third party distributor in Canada. Accordingly, net sales in the Canadian market are reported in the appropriate channels within the North American segment. As Canada represented essentially all sales through the North American third party channel, we will no longer be reporting third party sales in this segment.

Strategy and Outlook

Our goal is to become the world's favorite mattress and pillow brand. In order to achieve this long-term goal while managing through the current economic environment, we expect to continue to pursue the key strategic goals using the related goals using the related strategies discussed below.

- Make sure everyone knows that they would sleep better on a Tempur-Pedic – we plan to continue to invest in increasing our global brand awareness through advertising campaigns that further associate our brand name with overall sleep and premium quality products.

- Make sure there is a Tempur-Pedic bed and pillow that appeals to everyone – we plan to continue to maintain our focus on premium mattresses and pillows and regularly introducing new products.

- Make sure that Tempur-Pedic is available to everyone – we plan to expand our points of distribution and the effectiveness of our distribution channels.

- Make sure that Tempur-Pedic continues to deliver the best sleep – we plan to continue to invest in product research and development.

In pursuing these strategic goals, we expect to continue to optimize our cost structure in order to enable these marketing and product development investments.

Results of Operations

Key financial highlights for the three and six months ended June 30, 2010 include the following:

- Earnings per common share (EPS) were $0.46 per diluted common share for the three months ended June 30, 2010 compared to $0.22 for the three months ended June 30, 2009. For the six months ended June 30, 2010 EPS were $0.90 compared to $0.40 for the same period in 2009.

- Net sales for the three months ended June 30, 2010 rose to $263.0 million from $185.2 million for the three months ended June 30, 2009. Net sales for the six months ended June 30, 2010 increased to $516.9 million from $362.3 million for the same period in 2009.

- Our Gross profit margin for the three months ended June 30, 2010 was 48.7% compared to 46.6% for the three months ended June 30, 2009. For the six months ended June 30, 2010 our Gross profit margin was 48.9% compared to 46.4% for the same period in 2009.

- During the six months ended June 30, 2010, we repurchased 6.7 million shares of our common stock at a total cost of $200.0 million. These purchases were funded by increased borrowings under our domestic revolving credit facility and operating cash flow.

(In thousands, except per common share amounts)	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		**2010**		2009	
Net sales	**$ 263,044**	**100.0%**	$ 185,176	100.0%	**$ 516,933**	**100.0%**	$ 362,280	100.0%
Cost of sales	**135,003**	**51.3**	98,845	53.4	**264,083**	**51.1**	194,088	53.6
Gross profit	**128,041**	**48.7**	86,331	46.6	**252,850**	**48.9**	168,192	46.4
Selling and marketing expenses	**46,827**	**17.8**	35,191	19.0	**93,058**	**18.0**	69,063	19.1
General, administrative and other expenses	**27,364**	**10.4**	21,978	11.9	**53,652**	**10.4**	44,086	12.1
Operating income	**53,850**	**20.5**	29,162	15.7	**106,140**	**20.5**	55,043	15.2
Interest expense, net	**(3,786)**	**(1.5)**	(4,477)	(2.3)	**(6,975)**	**(1.3)**	(9,048)	(2.5)
Other (expense) income, net	**(64)**	**—**	270	0.1	**99**	**—**	618	0.2
Income before income taxes	**50,000**	**19.0**	24,955	13.5	**99,264**	**19.2**	46,613	12.9
Income tax provision	**16,485**	**6.3**	8,098	4.4	**32,506**	**6.3**	16,418	4.6
Net income	**33,515**	**12.7**	16,857	9.1	**66,758**	**12.9**	30,195	8.3
Less: Net income attributable to the noncontrolling interest	**9**	**—**	—	—	**104**	**—**	—	—
Net income attributable to common stockholders	**$ 33,506**	**12.7%**	$ 16,857	9.1%	**$ 66,654**	**12.9%**	$ 30,195	8.3%
Earnings per common share:								
Basic	**$ 0.47**		$ 0.23		**$ 0.93**		$ 0.40	
Diluted	**0.46**		0.22		**0.90**		0.40	
Weighted average common shares outstanding:								
Basic	**70,730**		74,894		**72,014**		74,884	
Diluted	**73,152**		75,493		**74,438**		75,036	

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

A summary of Net sales, by channel and by segment, is set forth below:

	CONSOLIDATED Three Months Ended June 30,		NORTH AMERICA Three Months Ended June 30,		INTERNATIONAL Three Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Retail	**$ 227,151**	$ 155,575	**$ 173,166**	$ 105,576	**$ 53,985**	$ 49,999
Direct	**18,127**	10,785	**16,203**	9,428	**1,924**	1,357
Healthcare	**7,898**	8,261	**2,853**	2,686	**5,045**	5,575
Third Party	**9,868**	10,555	**—**	3,054	**9,868**	7,501
	$ 263,044	$ 185,176	**$ 192,222**	$ 120,744	**$ 70,822**	$ 64,432

A summary of Net sales, by product and by segment, is set forth below:

	CONSOLIDATED Three Months Ended June 30,		NORTH AMERICA Three Months Ended June 30,		INTERNATIONAL Three Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Mattresses	**$ 178,622**	$ 124,344	**$ 136,686**	$ 86,300	**$ 41,936**	$ 38,044
Pillows	**27,926**	24,006	**14,058**	11,029	**13,868**	12,977
Other	**56,496**	36,826	**41,478**	23,415	**15,018**	13,411
	$ 263,044	$ 185,176	**$ 192,222**	$ 120,744	**$ 70,822**	$ 64,432

Net sales. Net sales for the three months ended June 30, 2010 increased to $263.0 million from $185.2 million for the same period in 2009, an increase of $77.9 million, or 42.1%. During the second quarter of 2010, we experienced a significant improvement in Net sales. We believe our revenues are gaining momentum primarily as a result of investments made in marketing, research and development and product introductions. We were well positioned to make these investments because we maintained our financial flexibility during the economic downturn. In 2009 our industry was adversely affected by an unstable macroeconomic environment which had an adverse impact on our Net sales, however, at the end of 2009 and into 2010 we have experienced signs of improvement. Consolidated Mattress sal es increased $54.3 million, or 43.7% compared to the second quarter of 2009. The increase in Mattress sales occurred primarily in our Retail channel, with Net sales increasing to $227.2 million from $155.6 million for the same period in 2009, an increase of $71.6 million, or 46.0%. Consolidated Pillow sales increased approximately $3.9 million, or 16.3%, from the second quarter of 2009. Consolidated Other, which includes adjustable bed bases, foundations and other related products, increased $19.7 million, or 53.4%. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. The principal factors that impacted Net sales for each segment are discussed below, in the respective segment discussion.

North America. North American Net sales for the three months ended June 30, 2010 increased to $192.2 million from $120.7 million for the same period in 2009, an increase of $71.5 million, or 59.2%. Our North American Retail channel contributed $173.2 million in Net sales for the three months ended June 30, 2010 for an increase of $67.6 million, or 64.0%, compared to the same period in 2009. The introduction of our new product line, the TEMPUR-Cloud™ collection, in the third quarter of 2009 has been well received by retailers and consumers. We believe these products appeal to a new consumer segment and has increased our Net sales. Additionally, we have experienced revenue growth in our pre-existing product line in the second quarter of 2010. North American mattress sales in the second quarter of 2010 increased $50.4 million, or 58.4%, over the same period in 2009, driven by an increase in our Retail channel. Net sales in the Direct channel increased by $6.8 million, or 71.9%. We believe increased sales in the Direct channel are a result of our focus on generating internet leads and investing in internet and direct mail advertising. Pillow sales increased $3.0 million, or 27.5% for the three months ended June 30, 2010. Other Net sales increased $18.1 million, or 77.1%, compared to the same period in 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. Additionally, we have emphasized improved attach rates on adjustable bed bases which are sold at a higher price point than traditional foundations.

International. International Net sales for the three months ended June 30, 2010 increased to $70.8 million from $64.4 million for the same period in 2009, an increase of $6.4 million, or 9.9%. On a constant currency basis, our International Net sales increased approximately 14.4%. We have experienced some stabilization of the global economic slowdown in our international markets, which also impacted Net sales in the second quarter of 2009. The International Retail channel increased $4.0 million, or 8.0%, for the three months ended June 30, 2010. Third party Net sales increased $2.4 million or 31.6%. Our introduction of the Sensation mattress line in the International segment has continued to be well accepted by retailers and consumers. As a result, International Mattress sales in the second quarter of 2010 increased $3.9 million, or 10.2%, over the second quarter of 2009. Pillow sales for the second quarter of 2010 increased $0.9 million, or 6.9%, as compared to the second quarter of 2009. Other Net sales increased $1.6 million, or 12.0%, as compared to the second quarter of 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted.

Gross profit. Gross profit for the three months ended June 30, 2010 increased to $128.0 million from $86.3 million for the same period in 2009, an increase of $41.7 million, or 48.3%. The Gross profit margin for the three months ended June 30, 2010 was 48.7% as compared to 46.6% for the same period in 2009. The principal factors that impacted Gross profit margin during the quarter are identified and discussed below in the respective segment discussions. Additionally, Gross profit margin is impacted by geographic mix between segments.

North America. North American Gross profit for the three months ended June 30, 2010 increased to $88.0 million, an improvement of $37.5 million, or 74.2%. The Gross profit margin in our North American segment was 45.8% and 41.8% for the three months ended June 30, 2010 and June 30, 2009, respectively. Improvements in our North American Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the North American segment pays a royalty to our International segment based on its production volume, which has the effect of lowering the segment's reported Gross p rofit margin. North American Cost of sales for the three months ended June 30, 2010 increased to $104.3 million from $70.3 million for the same period in 2009, an increase of $34.0 million, or 48.4%.

International. International Gross profit for the three months ended June 30, 2010 increased to $40.1 million, an improvement of $4.2 million, or 11.8%. The Gross profit margin in our International segment was 56.6% and 55.6% for the three months ended June 30, 2010 and June 30, 2009, respectively. Improvements in our International Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the International segment receives a royalty from our North American segment based on their production volume, which has the effect of increasing the segment's reported Gross profit margin. Our International Cost of sales for the three months ended June 30, 2010 increased to $30.7 million from $28.6 million for the same period in 2009, an increase of $2.2 million, or 7.6%.

Selling and marketing expenses. Selling and marketing 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. We also include in Selling and marketing expense certain new product development costs, including market research and new product testing. In the second quarter of 2010, Selling and marketing expenses increased to $46.8 million as compared to $35.2 million for the three months ended June 30, 2009. Selling and marketing expenses as a percentage of Net sales were 17.8% and 19.0% for the three months ended June 30, 2010 and June 30, 2009, respectively. Our objective is to align adv ertising costs to reflect our sales expectations. During the second quarter of 2010 we continued to make investments in advertising to support future growth. For example, our new marketing and advertising campaign "Ask Me," which launched in 2009, focuses on increasing awareness of our products and the benefits they offer through word-of-mouth and social networking outlets.

General, administrative and other expenses. General, administrative and other expenses include management compensation, information technology, professional fees, depreciation of furniture and fixtures, leasehold improvements and computer equipment, expenses for administrative functions and research and development costs. General, administrative and other expenses increased to $27.4 million for the three months ended June 30, 2010 as compared to $22.0 million for the three months ended June 30, 2009. The increase in General, administrative and other expenses are primarily a result of a larger bonus pool in the second quarter of 2010 compared to 2009 and an increase in legal fees incurred in the same period related to the acquisition of our former third party distributor in Canada. The effects of these items have been partially offset by a lower level of bad debt expense in 2010 compared to 2009. Additionally, in 2010 we have increased our investment in research and development in order to improve our existing product lines and continue to introduce new and differentiated products. General, administrative and other expenses as a percentage of Net sales were 10.4% and 11.9% in the second quarter of 2010 and 2009, respectively.

Interest expense, net. Interest expense, net, includes the interest costs associated with our borrowings and the amortization of deferred financing costs related to those borrowings. Interest expense, net, decreased to $3.8 million for the three months ended June 30, 2010, as compared to $4.5 million for the three months ended June 30, 2009, a decrease of $0.7 million, or 15.4%. The decrease in interest expense is primarily attributable to a decrease in the underlying debt related to our interest rate swap, offset slightly by an increase in debt outstanding not subject to the interest rate swap. As we increase our borrowings, we are subject to variable rate debt that is not prote cted under the interest rate swap described below. Accordingly, if interest rates increase we may incur a higher level of interest expense. The variable interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating London Inter-bank Offering Rate (LIBOR) based interest rate to 3.755% on $200.0 million of the outstanding balance as of June 30, 2010 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap amortizes as follows: to $300.0 million on November 28, 2008 (through November 2009); to $200.0 million on November 28, 2009 (through November 28, 2010); and to $100.0 million on November 28, 2010 (through November 28, 2011).

Income tax provision. Income tax provision includes income taxes associated with taxes currently payable and deferred taxes, and it includes the impact of net operating losses for certain of our domestic and foreign operations. Our effective tax rate for the three months ended June 30, 2010 and June 30, 2009 was 33.0% and 32.5% respectively. The difference between the June 30, 2010 and June 30, 2009 effective tax rate is primarily related to the mix of earnings before taxes between U.S. and International with the U.S. making up a greater percent during the three months ended June 30, 2010.

On October 24, 2007, we received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years and an assessment with respect to the 2004 tax year on April 29, 2010. The tax assessments relate to the royalty paid by one of Tempur-Pedic International's U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $69.3 million including interest and penalties. On January 23, 2008 and May 26, 2010 we filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008 we filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and expects to finalize its position during 2010. We believe we have meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary.

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

A summary of Net sales, by channel and by segment, is set forth below:

	CONSOLIDATED		NORTH AMERICA		INTERNATIONAL	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Retail	**$ 439,891**	$ 306,097	**$ 316,383**	$ 198,987	**$ 123,508**	$ 107,110
Direct	**34,741**	20,514	**30,758**	17,906	**3,983**	2,608
Healthcare	**17,796**	17,163	**6,291**	5,380	**11,505**	11,783
Third Party	**24,505**	18,506	**5,343**	4,905	**19,162**	13,601
	$ 516,933	$ 362,280	**$ 358,775**	$ 227,178	**$ 158,158**	$ 135,102

A summary of Net sales, by product and by segment, is set forth below:

	CONSOLIDATED		NORTH AMERICA		INTERNATIONAL	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2010**	2009	**2010**	2009	**2010**	2009
Mattresses	**$ 347,695**	$ 243,472	**$ 254,072**	$ 162,011	**$ 93,623**	$ 81,461
Pillows	**58,672**	47,067	**28,187**	20,874	**30,485**	26,193
Other	**110,566**	71,741	**76,516**	44,293	**34,050**	27,448
	$ 516,933	$ 362,280	**$ 358,775**	$ 227,178	**$ 158,158**	$ 135,102

Net sales. Net sales for the six months ended June 30, 2010 increased to $516.9 million from $362.3 million for the same period in 2009, an increase of $154.7 million, or 42.7%. During 2010 we have experienced a significant improvement in Net sales. We believe our revenues are gaining momentum primarily as a result of investments made in marketing, research and development and product introductions. We were well positioned to make these investments because we maintained our financial flexibility during the economic downturn. In 2009 our industry was adversely affected by an unstable macroeconomic environment which had an adverse impact on our Net sales, however, at the end of 2009 and into 2010 we have experienced signs of improvement. Consolidated Mattress sales increased $104.2 million, or 42.8% compared to the six months ended June 30, 2009. The increase in Mattress sales occurred primarily in our Retail channel with net sales for the six months increasing to $439.9 million from $306.1 million for the same period in 2009, an increase of $133.8 million, or 43.7%. Consolidated Pillow sales increased to $58.7 million from $47.1 million for the same period in 2009, an increase of $11.6 million, or 24.7%. Consolidated Other Net sales increased to $110.6 million from $71.7 million for the same period in 2009, an increase of $38.8 million or 54.1%. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. The principal factors that impacted Net sales for each segment are discussed below, in the respective segme nt discussion.

North America. North American Net sales for the six months ended June 30, 2010 increased to $358.8 million from $227.2 million for the same period in 2009, an increase of $131.6 million, or 57.9%. Our North American Retail channel contributed $316.4 million in Net sales for the six months ended June 30, 2010 for an increase of $117.4 million, or 59.0%, compared to the same period in 2009. The introduction of our new product line, the TEMPUR-Cloud™ collection, in the third quarter of 2009 has been well received by retailers and consumers. We believe these products appeal to a new consumer segment and has increased our Net sales. Additionally, we have experienced revenue growth in our pre-existing product line in 2010. In January 2010, we launched the second mattress in this line, the TEMPUR-Cloud™. North American mattress sales increased $92.1 million, or 56.8%, over the same period in 2009, driven by the increase in our Retail channel. Net sales in the Direct channel increased to $30.8 million from $17.9 million during the same period in 2009, an increase of $12.9 million, or 71.8%. We believe increased sales in the Direct channel are a result of our focus on generating internet leads and investing in internet and direct mail advertising. Pillow sales increased $7.3 million, or 35.0%, over the same period in 2009. Other Net sales increased $32.2 million, or 72.7%, compared to the same period in 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted. Additionally, we have emphasized improved attach rates on adjustable bed bases which are sold at a higher price poin t than traditional foundations.

International. International Net sales for the six months ended June 30, 2010 increased to $158.2 million from $135.1 million for the same period in 2009, an increase of $23.1 million, or 17.1%. On a constant currency basis, our International Net sales increased approximately 14.8%. We have experienced some stabilization of the global economic slowdown in our international markets, which also impacted Net sales in 2009. The International Retail channel increased $16.4 million, or 15.3%, for the six months ended June 30, 2010. Third party Net sales increased $5.6 million or 40.9%. Our introduction of the Sensation mattress line in the International segment has continued to be well accepted by retailers and consumers. As a result, International mattress sales increased $12.2 million, or 14.9%, as compared to 2009. Pillow sales for 2010 increased $4.3 million, or 16.4%, compared to the same period in 2009. Other product Net sales increased $6.6 million, or 24.1%, as compared to 2009. Many of our Pillows and Other products are sold with mattress purchases. Therefore, when Mattress sales increase, Pillows and Other products are also impacted

Gross profit. Gross profit for the six months ended June 30, 2010 increased to $252.9 million from $168.2 million for the same period in 2009, an increase of $84.7 million, or 50.3%. The Gross profit margin for the six months ended June 30, 2010 was 48.9% as compared to 46.4% for the same period in 2009. The principal factors that affected Gross profit margin during the year are identified and discussed below, in the respective segment discussion. Additionally, Gross profit margin is impacted by geographic mix between segments.

North America. North American Gross profit for the six months ended June 30, 2010 increased to $161.9 million from $93.2 million for the same period in 2009, an increase of $68.7 million, or 73.6%. The Gross profit margin in our North American segment was 45.1% and 41.0% for the six months ended June 30, 2010 and June 30, 2009, respectively. Improvements in our North American Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the North American segment pays a royalty to our International segment based on its production volume, which has the effect o f lowering the segment's reported Gross profit margin. Our North American cost of sales increased to $196.9 million for the six months ended June 30, 2010 as compared to $133.9 million for the six months ended June 30, 2009, an increase of $62.9 million, or 47.0%.

International. International Gross profit for the six months ended June 30, 2010 increased to $90.9 million from $74.9 million for the same period in 2009, an increase of $16.0 million, or 21.3%. The Gross profit margin in our International segment was 57.5% and 55.5% for the six months ended June 30, 2010 and June 30, 2009, respectively. For the six months ended June 30, 2010, improvements in our International Gross profit margin were primarily driven by fixed cost leverage related to higher production volumes and improved efficiencies in manufacturing. These factors were partially offset by new product introductions and higher commodity costs. Additionally, the International segment receives a royalty from our North American segment based on their producti on volume, which has the effect of increasing the segment's reported Gross profit margin. Our International Cost of sales for the six months ended June 30, 2010 increased to $67.2 million from $60.2 million for the same period in 2009, an increase of $7.1 million, or 11.7%.

Selling and marketing expenses. Selling and marketing expenses increased to $93.1 million for the six months ended June 30, 2010 as compared to $69.1 million for the six months ended June 30, 2009. Selling and marketing expenses as a percentage of Net sales decreased to 18.0% for the six months ended June 30, 2010 from 19.1% for the same period for 2009. During 2010 we have continued to make investments in advertising to support future growth. For example, our new marketing and advertising campaign “Ask Me,” which launched in 2009, focuses on increasing awareness of our products and the benefits they offer through word-of-mouth and social networking outlets.

General, administrative and other expenses. General, administrative and other expenses increased to $53.7 million for the six months ended June 30, 2010 as compared to $44.1 million for the six months ended June 30, 2009, an increase of $9.6 million, or 21.7%. The increase in General, administrative and other expenses are primarily a result of a larger bonus pool in 2010 compared to 2009 and an increase in legal fees incurred in the same period related to the acquisition of our former third party distributor in Canada. The effects of these items have been partially offset by a lower level of bad debt expense in 2010 compared to 2009. Additionally, in 2010 we have increased our investment in research and development in order to improve our existing product lines and continue to introduce new and differentiated products. General, administrative and other expenses as a percentage of Net sales was 10.4% and 12.1% for the six months ended June 30, 2010 and June 30, 2009, respectively.

Interest expense, net. Interest expense, net, decreased to $7.0 million for the six months ended June 30, 2010, as compared to $9.0 million for the six months ended June 30, 2009, a decrease of $2.1 million, or 22.9%. The decrease in interest expense is primarily attributable to a decrease in the underlying debt related to our interest rate swap, offset slightly by an increase in debt outstanding not subject to the interest rate swap. As we increase our borrowings, we are subject to variable rate debt that is not protected under the interest rate swap described below. Accordingly, if interest rates increase we may incur a higher level of interest expense. The variable interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating London Inter-bank Offering Rate (LIBOR) based interest rate to 3.755% on $200.0 million of the outstanding balance as of June 30, 2010 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap amortizes as follows: to $300.0 million on November 28, 2008 (through November 2009); to $200.0 million on November 28, 2009 (through November 28, 2010); and to $100.0 million on November 28, 2010 (through November 28, 2011).

Income tax provision. Our effective tax rate for the six months ended June 30, 2010 was 32.7%. For the same period in 2009, the effective tax rate was 35.2%. The decrease in the effective tax rate is primarily due to the tax charge on a previously recognized foreign tax benefit taken in the first quarter of 2009.

Liquidity and Capital Resources

Liquidity

Our principal sources of funds are cash flows from operations and borrowings made pursuant to our credit facility. Principal uses of funds consist of share repurchases made from time to time pursuant to share repurchase authorizations, acquisition of certain former third party distributors, payments of principal and interest on our debt facilities and capital expenditures. At June 30, 2010, we had working capital of $84.9 million including Cash and cash equivalents of $15.4 million compared to working capital of $72.5 million including $14.0 million in Cash and cash equivalents as of December 31, 2009. Working capital increased in the second quarter of 2010 primarily as a result of increased levels of both Accounts receivable and Inventory, slightly offset by an increase in Income taxes payable.

Our cash flow from operations increased to $67.8 million for the six months ended June 30, 2010 from $65.5 million for the six months ended June 30, 2009. The increase in operating cash flow for the six months ended June 30, 2010 compared to compared to the six month period ended June 30, 2009 was primarily driven by Net income growth, offset by changes in operating assets and liabilities. The increases in Accounts receivable, Inventories and Income taxes payable are related to increased sales.

Net cash used in investing activities increased to $25.6 million for the six months ended June 30, 2010 as compared to $4.9 million for the six months ended June 30, 2009, primarily related to the acquisition of our former third party distributor in Canada and an increase in capital expenditures. In 2010 we are investing in capital projects that we believe will create operational efficiencies and support future growth.

Cash flow used by financing activities was $38.9 million for the six months ended June 30, 2010 as compared to $49.2 million used for the six months ended June 30, 2009, representing a decrease in cash flow used of $10.3 million, primarily related to an increase in current borrowings under our credit facility. These borrowings were utilized to complete $200.0 million in share repurchases of our common stock. Additionally, we received $19.5 million in proceeds from stock option exercises during the six months ended June 30, 2010 as compared to no proceeds for the same period in 2009.

Capital Expenditures

Capital expenditures totaled $6.7 million for the six months ended June 30, 2010 and $4.7 million for the six months ended June 30, 2009. We currently expect our 2010 capital expenditures to range from $20.0 to $22.0 million. This expected increase in capital expenditures in 2010 is attributable to projects that we believe will create operational efficiencies and support future growth.

Debt Service

Our Long-term debt increased to $435.0 million as of June 30, 2010 from $297.5 million as of December 31, 2009 due primarily to our share repurchase program. After giving effect to $435.0 million in borrowings under the 2005 Senior Credit Facility and letters of credit outstanding, total availability under the Revolvers was $193.2 million as of June 30, 2010.

As of June 30, 2010, we are in compliance with our debt covenants. The table below sets forth the calculation of our compliance with the Funded debt to Adjusted Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) covenant. Both Funded debt and Adjusted EBITDA are terms that are not recognized under U.S. GAAP and do not purport to be alternatives to Net income as a measure of operating performance or Total debt.

Reconciliation of Net Income to Adjusted EBITDA

The following table sets forth the reconciliation of the Company's reported Net income to the calculation of Adjusted EBITDA for the trailing twelve months ended June 30, 2010:

	Three Months Ended				Twelve Months Ended
(In thousands)	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	June 30, 2010
GAAP Net income attributable to common stockholders	**$ 25,684**	**$ 29,114**	**$ 33,148**	**$ 33,506**	**$ 121,452**
Plus:					
Interest expense	4,311	3,990	3,189	3,786	15,276
Income taxes	12,467	14,159	16,021	16,485	59,132
Depreciation & Amortization	10,367	10,239	9,996	11,049	41,651
Other (1)	—	—	361	202	563
Adjusted EBITDA	$ 52,829	$ 57,502	$ 62,715	$ 65,028	$ 238,074

(1) Includes professional costs incurred in connection with the acquisition of our Canadian distributor, which closed on April 1, 2010. In accordance with our 2005 Senior Credit Facility, this amount is excluded from the calculation of Adjusted EBITDA for purposes of calculating compliance with the ratio of Funded debt to Adjusted EBITDA.

Reconciliation of Total debt to Funded debt

The following table sets forth the reconciliation of the Company's reported Total debt to the calculation of Funded debt and Funded debt to Adjusted EBITDA ratio as of June 30, 2010:

In thousands	As of June 30, 2010
GAAP basis Total debt	**$ 435,000**
Plus:	
Letters of credit outstanding	11,827
Funded debt	$ 446,827
Adjusted EBITDA	$ 238,074
Funded debt to Adjusted EBITDA	1.88 times

The ratio of Funded debt to Adjusted EBITDA was 1.88 times, within the covenant in the 2005 Senior Credit Facility, which requires this ratio not exceed 3.0 times.

The interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR-based interest rate to 3.755% on $200.0 million of the outstanding balance as of June 30, 2010 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap declines as follows: to $300.0 million on November 28, 2008 (through November, 2009); to $200.0 million o n November 28, 2009 (through November, 2010) and to $100.0 million on November 28, 2010 (through November 28, 2011).

Stockholders' Equity

Share Repurchase Program—On October 16, 2007, our Board of Directors authorized a share repurchase authorization of up to $300.0 million of our common stock. On January 13, 2010 our Board of Directors approved a share repurchase program of up to $100.0 million of our common stock which replaced the October 2007 authorization. During the three months ended March 31, 2010, we repurchased 3.7 million shares of our common stock for $100.0 million and completed the January 2010 authorization. On April 15, 2010 our Board of Directors approved an additional authorization to purchase up to $100.0 million of our common stock. During the three months ended June 30, 2010 we repurchased 3.0 millio n shares of our common stock for $100.0 million and completed the April 2010 authorization. Share repurchases under authorizations may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts as management and a committee of the Board deem appropriate.

Use of Non-GAAP Measures

We provide information regarding Adjusted EBITDA and Funded debt which are not recognized terms under U.S. GAAP and do not purport to be alternatives to Net income as a measure of operating performance or Total debt. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. A reconciliation of our Net income to Adjusted EBITDA and a reconciliation of Total debt to Funded debt have been provided in this Management's Discussion and Analysis and we believe the use of these non-GAAP financial measures provide investors with additional useful information with respect to our 2005 Senior Credit Facility.

Factors That May Affect Future Performance

General Business and Economic Conditions—Our business has been affected by general business and economic conditions, and these conditions could have an impact on future demand for our products. The U.S. macroeconomic environment was challenging in 2009 and was the primary factor in a slowdown in the mattress industry. In addition, our International segment experienced weakening as a result of general business and economic conditions in several European and Asian markets. We expect the economic environment in the U.S. and internationally to continue to be challenging.

In light of the macroeconomic environment, we took steps to further align our cost structure with our anticipated level of Net sales. During the remainder of 2010, we expect to continue to pursue certain key strategies including: maintaining focus on premium mattresses and pillows and regularly introducing new products; investing in increasing our global brand awareness; extending our presence and improving our Retail account productivity; investing in our operating infrastructure to meet the requirements of our business; and taking actions to further strengthen our business.

Managing Growth—Over the last few years, we have had to manage our business both through periods of rapid growth and the current recovering economic environment. Our Net sales increased from $221.5 million in 2001 to $1,106.7 million in 2007 and decreased to $927.8 million in 2008 and $831.2 million for the year ended December 31, 2009. For the six months ended June 30, 2010, our Net sales were $516.9 million. In the past, our growth has placed, and may continue to place, a strain on our management, production, product distribution network, information systems and other resources. In response to these types of challenges, management has continued to enhance operating and financial infrastructure, as appropriate. In addition, during 2007 through 2009, w e had to manage a decline in sales as a result of the macroeconomic environment. During this period, we had to manage our cost structure to contain costs. Going forward, we expect our expenditures to enhance our operating and financial infrastructure, as well as expenditures for advertising and other marketing-related activities, will continue to be made as the continued growth in the business allows us the ability to invest. However, these expenditures may be limited by lower than planned sales or an inflationary cost environment.

Gross Margins—Our gross margin is primarily impacted by the cost of raw materials, operational efficiency, product, channel and geographic mix and volume incentives offered to certain retail accounts. At the end of 2009 and into 2010 we experienced increases in our raw material pricing. Future increases in raw material prices could have a negative impact on our gross margin if we do not raise prices to cover increased cost. Our gross margin can also be impacted by our operational efficiencies, including the particular levels of utilization at our three manufacturing facilities. We have made significant investments in our manufacturing infrastructure and have significant available manufacturing capacity. If we increase our Net sales significantly the ef fect of this operating leverage could have a significant positive impact on our gross margin. Our margins are also impacted by the growth in our Retail channel as sales in our Retail channel are at wholesale prices whereas sales in our Direct channel are at retail prices. Additionally, our overall product mix has shifted to mattresses and other products over the last several years, which has impacted our gross margins because mattresses generally carry lower margins than pillows and are sold with lower margin products such as foundations and bed frames. We expect our gross margins to be up for the full year 2010 through sales leverage, our productivity programs and selective price increases.

Competition—Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance. We 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 and bedding stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs.

Our largest competitors have significant marketing and manufacturing resources and strong brand name recognition and sell their products through broad and well established distribution channels. Additionally, we believe that a number of our significant competitors offer mattress products claimed to be similar to our TEMPUR® mattresses and pillows. We provide strong channel profits to our retailers and distributors which management believes will continue to provide an attractive business model for our retailers and discourage them from carrying competing lower-priced products.

Significant Growth Opportunities—We believe there are significant opportunities to take market share from the innerspring mattress industry as well as other sleep surfaces. Our market share of the overall mattress industry is relatively small in terms of both dollars and units, which we believe provides us with a significant opportunity for growth. By broadening our brand awareness and offering superior sleep surfaces, we believe consumers will over time adopt our products at an increasing rate, which should expand our market share. However, our business may be affected by general business and economic conditions that could have an impact on demand for our products. Additionally, by expanding distribution within our existing accounts, we believe we have the opportunity to grow our business. B y extending our product line and our new segmentation of products, we should be able to continue to expand the number of Tempur-Pedic models offered at the retail store level, which should lead to increased sales. Based on this strategy we believe a focus on expanding distribution within our existing accounts provides for continued growth opportunities and market share gains. However, our business may continue to be affected by general business and economic conditions that could have an impact on demand for our products, which could limit our market share and decrease sales. Our products are currently sold in approximately 6,900 furniture and bedding retail stores in the North American segment, out of a total of approximately 11,500 stores we have identified as appropriate targets. Within this addressable market, our plan is to increase our total penetration to a total of 8,000 to 9,000 over time. Our products are also sold in approximately 5,150 furniture retail and department stores in the Internation al segment, out of a total of approximately 7,000 stores that we have identified as appropriate targets. We are continuing to develop products that are responsive to consumer demand in our markets internationally.

Financial Leverage—As of June 30, 2010, we had $435.0 million of total Long-term debt outstanding, and our Equity attributable to common stockholders was $54.0 million. Higher financial leverage makes us more vulnerable to general adverse competitive, economic and industry conditions. Since December 31, 2007, we have reduced our total debt outstanding by $167.0 million. Our repatriation of foreign earnings in 2008 and 2009, suspension of our quarterly cash dividend and modest debt rebalancing between our North American and International segments, together with productivity improvements and cost containment initiatives enabled us to decrease our financial leverage and increase our financial flexibility. During the first six months of 2010, we increased our total debt by $137.5 million; however our improved financial performance over this period has mitigated the impact of this increased debt on our leverage ratios. We currently are targeting a Funded debt to Adjusted EBITDA ratio between 1.5 to 2.0 times although we may exceed this range on a temporary basis or change the target range. There can be no assurance however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under our 2005 Senior Credit Facility. In May 2008, we entered into an interest rate swap to manage interest costs and the risk associated with changing interest rates. See "ITEM 3. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk" under Part I of this report.

Exchange Rates—As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. We use foreign exchange forward contracts to manage a portion of the risk of the eventual net cash inflows and outflows resulting from foreign currency denominated transactions between Tempur-Pedic subsidiaries and their customers and suppliers, as well as between the Tempur-Pedic subsidiaries themselves. These hedging transactions may not succeed in effectively managing our foreign currency exchange rate risk. We typically do not apply hedge accounting to these contracts. See "ITEM 3. Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Expo sures" under Part I of this report.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and estimates, see "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2009. There have been no material changes to our critical accounting policies and estimates in 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exposures

As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position could fluctuate materially as a result of foreign exchange movements. Should currency rates change sharply, our results could be negatively impacted.

We protect a portion of our currency exchange exposure with foreign currency forward contracts. A sensitivity analysis indicates the potential change in fair value on foreign currency forward contracts outstanding at June 30, 2010, resulting from a hypothetical 10% adverse change in all foreign currency exchange rates against the U.S. dollar, is approximately $0.01 million. Such changes would be largely offset by gains or losses from the revaluation or settlement of the underlying assets and liabilities that are being protected by the foreign currency forward contracts.

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.

Interest Rate Risk

We are exposed to changes in interest rates. Our 2005 Senior Credit Facility has a variable rate. In May 2008, we entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR-based interest rate to 3.755% on $350.0 million of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap declines as follows: to $300.0 million on November 28, 2008 (through November, 2009); to $200.0 million on November 28, 2009 (through November, 2010) and to $ 100.0 million on November 28, 2010 (through November 28, 2011).

Interest rate changes 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 June 30, 2010, we had variable-rate debt of approximately $235.0 million. Holding other variables constant, including levels of indebtedness, a one hundred basis point increase in interest rates on our variable-rate debt would cause an estimated reduction in income before income taxes for the next year of approximately $2.4 million.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2010 and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and report ed within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9 to the Notes to the Condensed Consolidated Financial Statements in ITEM 1 under Part I of this report for a description of our legal proceedings.

We are involved in various other legal proceedings incidental to the operations of our business. We believe that the outcome of all such pending legal proceedings in the aggregate will not have a materially adverse affect on our business, financial condition, liquidity or operating results.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “ITEM 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

We are subject to a pending tax proceeding in Denmark, and an adverse decision would reduce our liquidity and profitability.

On October 24, 2007, the Company received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years and an assessment with respect to the 2004 tax year on April 29, 2010. The tax assessments relate to the royalty paid by one of Tempur-Pedic International’s U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $69.3 million including interest and penalties. On January 23, 2008 and May 26, 2010 the Company filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008 the Company filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and expects to finalize its position during 2010. The Company believes it has meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary. It is reasonably possible the amount of unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

The following table sets forth purchases of our common stock for the three months ended June 30, 2010:

Period	(a) Total number of shares purchased	(b) Average Price Paid per Share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
April 1, 2010 – April 30, 2010	553,701	$ 34.18	553,701	$ 81.1
May 1, 2010 – May 31, 2010	2,438,350	$ 33.21	2,438,350	—
June 1, 2010 – June 30, 2010	—	—	—	—
Total	2,992,051		2,992,051	

On April 15, 2010, the Board of Directors authorized the repurchase of up to $100.0 million of our common stock. This April 2010 authorization was completed in May 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

ITEM 6. EXHIBITS

The following is an index of the exhibits included in this report:

10.1	Non-Employee Director Deferred Compensation Plan as adopted May 4, 2010 (1)
10.2	Form of Non-Employee Director Stock Option Agreement (1)
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from Tempur-Pedic International Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

(1) Indicates management contract or compensatory plan or arrangement.

* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

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

TEMPUR-PEDIC INTERNATIONAL INC.
(Registrant)

Date: July 28, 2010

By: /s/ DALE E. WILLIAMS
Dale E. Williams
Executive Vice President and Chief Financial Officer

TEMPUR-PEDIC INTERNATIONAL INC.

NON-EMPLOYEE DIRECTOR DEFERRED COMPENSATION PLAN

EFFECTIVE MAY 4, 2010

1. Purpose; Effective Date; Sub-Plan; Definitions.

(a) Purpose. The Board of Directors (the "Board") of Tempur-Pedic International Inc. (the "Company") has approved compensating Directors (as defined below) in part in the form of deferred restricted stock units ("DSUs"). The Board has further authorized Directors to make certain elections as to the time of payment under any such DSUs as well as the form of payment of any part of their compensation otherwise payable in cash (which alternative forms may include the grant of additional DSUs or payment in the form of shares of the Company's common stock, $0.01 par value per share ("Common Stock")). The Board has adopted this Non-Employee Director Deferred Compensation Plan (the "Plan") to set out the terms and conditions of the elections available to Directors, and the terms of payment of any such DSUs.

(b) Effective Date. This Plan is effective as of May 4, 2010.

(c) Relationship to Amended and Restated 2003 Equity Incentive Plan. This Plan is established under the Company's Amended and Restated 2003 Equity Incentive Plan, as amended from time to time (the "2003 EIP"), and any shares of Common Stock to be delivered pursuant to this Plan shall be issued under the 2003 EIP.

(d) Definitions. Capitalized terms used but not defined herein shall have the meaning assigned under the 2003 EIP. As used in this Plan, the following terms shall have the following meanings:

(i) "*Award Agreement*" shall mean an award agreement under the 2003 EIP in substantially the form attached hereto as Exhibit A, or such other form approved from time to time by the Committee.

(ii) "*Board Year*" shall mean the term of service for a member of the Board commencing upon election or re-election at the Company's Annual Meeting of Stockholders or upon appointment of a Director during a calendar year, and ending at the next Annual Meeting of Stockholders.

(iii) "*Committee*" shall mean the Compensation Committee of the Board.

(iv) "*Director*" shall mean a non-employee director of the Company.

(v) "*Effective Date*" shall mean May 4, 2010.

(vi) "*Election Form*" shall mean the election form in substantially the form attached hereto as Exhibit B, or such other form approved from time to time by the Committee.

(vii) "*Fees*" shall mean all retainer and committee fees payable to a Director for service on the Board for any Board Year beginning on or after the Effective Date.

(viii) "*Participant*" shall mean any Director.

(ix) "*Separation from Service*" shall mean a Participant's death, retirement or other termination of association with the Company; *provided* that such separation constitutes a separation from service for purposes of Section 409A of the Code.

2. Eligibility. Only Directors shall be eligible to participate in this Plan.

3. Deferral Election. Each DSU granted to a Director for service for an upcoming Board Year or, for a Director appointed during a calendar year, for the balance of the then current Board Year, including any DSU granted pursuant to a Director's election under Section 4, is subject to vesting as set forth in the applicable Award Agreement. All such DSUs which become vested shall be paid under the terms of this Plan and the 2003 EIP on the third (3rd) anniversary of the Grant Date applicable to each DSU, as specified in the applicable Award Agreement, unless a Director elects to defer payment until the later of:

(i) the third (3rd) anniversary of the Grant Date; and

(ii) the earlier of the Director's Separation from Service, and a fixed date after the third (3rd) anniversary of the Grant Date, which must be May 1 of the year designated by the applicable Director.

This election shall be made by submitting an Election Form to the Company in accordance with Section 5 hereof. Election Forms shall not carry over from year to year but instead a new Election Form must be submitted by the applicable deferral deadline in Section 5 hereof.

4. Equity Election.

(a) Fee Election. With respect to Fees otherwise payable for services performed during a Board Year, a Participant may elect to receive all or a portion of his or her Fees otherwise payable in cash either:

(i) in cash, to be paid as determined by the Board over the Board Year and subject to the Director's continued service;

(ii) in shares of Common Stock equal to the dollar value of the Fees to be paid in the form of Common Stock at any time divided by the closing price of the Company's Common Stock on the New York Stock Exchange (the "NYSE") on the date of payment, rounded down to the nearest whole share, plus a cash payment in the amount of any fractional share of Common Stock then otherwise distributable, and payable as determined by the Board over the Board Year and subject to the Director's continued service; or

(iii) as DSUs granted under an Award Agreement awarded at the beginning of the applicable Board Year (or portion thereof) equal to the dollar value of the Fees to be paid in the form of DSUs divided by the closing price of the Company's Common Stock on the NYSE on the Grant Date under the Award Agreement, subject to the Director's continued service.

These elections shall be made by submitting an Election Form to the Company in accordance with Section 5. Election Forms shall not carry over from year to year but instead a new Election Form must be submitted by the applicable deferral deadline in Section 5 hereof.

(b) Treatment of DSUs. If a Participant elects to take all or a portion of his or her Fees as DSUs pursuant to Section 4(a), the provisions of Section 3 (including any election as to the time of payment) shall apply to his or her respective DSUs.

5. Election Form Deadlines.

(a) General Rule. Except as provided in Section 5(b) below, the deadline for any election under Sections 3 and 4 shall be the last day of the calendar year prior to the Board Year which starts in the following calendar year.

(b) Special Rule for Initial Elections.

(i) Any Director who becomes a Participant on the Effective Date may make an initial election under Sections 3 and 4 with respect to Fees payable for the 2010-2011 Board Year. This Election must be made within thirty (30) days after the Effective Date.

(ii) Any Director who first becomes a Director after the Effective Date may make initial elections under Sections 3 and 4 with respect to (i) Fees payable for the Board Year in which he or she becomes a Director and (ii) Fees payable for a Board Year that begins after but in the same calendar year as he or she becomes a Director. These elections may be made within thirty (30) days after becoming a Director. However, no election under Section 3, and no election under Section 4 to convert Fees otherwise payable in cash to DSUs, shall be allowed under these timing rules if the Director has been eligible to participate in any other nonqualified deferred compensation plan of the Company or any entity treated as a si ngle employer with the Company under Sections 414(b) or (c) of the Code other than as an employee, which other nonqualified deferred compensation plan is an account balance plan allowing the deferral of compensation at the election of the Director (each, an "Aggregated Plan"). An Aggregated Plan shall not be taken into account for purposes of this Section 5(b)(ii) after the Director ceased to be eligible to defer compensation thereunder (other than through the accrual of earnings), provided either (i) all amounts due the Director under the Aggregated Plan have been paid to him or her, or (ii) he or she has not been eligible to defer compensation thereunder (other than through the accrual of earnings) for a period of at least twenty-four (24) months.

(iii) Elections made pursuant to the special rules of this Section 5(b) either (A) to change the time of payment of vested DSUs or (B) to convert any part of the Director's Fees otherwise payable in cash into DSUs, may only apply to those Fees for the Director's services attributable to the portion of the Board Year remaining after the Company's receipt of the Director's Election Form (including for this purposes the date the Company receives the Election Form, the "Post-Election Period"). For a Board Year which begins prior to but ends subsequent to the Company's receipt of a Director's initial Election F orm under this Section 5(b) the Fees payable with respect to the Post-Election Period will be an amount equal to (i) the total Fees payable to such Director for the applicable Board Year times (ii) a fraction, the numerator of which is the total number of days in the Post-Election Period and the denominator of which is the total number of days in the relevant Board Year after the Effective Date or after the Director is elected (including for purposes of this sentence the date the Director is elected with respect to such Board Year, and assuming that the applicable Board Year will end 356 days after the prior Annual Meeting of Stockholders). The proration rule set forth in the preceding sentence does not apply to a Director's election to convert any part of the Director's Fees otherwise payable in cash into shares of Common Stock and instead any such election pursuant to the special rule of this Section 5(b) shall app ly to all amounts of his or her Fees the Director has timely elected to convert into shares of Common Stock.

(c) Election Forms Not Returned. If no Election Form is timely submitted by a Director with respect to his or her compensation for any Board Year or part thereof, he or she shall be deemed to have elected (i) to receive payment for any DSUs granted for his or her services for such period which vest in accordance with the terms of the applicable Award Agreement on the third (3rd) anniversary of the applicable Grant Date and (ii) to receive in cash all of his or her Fees otherwise payable in cash for such period, to be paid as determined by the Board over the Board Year and subject to the Director's continued service.

(d) Elections Irrevocable. Elections under Sections 3 and 4 and made pursuant to the general rule of Section 5(a) shall become irrevocable on the last day on which a valid election could be made pursuant to Section 5(a). Elections under Sections 3 and 4 and made pursuant to the special rule of Section 5(b) shall become irrevocable on the Company's receipt of the Director's Election Form, duly completed.

6. Accounts.

(a) Accounts. The Company shall establish on its books an account (an "Account") for each Participant, denominated in DSUs, each representing a conditional right to a share of Common Stock. DSUs granted under an Award Agreement shall be credited to the Participant's Account based on the number of shares of Common Stock specified in the Award Agreement. For the avoidance of doubt, it is not intended that the Account would be maintained as a record of any shares of Common Stock the Director has elected to receive in lieu of Fees otherwise payable in cash.< /div>

(b) Dividend Credits. As of each date for payment of any dividend or other distribution on the Company's Common Stock, each Participant's Account shall be credited with a number of shares of Common Stock equal to (i) the total amount of any such dividend or distribution that would have been paid on the number of vested DSUs recorded in the balance of that Participant's Account as of the record date for such dividend divided by (ii) the value of a share of Common Stock on the payment date for such dividend, based on the closing price of Company Common Stock on the NYS E on such payment date. Shares credited in lieu of dividends or distributions shall be subject to the same vesting provisions, and time of payment determinations, as the DSUs in respect of which such additional credits are made.

(c) Vesting of DSUs. DSUs credited to a Participant's Account shall remain subject to a Risk of Forfeiture in accordance with the terms and conditions of the applicable Award Agreement as well as the provisions of Section 10 below (including any provision for accelerated vesting on certain changes of control pursuant to Section 9 of the 2003 EIP). Notwithstanding any provision of this Plan to the contrary, no Participant or other person shall have any right or claim under this Plan with respect to a DSU credited to the Participant's Account but forfeited in accordance with the terms and conditions of the applicable Award Agreement.

(d) Effect of Corporate Transaction on Stock Accounts. If at any time subsequent to the Effective Date, the outstanding shares of Common Stock (or any other securities covered by this Plan by reason of the prior application of this Section) are adjusted, modified, increased, decreased, or exchanged for a different number or kind of shares, securities or other property (including cash), as a result of a merger or consolidation, reorganization, recapitalization, reclassification, or stock dividend, stock split, or reverse stock split, an appropriate and proportionate adjustment will be made in accordance with Section 8 of the 2003 EIP in the number DSUs credite d to Accounts under this Plan.

(e) Statement of Account. At the end of each Board Year, and at such other date or dates during a year as the Company may determine, the Company shall issue or shall cause to be issued to each Participant a statement setting forth the balance of the Participant's Account under this Plan.

7. Payment of Benefits.

(a) In General. Subject to the balance of Section 7, distributions of a Participant's Account under this Plan shall be made in accordance with the time of distribution applicable to each DSU credited thereto, either in accordance with the elections of the Director timely made under Section 3 or under the default rule provided in Section 5(c) if applicable.

(b) Timing of Distribution to Satisfy Applicable Law. The Committee or Board may delay any distribution from an Account if it reasonably anticipates that the making of the distribution will violate federal securities laws or other applicable laws until the earliest date that the Committee or Board reasonably anticipates that the making of such distribution will not cause such a violation. If advisable to avoid exposing a Participant to a claim for recovery of short swing profits under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), prior to the payment of the amount reflected in the Participant's Account, such payment must be approved in advance by the Board or a committee comprised solely of "non-employee directors" as defined in Rule 16(b)-3(b)(3) under the Exchange Act.

(c) Form of Payments. Distribution shall be made in the form of whole shares of Common Stock equal to the number of DSUs credited to the Participant's Account as of the relevant date and a cash payment in the amount of any fractional share of Common Stock then otherwise distributable (based on the closing price of the Company's Common Stock on the NYSE on the date of distribution). Each Participant or beneficiary agrees that prior to any distribution under this Plan, he or she will make such representations and execute such documents as are deemed by the Committee or Board to be necessary to comply with applicable laws.

(d) Delays or Acceleration in Payments. The Company may elect to accelerate the payment of any Account, in respect of vested DSUs, in the circumstances allowed by, and subject to the conditions required by Treas. Reg. §1.409A-3(j)(4), including but not limited to in connection with the issuance of domestic relations orders, for payment of employment taxes or upon income inclusion under Section 409A of the Code, as an offset for indebtedness or in settlement of bona fide disputes as to a right to a payment.

(e) Designation of Beneficiaries; Death. Each Participant shall have the right, at any time, to designate any person or persons as the Participant's beneficiary or beneficiaries (both primary as well as secondary) to whom shares in respect of DSUs under this Plan shall be delivered in the event of the Participant's death prior to complete distribution of the benefits due under this Plan. Each beneficiary designation shall be in written form prescribed by the Company and will be effective only if filed with the Company during the Participant's lifetime. Such designation may be changed by the Participant at any time witho ut the consent of a beneficiary. If no designated beneficiary survives the Participant, the balance of the Participant's shares in respect of vested DSUs shall be delivered to the Participant's surviving spouse or, if no spouse survives, to the Participant's estate. Upon the death of a Participant, any shares in respect of DSUs shall be delivered, within forty-five (45) days after the Participant's death, in a single distribution.

8. Administration.

(a) Committee Duties. This Plan shall be administered by the Committee, which shall have all of the authority expressly granted to the Committee and the Company under this Plan; *provided*, *however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned to the Committee under this Plan and when so acting shall have the benefit of all of the provisions of this Plan pertaining to the Committee's exercise of its authorities hereunder. The Committee shall have responsibility for the general administration of this Plan an d for carrying out its intent and provisions. The Committee shall have plenary authority in its discretion to interpret this Plan; to prescribe, amend and rescind rules and regulations relating to it; to determine the terms of the Election Forms and Award Agreements executed and delivered under this Plan, including such terms and provisions as shall be requisite in the judgment of the Committee to conform to any change in any law or regulation applicable thereto; and have such powers and duties as may be necessary to discharge its responsibilities. The Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel, who may be counsel to the Company.

(b) Binding Effect of Decisions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of this Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in this Plan.

9. Amendment and Termination of this Plan.

(a) Amendment. The Committee may at any time amend this Plan in whole or in part subject to any restrictions on modifications or amendments as provided in the 2003 EIP; *provided, however,* that no amendment shall affect the terms of any previously deferred DSUs or the terms of any irrevocable Election Form or Award Agreement of any Participant.

(b) Termination. The Committee or Board may at any time terminate this Plan, provided the termination does not occur proximate to a downturn in the financial health of the Company and there are then being terminated nonqualified deferred compensation plans which would be Aggregated Plans if the same non-employee individual were eligible to participate in this Plan and all such plans. In the event of a termination of this Plan under this Section 9(b), this Plan shall continue to operate for a period selected by the Board or Committee of at least twelve (12) months from the date the Board or Committee takes irrevocable action to terminate this Plan and this Pla n shall continue to pay benefits otherwise payable under the terms of this Plan absent termination of this Plan. On a date selected by the Board or Committee that is more than twelve (12) months from the date the Board or Committee took irrevocable action to terminate this Plan, this Plan shall cease to operate and the Company shall determine the balance of each Participant's Account as of the close of business on such date and the Company shall pay out such Account balances to the Participants in a single distribution as soon as practicable after such date, but in no event shall such distribution be made later than twenty-four (24) months after the date the Board or Committee took action to terminate this Plan. In the event of termination of this Plan under this Section 9(b), the Company shall not establish another nonqualified deferred compensation plan which would be an Aggregated Plan if the same non-employee individual were eligible to participate in this Plan and such plan within three (3) years of the Board or Committee taking irrevocable action to terminate this Plan.

(c) Termination on Change in Control. The Committee or Board may also terminate this Plan by irrevocable action at any time within thirty (30) days prior to or within twelve (12) months following a "change of control" (as defined for purposes of Section 409A of the Code), provided there are then being terminated all Aggregated Plans as to any Participant affected by the change of control. In the event of a termination of this Plan under this Section 9(c), on a date selected by the Board or Committee that is no more than twelve (12) months from the date the Board or Committee took action to terminate this Plan, this Plan shall cease to operate, the Company shall dete rmine the balance of each Participant's Account as of the close of business on such date and the Company shall pay out such Account balances to the Participants in a single distribution as soon as practicable after such date, but in no event later than twelve (12) months after the date the Board or Committee took action to terminate this Plan.

10. Certain Remedies.

(a) If at any time within two (2) years after termination of a Participant's association with the Company and its Affiliates any of the following occur:

(i) the Participant unreasonably refuses to comply with lawful requests for cooperation made by the Company, its Board, or its Affiliates;

(ii) the Participant accepts employment or a consulting or advisory engagement with any Competitive Enterprise (as defined in Section 10(c)) of the Company or its Affiliates or the Participant otherwise engages in competition with the Company or its Affiliates;

(iii) the Participant acts against the interests of the Company and its Affiliates, including recruiting or employing, or encouraging or assisting the Participant's new employer to recruit or employ an employee of the Company or any Affiliate without the Company's written consent;

(iv) the Participant fails to protect and safeguard while in his or her possession or control, or surrender to the Company upon termination of the Participant's association with the Company or any Affiliate or such earlier time or times as the Company or its Board or any Affiliate may specify, all documents, records, tapes, disks and other media of every kind and description relating to the business, present or otherwise, of the Company and its Affiliates and any copies, in whole or in part thereof, whether or not prepared by the Participant;

(v) the Participant solicits or encourages any person or enterprise with which the Participant has had business-related contact, who has been a customer of the Company or any of its Affiliates, to terminate its relationship with any of them; or

(vi) the Participant breaches any confidentiality obligations the Participant has to the Company or an Affiliate, the Participant fails to comply with the policies and procedures of the Company or its Affiliates for protecting confidential information, the Participant uses confidential information of the Company or its Affiliates for his or her own benefit or gain, or the Participant discloses or otherwise misuses confidential information or materials of the Company or its Affiliates (except as required by applicable law); then

(1) All of the DSUs credited to the Participant's Account shall terminate and be cancelled effective as of the date on which the Participant entered into such activity, unless terminated or cancelled sooner by operation of another term or condition of this Plan or the 2003 EIP;

(2) any Stock acquired and held by the Participant pursuant to this Plan during the Applicable Period (as defined below) may be repurchased by the Company at a purchase price of $0.01 per share; and

(3) any gain realized by the Participant from the sale of Stock acquired pursuant to this Plan during the Applicable Period shall be paid by the Participant to the Company.

(b) The term "Applicable Period" shall mean the period commencing on the later of the date of an Award Agreement or the date which is one year prior to the Participant's termination of association with the Company or any Affiliate and ending two years from the Participant's termination of association with the Company or any Affiliate.

(c) The term "Competitive Enterprise" shall mean a business enterprise that engages in, or owns or controls a significant interest in, any entity that engages in, the manufacture, sale or distribution of mattresses or pillows or other bedding products or other products competitive with the Company's products. Competitive Enterprise shall include, but not be limited to, the entities set forth on Appendix A hereto, which may be amended by the Company from time to time upon notice to the Participant. At an y time the Participant may request in writing that the Company make a determination whether a particular enterprise is a Competitive Enterprise. Such determination will be made within fourteen (14) days after the receipt of sufficient information from the Participant about the enterprise, and the determination will be valid for a period of ninety (90) days from the date of determination.

11. Right of Set Off. The Company may deduct from any amounts the Company or any Affiliate owes the Participant from time to time, any amounts the Participant owes the Company under Section 10 above, provided that this set-off right may not be applied against wages, salary or other amounts payable to the Participant to the extent that the exercise of such set-off right would violate any applicable law. If the Company does not recover by means of set-off the full amount the Participant owes the Company, calculated as set forth above, the Participant agrees to pay immediately the unpaid balance to the Company upon the Company's demand.

12. Nature of Remedies.

(a) The remedies set forth in Sections 10 and 11 above are in addition to any remedies available to the Company and its Affiliates in any non-competition, employment, confidentiality or other agreement, and all such rights are cumulative. The exercise of any rights hereunder or under any such other agreement shall not constitute an election of remedies.

(b) The Company shall be entitled to place a legend on any certificate evidencing any Stock acquired upon this Plan referring to the repurchase right set forth in Section 10(a) above. The Company shall also be entitled to issue stop transfer instructions to the Company's stock transfer agent in the event the Company believes that any event referred to in Section 10(a) has occurred or is reasonably likely to occur.

13. Compliance with Laws.

(a) Government Regulations. This Plan, and the election of securities in lieu of Fees and the deferral of DSUs thereunder, and the obligation of the Company to issue, sell and deliver shares, as applicable, under the 2003 EIP, shall be subject to all applicable laws, rules and regulations.

(b) Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Plan comply with the provisions of Section 409A of the Code. This Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Board without the consent of the Participants in this Plan). Notwithstanding the foregoing, no particular tax result for a Partic ipant with respect to any income recognized by the Participant in connection with this Plan is guaranteed under this Plan, and the Participant shall be responsible for any taxes imposed on the Participant in connection with this Plan.

14. Miscellaneous.

(a) No Interest in Assets. The Accounts shall be established solely for the purpose of determining the number of DSUs owed to Participants or beneficiaries under this Plan. Participants and their beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of the Company. No assets of the Company shall be held under any trust for the benefit of the Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. The Company's oblig ation under this Plan shall be that of an unfunded and unsecured promise to deliver shares in respect of DSUs in the future, and the rights of Participants and beneficiaries shall be no greater than those of unsecured general creditors of the Company. Nothing in this Plan shall be deemed to give any member of the Board any right to participate in this Plan, except in accordance with the provisions of this Plan.

(b) Non-assignability. Neither a Participant nor any other person shall have the right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the shares in respect of any DSUs, if any, deliverable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be non-assignable and nontransferable. No part of the shares deliverable in respect of any DSUs shall, prior to actual delivery, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participa nt or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

(c) Governing Law. The provisions of this Plan shall be construed and interpreted according to the laws of the State of Delaware, without regard to the conflicts of law principles thereof.

(d) Validity. In case any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provisions had never been inserted herein.

(e) Notice. Any notice or filing required or permitted to be given to the Company or the Committee under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Secretary of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

(f) Successors. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term "successors" as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Company, and successors of any such corporation or other business entity.

* * *

TEMPUR-PEDIC INTERNATIONAL INC.

AMENDED AND RESTATED 2003 EQUITY INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR DEFERRED COMPENSATION PLAN

Acknowledgement and Award Agreement
[Insert Board Member]

This Acknowledgement and Award Agreement (the "Agreement"), dated as of [_______ __, 20__], is between Tempur-Pedic International Inc., a corporation organized under the laws of the State of Delaware (the "Company"), and the individual identified below, residing at the address there set out (the "Recipient").

1. Award of Deferred Stock Units. Pursuant and subject to the Company's Amended and Restated 2003 Equity Incentive Plan, as amended (as the same may be amended from time to time, the "2003 EIP") , the Company grants the Recipient an award (the "Award") for [Insert total of Mandatory DSUs and/or Elective DSUs, if any] deferred stock units ("DSUs") of the common stock, par value $0.01 per share, of the Company (the "Stock") as compensation for the Recipient's service as a member of the board of directors of the Company (the "Board"). This Award is granted as of [_______ __, 20__] (the "Grant Date").

2. Rights of Deferred Stock Units. The DSUs granted in this Agreement shall be credited to the Recipient's account under the Company's Non-Employee Director Deferred Compensation Plan (as the same may be amended from time to time, the "Deferred Compensation Plan"). All of the Recipient's rights in or as a consequence of this grant of DSUs, to the extent the DSUs vest as determined in accordance with Section 3 below, shall thereafter be determined under the Deferred Compensation Plan. As prov ided in the Deferred Compensation Plan, the Recipient shall have no rights to receive shares of Common Stock in or as a consequence of DSUs which do not vest as determined accordance with Section 3 below, except as provided in Section 4 below.

3. Vesting Period and Rights; Delivery Date; and Filings. The Award will vest in [four] installments as follows:

Number of Shares in Each Installment	Percentage of the Award	Vesting Date
[______]	[25]%	________ __, 20__
[______]	[25]%	________ __, 20__
[______]	[25]%	________ __, 20__
[______]	[25]%	________ __, 20__

Subject to the provisions of Section 4 below, the vesting is subject to the Recipient's continued service on the Board of the Company on the applicable vesting date as set forth above (the "Vesting Date").

The Recipient is responsible for any filings required under Section 16 of the Securities Exchange Act of 1934 and the rules thereunder.

4. Termination of Service. If the Recipient's membership with the Board of the Company ends for any reason, the Recipient forfeits all rights and interest in any unvested DSUs; *provided, however*, if the Recipient dies or the Recipient's membership with the Board ends due to the Recipient's long-term disability (within the meaning of Section 409A of the Code), all of the DSUs that have not become vested pursuant to Section 3 as of the date of death or disability shall immediately vest.

5. Incorporation of Plan Terms; Acknowledgements. This Award is granted subject to all of the applicable terms and provisions of the 2003 EIP and the Deferred Compensation Plan. Without limiting the generality of the foregoing, the Recipient acknowledges that under the terms of the 2003 EIP and Deferred Compensation Plan:

(a) The Company may recover any payment under the Deferred Compensation Plan if within two years of the Recipient's termination of service with the Company he or she fails comply with certain covenants (including but not limited, competing with the Company and its Affiliates). By executing this Agreement, the Recipient consents to a deduction from any amounts the Company or any Affiliate owes the Recipient from time to time, to the extent of the amounts the Recipient owes the Company under said Section 11 of the Deferred Compensation Plan (provided that the set-off right will not be applied against wages, salary or other amounts payable to the Recipient to the extent that the exercise of such set-off right wo uld violate any applicable law) and agrees that if the Company does not recover by means of set-off the full amount the Recipient owes the Company, calculated as set forth above, the Recipient will pay immediately the unpaid balance to the Company upon the Company's demand.

(b) The Company is not liable for the non-issuance or non-transfer, nor for any delay in the issuance or transfer of any shares of Stock due to the Recipient with respect to vested DSUs which results from the inability of the Company to obtain, from each regulatory body having jurisdiction, all requisite authority to issue or transfer shares of Stock of the Company if counsel for the Company deems such authority necessary for the lawful issuance or transfer of any such shares. Acceptance of this Award constitutes the Recipient's agreement that the shares of Stock subsequently acquired hereunder, if any, will not be sold or otherwise disposed of by the Recipient in violation of any applicable securities laws or regulatio ns.

(c) The DSUs are subject to this Agreement and Recipient's acceptance hereof shall constitute the Recipient's agreement to any administrative regulations of the Compensation Committee of the Company's Board (the "Committee"). In the event of any inconsistency between this Agreement and the provisions of the 2003 EIP or Deferred Compensation Plan, the provisions of such plans shall prevail.

(d) All decisions of the Committee upon any questions arising under the 2003 EIP or Deferred Compensation Plan or under these terms and conditions are conclusive and binding.

(e) During the Recipient's lifetime, no rights under the Deferred Compensation Plan related to the Award, the DSUs or any underlying Stock payable in satisfaction of vested DSUs, shall be transferable except by will or the laws of descent and distribution.

(f) The Company makes no representation or warranty as to the tax treatment of this Award, including upon the issuance of the Stock or upon the Recipient's sale or other disposition of the Stock. The Recipient should rely on his own tax advisors for such advice.

(g) All Stock earned and delivered pursuant to this Agreement and the Deferred Compensation Plan are intended to be paid in compliance with, or on a basis exempt from, Section 409A of the Code. This Agreement, and all terms and conditions used herein, shall be interpreted and construed consistent with that intent. However, the Company does not warrant all such payments will be exempt from, or paid in compliance with, Section 409A of the Code. The Recipient bears the entire risk of any adverse federal, state or local tax consequences and penalty taxes which may result from payments made on a basis contrary to the provisions of Section 409A or comparable provisions of any applicable state or local income tax laws.

7. Miscellaneous. Capitalized terms used but not defined herein shall have the meaning assigned under the 2003 EIP and the Deferred Compensation Plan. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof and shall be binding upon and inure to the benefit of any successor or assign of the Company and any executor, administrator, trustee, guardian, or other legal representative of the Recipient. This Agreement may be executed in one or more counterparts all of which together shall constitute one instrument.

[*Remainder of page intentionally left blank*]

In Witness Whereof, the parties have executed this Agreement as of the date first above written.

TEMPUR-PEDIC INTERNATIONAL INC.

By: ____________________

Name: ____________________

RECIPIENT

Name: ____________________

Recipient's Address: ____________________

____

____

TEMPUR-PEDIC INTERNATIONAL INC.

NON-EMPLOYEE DIRECTOR DEFERRED COMPENSATION PLAN

ELECTION FORM

Director Information

Director Name: ______________________________
Last First Initial

Director Address: ______________________________
Street

____
City State Zip

Director SSN: ____________________

Background and Purpose

The Board of Directors (the "Board") upon recommendation of the Compensation Committee of Tempur-Pedic International Inc. (the "Company"), has approved payment of part of the compensation for the service of non-employee directors of the Board in the form of deferred restricted stock units ("Mandatory DSUs"). Mandatory DSUs are subject to the terms of the Company's Non-Employee Director Deferred Compensation Plan (as the same may be amended from time to time, the "Deferred Compensation Plan") and the Company's Amended and Restated 2003 Equity Incentive Plan, as amended (the "2003 EIP"). Mandatory DSUs vest in accordance with the terms of an Award Agreement issued under the 2003 EIP and under and subject to the terms of the Deferred Compensation Plan and are payable, if vested, three (3) years after the date of grant unless the director elects a later date of payment under the Deferred Compensation Plan. The Board has also approved the issuance of shares of the Company's Common Stock, or the grant of additional deferred stock units ("DSUs") subject to the terms of the Deferred Compensation Plan and the 2009 EIP (the "Elective DSUs"), at the election of the non-employee director and in lieu of some or all of the cash compensation otherwise approved by the Board as compensation for the non-employee director's service. The purpose of this Election Form is to solicit the foregoing elections, as follows:

- A "Deferral Election," enabling a non-employee director to elect to defer payment of any Mandatory DSUs and any Elective DSUs to the later of:

(i) the third (3rd) anniversary of the Grant Date; and

(ii) the earlier of his or her Separation of Service (as defined in the Deferred Compensation Plan) and a fixed date after the third (3rd) anniversary of the Grant Date, which must be May 1 of the year designed by the Director; and/or

- An "Equity Election," enabling a non-employee director to elect to receive some or all of his or her compensation otherwise payable in cash in the form of either shares of Common Stock, or Elective DSUs.

Capitalized terms used but not defined herein shall have the meaning assigned such terms under the 2003 EIP and Deferred Compensation Plan.

Deferral Election

☐ By checking the box, I hereby elect to defer any payment in respect of Mandatory and Elective DSUs granted to me during the [2010-2011] Board Year, until the later of

(i) the third (3^{rd}) anniversary of the Grant Date specified in the Award Agreement pertaining to those DSUs; or

(ii) the earlier of my Separation of Service and the following fixed date: May 1, 20__.[1]

I understand that if I do not make the deferral election set forth above, payment of Mandatory and Elective DSUs will be made on the third (3rd) anniversary of the applicable Grant Date. I further understand these DSUs will vest as determined under the applicable Award Agreement and my receipt of vested DSUs is subject to my continued service on the Board during the Board Year and the other terms and conditions of the Deferred Compensation Plan. I understand if my service on the Board ends during the [2010-2011] Board Year, I will forfeit any unvested DSUs, except as provided in Section 4 of the applicable Award Agreement.

[1] Insert a May 1 that falls after the third (3rd) anniversary of the Grant Date.

Equity Election

I hereby elect to take my annual cash fees (including both Board and committee fees, as applicable) that would otherwise be payable to me for services rendered during the [2010-2011] Board Year:

____% in cash payable as determined by the Board in the action approving such compensation; and

____% in shares of common stock of the Company, in a number equal to the percentage of the cash otherwise payable that I have indicated divided by the closing price of the Company's common stock on the NYSE on the date or dates as such cash would otherwise be payable, rounded down to the nearest whole share, plus a cash payment in the amount of any fractional share of Common Stock then otherwise distributable, issuable as determined by the Board in the action approving such compensation; and

____% in Elective DSUs, in a number equal to the percentage of the cash otherwise payable that I have indicated divided by the closing price of the Company's common stock on the NYSE on the Grant Date under the applicable Award Agreement (which will be a date on or abut the beginning of the applicable Board Year).

I understand receipt of either cash fees or Common Stock is subject to my continued service on the Board during the Board Year, and that any Elective DSUs will vest, if ever, as determined under the applicable Award Agreement. I understand my receipt of vested DSUs is subject to my continued service on the Board during the Board Year and the other terms and conditions of the Deferred Compensation Plan. I understand if my service on the Board ends during the [2010-2011] Board Year, I will forfeit any unearned or unvested cash, Common Stock, or DSUs, except as provided in Section 4 of the applicable DSU Award Agreement.

Acknowledgement and Authorization

I understand that any elections on this Form will apply **only** to compensation payable for services as a non-employee director to be rendered in the portion of 2010 following the effective date of the Deferred Compensation Plan (or my submission of this election, if later) and subject to the adoption of the Deferred Compensation Plan by the Board. I further understand that all elections on this Form are irrevocable. I hereby certify that the above participant information is true, accurate and complete.[2]

I understand that any elections on this Form will apply **only** to compensation payable for services as a non-employee director to be rendered in the portion of [<u>insert specific Board Year</u>] following my submission of this election. I further understand that all elections on this Form are irrevocable. I hereby certify that the above participant information is true, accurate and complete.[3]

I understand that any elections on this Form will apply **only** to compensation payable for services as a non-employee director to be rendered in the [insert specific Board Year] Board Year. I further understand that all elections on this Form will become irrevocable on the December 31 preceding that Board Year. I hereby certify that the above participant information is true, accurate and complete.[4]

Director ______________________ **Date** ______________________

Accepted
Plan
Administrator ______________________ **Date** ______________________

[2] NTD: Paragraph to include for the initial election.
[3] NTD: Paragraph to include for new directors.
[4] NTD: Paragraph to include for subsequent elections.

Competitive Enterprises of the Company and its Affiliates

Boyd
Carpenter
Classic Sleep Products (“Dormia”)
Comforpedic
Duxiana
Englander
Foamex
IBC
KayMed
King Koil (“Comfort Solutions”)
Kingsdown
Lady Americana
Land and Sky
Liggett & Platt
Natura
Natures Rest
Park Place
Restonic
Sealy
Select Comfort
Serta
Spring Air
Sterling
Stobel
Therapedic
Bedding Holdco Incorporated and Simmons Company (“Simmons”)

TEMPUR-PEDIC INTERNATIONAL INC.

AMENDED AND RESTATED 2003 EQUITY INCENTIVE PLAN

Stock Option Agreement

[Insert Director]

(Board of Directors)

This Agreement dated as of [Insert Date], between Tempur-Pedic International Inc., a corporation organized under the laws of the State of Delaware (the "Company"), and the individual identified below, residing at the address there set out (the "Optionee").

1. Grant of Option. Pursuant and subject to the Company's Amended and Restated 2003 Equity Incentive Plan (as the same may be amended from time to time, the "Plan"), the Company grants to the Optionee an option (the "Option") to purchase from the Company all or any part of a total of [I nsert Number of Options (______)] shares (the "Optioned Shares") of the Company's common stock, par value $0.01 per share (the "Stock"), at a price of $[Insert Price] per share. The Grant Date of this Option is [Insert Date].

2. Character of Option. This Option is not to be treated as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

3. Duration of Option. Subject to the following sentence, this Option shall expire at 5:00 p.m. on the date that is ten years from Grant Date. However, if the Optionee's membership with the Board of Directors of the Company ends before that date, this Option shall expire on the earlier date specified in whichever of the following applies:

(a) If the termination of the Optionee's membership with the Board of Directors of the Company is on account of the optionee's death or disability, the first anniversary of the date the Optionee's membership ends; or

(b) If the termination of the Optionee's membership with the Board of Directors of the Company is due to any other reason, three (3) months after the Optionee's membership ends.

4. Exercise of Option.

(a) Until this Option expires, the Optionee may exercise it as to the number of Optioned Shares identified in the table below, in full or in part, at any time on or after the applicable exercise date or dates identified in the table. However, during any period that this Option remains outstanding after the Optionee's membership with the Company's Board of Directors ends for any reason, the Optionee may exercise it only to the extent it was exercisable immediately prior to the end of the Optionee's membership with the Company's Board of Directors; *provided, however*, if the Optionee dies or the Optionee's membership with the Board ends due to the Optionee's long-term disability (within the meaning of Section 409A of the Code), all of the Optioned Shares that have not become vested pursuant this Section 4 as of the date of death or disability, shall immediately vest and become exercisable.

Number of Shares in Each Installment	Percentage of Optioned Shares	Initial Exercise Date for Shares in Installment
[Insert Number]	[__]%`	[Insert Date]

Section 7.1(e) of the Plan sets forth the procedure for exercising this Option by paying cash or a check made payable to the order of the Company in an amount equal to the aggregate exercise price of the Stock to be purchased, or by delivering other shares of Stock of equivalent Market Value, provided the Optionee has owned such shares of Stock for at least six (6) months. The Optionee may also exercise this Option pursuant to a formal cashless exercise program as referred to in Section 7.1(e) of the Plan, subject to the terms and conditions referred to in Section 7.1(e) of the Plan.

5. Transfer of Option. Except as provided in Section 6.4 of the Plan, this Option may not be transferred except by will or the laws of descent and distribution, and during the Optionee's lifetime, only the Optionee may exercise this Option.

6. Incorporation of Plan Terms. This Option is granted subject to all of the applicable terms and provisions of the Plan, including but not limited to Section 8 of the Plan, "Adjustment Provisions" and the limitations on the Company's obligation to deliver Optioned Shares upon exercise set forth in Section 10 of the Plan, "Settlement of Awards". Capitalized terms used but not defined herein shall have the meaning assigned under the Plan.

7. Miscellaneous. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof, and shall be binding upon and inure to the benefit of any successor or assign of the Company and any executor, administrator, trustee, guardian, or other legal representative of the Optionee. This Agreement may be executed in one or more counterparts all of which together shall constitute one instrument.

8. Tax Consequences.

(a) The Company makes no representation or warranty as to the tax treatment of this Option, including upon the exercise of this Option or upon the Optionee's sale or other disposition of the Optioned Shares. The Optionee should rely on his/her own tax advisors for such advice.

(b) All amounts earned and paid pursuant to this Agreement are intended to be paid in compliance with, or on a basis exempt from, Section 409A of the Code. This Agreement, and all terms and conditions used herein, shall be interpreted and construed consistent with that intent. However, the Company does not warrant all such payments will be exempt from, or paid in compliance with, Section 409A. The Optionee bears the entire risk of any adverse federal, state or local tax consequences and penalty taxes which may result from payments made on a basis contrary to the provisions of Section 409A or comparable provisions of any applicable state or local income tax laws.

9. Certain Remedies.

(a) If at any time within two years after termination of the Optionee's association with the Company and its Affiliates any of the following occur:

(i) the Optionee unreasonably refuses to comply with lawful requests for cooperation made by the Company, its board of directors, or its Affiliates;

(ii) the Optionee accepts employment or a consulting or advisory engagement with any Competitive Enterprise of the Company or its Affiliates or the Optionee otherwise engages in competition with the Company or its Affiliates;

(iii) the Optionee acts against the interests of the Company and its Affiliates, including recruiting or employing, or encouraging or assisting the Optionee's new employer to recruit or employ an employee of the Company or any Affiliate without the Company's written consent;

(iv) the Optionee fails to protect and safeguard while in his/her possession or control, or surrender to the Company upon termination of the Optionee's association with the Company or any Affiliate or such earlier time or times as the Company or its board of directors or any Affiliate may specify, all documents, records, tapes, disks and other media of every kind and description relating to the business, present or otherwise, of the Company and its Affiliates and any copies, in whole or in part thereof, whether or not prepared by the Optionee;

(v) the Optionee solicits or encourages any person or enterprise with which the Optionee has had business-related contact, who has been a customer of the Company or any of its Affiliates, to terminate its relationship with any of them; or

(vi) the Optionee breaches any confidentiality obligations the Optionee has to the Company or an Affiliate, the Optionee fails to comply with the policies and procedures of the Company or its Affiliates for protecting confidential information, the Optionee uses confidential information of the Company or its Affiliates for his/her own benefit or gain, or the Optionee discloses or otherwise misuses confidential information or materials of the Company or its Affiliates (except as required by applicable law); then

(1) this Option shall terminate and be cancelled effective as of the date on which the Optionee entered into such activity, unless terminated or cancelled sooner by operation of another term or condition of this Agreement or the Plan;

(2) any stock acquired and held by the Optionee pursuant to the exercise of this Option during the Applicable Period (as defined below) may be repurchased by the Company at a purchase price of $[Insert Price] per share; and

(3) any gain realized by the Optionee from the sale of stock acquired through the exercise of this Option during the Applicable Period shall be paid by the Optionee to the Company.

(b) The term "Applicable Period" shall mean the period commencing on the later of the date of this Agreement or the date which is one year prior to the Optionee's termination of association with the Company or any Affiliate and ending two years from the Optionee's termination of association with the Company or any Affiliate.

(c) The term "Competitive Enterprise" shall mean a business enterprise that engages in, or owns or controls a significant interest in, any entity that engages in, the manufacture, sale or distribution of mattresses or pillows or other bedding products or other products competitive with the Company's products. Competitive Enterprise shall include, but not be limited to, the entities set forth on Appendix A hereto, which may be amended by the Company from time to time upon notice to the Optionee. At any time the Optionee may request in writing that t he Company make a determination whether a particular enterprise is a Competitive Enterprise. Such determination will be made within 14 days after the receipt of sufficient information from the Optionee about the enterprise, and the determination will be valid for a period of 90 days from the date of determination.

10. Right of Set Off. By executing this Agreement, the Optionee consents to a deduction from any amounts the Company or any Affiliate owes the Optionee from time to time, to the extent of the amounts the Optionee owes the Company under Paragraph 9 above, provided that this set-off right may not be applied against wages, salary or other amounts payable to the Optionee to the extent that the exercise of such set-off right would violate any applicable law. If the Company does not recover by means of set-off the full amount the Optionee owes the Company, calculated as set forth above, the Optionee agrees to pay immediately t he unpaid balance to the Company upon the Company's demand.

11. Nature of Remedies.

(a) The remedies set forth in Sections 9 and 10 above are in addition to any remedies available to the Company and its Affiliates in any non-competition, employment, confidentiality or other agreement, and all such rights are cumulative. The exercise of any rights hereunder or under any such other agreement shall not constitute an election of remedies.

(b) The Company shall be entitled to place a legend on any certificate evidencing any stock acquired upon exercise of this Option referring to the repurchase right set forth in Section 9(a). The Company shall also be entitled to issue stop transfer instructions to the Company's stock transfer agent in the event the Company believes that any event referred to in Section 9(a) has occurred or is reasonably likely to occur.

[*Remainder of page intentionally left blank*]

In Witness Whereof, the parties have executed this Agreement as of the date first above written.

TEMPUR-PEDIC INTERNATIONAL INC.

By: ________________________

Name: ________________________

RECIPIENT

Name: ________________________

Recipient's Address: ________________________

<u>Appendix A</u>

Competitive Enterprises of the Company and its Affiliates

Boyd
Carpenter
Classic Sleep Products (“Dormia”)
Comforpedic
Duxiana
Englander
Foamex
IBC
KayMed
King Koil (“Comfort Solutions”)
Kingsdown
Lady Americana
Land and Sky
Liggett & Platt
Natura
Natures Rest
Park Place
Restonic
Sealy
Select Comfort
Serta
Spring Air
Sterling
Stobel
Therapedic
Bedding Holdco Incorporated and Simmons Company (“Simmons”)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Sarvary, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempur-Pedic International Inc.;

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 principles;

(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 the 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: July 28, 2010

/s/ MARK SARVARY

Mark Sarvary
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dale E. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempur-Pedic International Inc.;

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 principles;

(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 the 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: July 28, 2010

/s/ DALE E. WILLIAMS

Dale E. Williams
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Tempur-Pedic International Inc. (the “Company”), that, to his knowledge, the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to such Form 10-Q. A signed origin al of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 28, 2010	By:	/s/ MARK SARVARY **Mark Sarvary** **President and Chief Executive Officer**
Date: July 28, 2010	By:	/s/ DALE E. WILLIAMS **Dale E. Williams** **Executive Vice President and Chief Financial Officer**